Eastfield and Thorplands (Northampton East) Regeneration Scheme

Housing PFI- Round 6 Outline Business Case

November 2010
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Consultees

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Eastfield and Thorplands (Northampton East) Regeneration Scheme
Housing PFI Round 6 - Outline Business Case
Version 1.0- 01/11/2010
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<tr>
<td>Project Leader: Christopher Cavanagh</td>
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<td>01/11/2010</td>
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<td>Chief Executive: David Kennedy</td>
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<td>Portfolio Holder: Councillor Sally Beardsworth</td>
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0.0 Executive Summary

EXECUTIVE SUMMARY

0.0 Context

The Eastfield and Thorplands Regeneration Scheme forms a vital part of the Northampton wide Community Regeneration Plans and will deliver one of the three priority community regeneration schemes in the Borough.

This Scheme will deliver the key target outcomes set out in the West Northamptonshire Emergent Joint Core Strategy, the improvement targets in the Council's adopted Housing Strategy and the particular outcomes as set out in the Council's adopted Regeneration Strategy for Northampton East.

This Scheme tackles the extremely poor housing stock in terms of dilapidations, non-decency, poor facilities and surrounding environment that is prevalent within the two Northampton Borough estates of Eastfield and Thorplands. In tackling these issues, the Scheme will also address the inherent deprivation issues; crime and antisocial behaviour, education and environmental dilapidation which affect the well-being of these communities. This Scheme will transform these estates and the people who live there.
0.0 Executive Summary

This Scheme also supports the Council’s other key housing, planning and regeneration policies.

Eastfield and Thorplands are predominantly in the ownership of Northampton Borough Council but also include privately owned properties resulting from the Government’s ‘Right to Buy’ legislation. Whilst this provides for additional complexity, it is a common project risk and is manageable.

The Scheme will comprise the following key component parts:

- Demolition of 124 Council rented homes
- Re-provision of 221 new Council rented homes
- Refurbishment of 403 Council rented homes
- Remodelling of 81 of the most unsuitable and unpopular Council properties into 23 family homes on the Eastfield estate
- A range of environmental improvements within the areas where new Council rented homes will be provided (See Zone Plans in Appendix 10)
- Provision of a new housing office on the Thorplands estate

In addition, improved estate and housing management will provide for:

- Repairs and maintenance
- Cleansing and waste management
- Grounds maintenance
- Tenancy and leasehold management

0.1 Standards

All new and refurbished homes will be completed to level 4 of the Code for Sustainable homes.

0.2 Consultation and Engagement

This is the Council’s first PFI project and it is learning from the process to date recognising that it could have commenced a fuller consultation process with residents at an earlier stage.

However, learning from this, it has strengthened its resources and skills and set up a rigorous framework for engaging with residents, which is essential for the successful delivery of a scheme of this nature and scale.

The Council has facilitated the creation of resident steering groups at both Eastfield and Thorplands and engaged regularly with these groups. It has held local events to promote the scheme and has also engaged with Councillors and other Stakeholders.

Whilst there are a small number of residents opposed to the scheme, the extensive door-knocking scheme has revealed that of those who completed the consultation questionnaire, less than 5% objected to the project. Further discussions have been held with stakeholders on this.
0.0 Executive Summary

0.3 Delivery

There has been keen interest shown in Northampton Borough Council’s Round 6 PFI project by the private sector with a healthy turnout at a PFI bidders day event and widely positive responses from a survey of potential funders.

The majority of potential bidders engaged have confirmed they are very interested in bidding for this scheme.

The project will be developed through the procurement stages with the continued resources, leadership and support from officers and members. Continued regular project team reports to a Project Board of senior officers will drive the scheme and ensure it delivers on quality to budget and programme.

The Scheme has been developed through a wide cross service approach including all key service areas through a three tier governance structure ensuring support by all Council Directorates and the Chief Executive, key Portfolio Holders and Ward Councillors.

The Strategic Board will meet to overview the Scheme at key stages. Portfolio Cabinet members and Ward Councillors will continue to be briefed and involved.

A clear governance structure to manage the delivery will be vital to enable the Council and the contractor to deliver successfully.

The Council has set out a realistic programme and will provide the required skills and resources to ensure effective delivery through the EU Competitive Dialogue process and the management/monitoring of the Scheme.

Development sites owned by the Council, whilst not cross subsidising the PFI project, will help to further deliver the transformational improvements of these communities through a separate Development Agreement.

0.4 Approach

The Council accepts the Government standard Project Agreement terms and conditions and will not permit derogations in accordance with CLG and HCA guidance dated July 2010. Payment mechanisms will help provide value for money.

Risk Management has been fully incorporated and mitigation of risks through 100% stock surveys, geotechnical and site surveys already completed. There are no unusual features within the sites that would provide high risk such as land contamination, difficult topography and geographical features or major strategic services that require relocation.

A strong cross service professional team has prepared the OBC and has been appointed to procure the delivery of the Scheme. This team has been supported by experienced professional advisors Gleeds (technical), Deloittes (Financial) and Devonshires (Legal).
0.0 Executive Summary

Full quantitative and qualitative option appraisals have been carried out and the scheme proposed is significantly benefited when delivered through PFI. The sensitivity testing concluded that delivery through PFI is both viable and provides value for money for the Council.

The PFI Capital cost for the preferred option is £61m with PFI life cycle costs of £521k per year, over 30 years. The PFI route offers value for money over the PSC route and is affordable with the capped PFI credit of £100m.

This Outline Business Case provides the necessary support and substantiation to demonstrate that Northampton Borough Council has a key project which, if supported, can be delivered successfully within the Government’s requirements and achieve value for money and transformational change to its most deprived estates.

Transformational change will result by the combined affect of improved accommodation and layouts, which will design out crime risks, provide improved public realm access connectivity together with much better facilitation meeting the needs of residents in the 21st century.
1.0 PROJECT SCOPE

1.0 Overview of Section

This section describes the nature of the Scheme, its outputs and proposed outcomes.

1.1 Vision and objectives of the Project

The Council’s vision for Northampton is to achieve:

- Safer, greener and cleaner communities
- Improved homes, health and well being
- Strong partnerships and engaged communities

The Council aims to achieve these objectives in Eastfield and Thorplands directly through the PFI thus transforming these estates and the lives of the people who live there, aiming to:

- Refurbish and redevelop homes, ensuring decent accommodation.
- Secure public realm works to improve the environment and design out crime.
- Work in partnership with residents to respond to their needs and aspirations.
- Provide excellent service delivery.
- Act as a catalyst to regenerate the area through its Regeneration Strategy, making the area one where people choose to live.

1.2 Background on The two Estates

The Eastfield and Thorplands estates are located within the Borough of Northampton to the North East of Northampton Town and within a couple of miles of each other. The area is known as Northampton East. Eastfield is west of the A43 and has Eastfield Park at its northern boundary. Thorplands is east of the A43 and near its Junction with the A5076.

The two estates have a combination of poor stock and estate layouts combined with significant socio-economic challenges, such as overcrowding, high incidences of crime and anti-social behaviour and low educational attainment, which must be addressed in addition to direct improvement to the fabric of the buildings and the overall physical appearance of ‘place’.

The properties on the Eastfield estate area were built circa 1955 and are of a traditional brick cavity construction, whereas the properties on the Thorplands estate were built circa 1973 and are predominately of a timber-framed construction. PFI Boundary maps for both estates can be found in Appendix 1.
1.0 Project Scope

1.3 Scheme Nature, Outputs and Outcomes

The Scheme proposed includes major intervention on Eastfield and Thorplands estates. The scope will include the following:

- Demolition of 124 Council rented homes
- Re-provision of 221 new Council rented homes
- Refurbishment of 403 Council rented homes
- Remodelling of 81 of the most unsuitable and unpopular Council properties into 23 family homes on the Eastfield estate
- A range of environmental improvements within the areas where new Council rented homes will be provided
- Provision of a new housing office on the Thorplands estate

All of the above outputs will be funded through PFI credits.

In addition to this, the Council will acquire 80 owner occupied homes, 4 retail units and 1 public house through separate funding arrangements. There are also 2 additional properties in Registered Provider (RP) ownership and the purchase or exchange of these properties may be negotiated.

1.3.1 Development Sites

The Council has undertaken a capacity study to prove the deliverability of the proposed scope and as part of this exercise there is the potential on development sites to deliver up to a further 80 new build homes. These homes will provide for either rent, low cost ownership or outright sale, to complement the mixed tenure across the estates.

1.3.2 Community Hubs

In addition, the improvement of the local shopping and community hubs (under a separate development agreement) will be sought to enhance the lives of the people who live there and enhance the regeneration of the estates.

1.3.3 Grants

For improvements to Owner Occupied homes, Decent Homes Grants and Disabled Facilities Grants will be provided. The Council is also investigating Equality Release House Proud as a means of funding. These will be means tested and subject to the Comprehensive Spending Review.
1.0 Project Scope

1.3.4 Transformational Change

PFI not only delivers the core needs of the Council’s Housing Strategy but also delivers clear transformational change across the two estates and is in support of the Council’s Regeneration Strategy for the Area. The intervention at Thorplands covers all council owned stock, whereas at Eastfield there are 161 homes that are outside of the scope of works and these will be part of the wider Council strategy to deliver Decent Homes and will be funded through the Council’s Capital Works Programme by 2018.

A detailed breakdown of the PFI funded outputs is shown in the following table:

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1.4 Services

The housing management and facilities management services that are to be included in the contract include the following:

**Repairs and Maintenance** - The PFI contractor will provide a repairs and maintenance service that shall be designed to minimise breakdowns and to maintain the required Availability Standard of all dwellings and surrounding areas within the Project scope.

**Cleaning & Waste Management** - The PFI contractor will provide a professional, efficient, and reliable cleaning and waste management service to all communal areas to the dwellings within the Project scope.

**Grounds Maintenance** - The Council is to explore the PFI contractor’s appetite to have the Council's Environmental Services Contract assigned to them through the PFI Competitive Dialogue (CD) process in respect of the PFI areas. The existing Environmental Services Contract is to adapt to whichever outcome is decided through the CD process and is therefore deemed to be most advantageous to the Council.

**Tenancy and Leaseholder Management** - The PFI contractor will provide a comprehensive tenancy and leaseholder management service that ensures the smooth and efficient running of a well-balanced and contented community.
1.0 Project Scope

1.5 Cross Subsidy

To ensure the Scheme remains robust and deliverable, no cross subsidy between the PFI funded outputs and the complementary development elements as mentioned above have been assumed as part of the Council’s affordability calculations. If any land value should be realised by the Development Company, the Council expects a share of this, which will be captured through appropriate overage clauses in the Development Agreement.

1.6 Contract Length

The contract length will be 30 years.

1.7 Owner Occupiers

The vast majority of land within the Project scope is already in the Council's ownership, principally in the Housing Revenue Account (HRA). However, there are 80 leasehold and freehold properties that the Council will need to acquire in order to fulfil the requirements of the Scheme.

Throughout the procurement stage, the Council will negotiate with owner-occupiers with a view to acquire land interests without the need of a Compulsory Purchase Order (CPO). The Council will however, if required, pursue CPOs to acquire all such identified properties in good time in order to support the successful bidder’s programme, whilst at the same time de-risking the vacant possession issue for the Council.
2.0 Strategic Context and Business Need

2.0 STRATEGIC CONTEXT AND BUSINESS NEED

2.0 Outline of Section

This section outlines the Council’s strategic vision within a housing context, the corporate objectives, policies and plans along with how these documents relate to the PFI Scheme.

2.1 Northampton in context

2.1.1 Geographical

Northampton Borough Council is one of seven Borough and District Councils in Northamptonshire. It is the county town of Northamptonshire and the key economic driver for the county. Previously, the area has been considered part of the East Midland Region but it has also been a key driver for the Milton Keynes South Midlands Growth Area, making a significant contribution to growth over the last few years in terms of new jobs and homes.

2.1.2 National

The town is located some 67 miles north of London and historically was built on the success of the shoemaking industry. The main employers now include the multinationals Carlsberg, Avon Cosmetics, Panasonic and Barclaycard. Other key industries are focused around the distribution and finance industries.

The population has risen steadily since the 1960s, with a spurt in the early 1970s following Northampton being declared a ‘New Town’ in 1968. It is the largest district in Northamptonshire and the third largest town in the UK that currently does not have city status. Prior to the revocation of the East midland regional special strategy the population was expected to grow by more than 100,000 people by 2026.

Currently Northampton has a population of approximately 210,5001 living in 90,850 dwellings2. Within this total number of dwellings, 12,244 are managed and owned by the Council, with a further 700 leasehold flats. This represents just fewer than 14% of the total dwelling stock in the Borough. The largest form of tenure within Northampton is attributed to owner occupation at 71% of the total stock. Private renting forms 8% of the stock, with the remainder shared between shared ownership (1%), other social rented (4%) and living rent free (2%).

The majority of the New Town expansion occurred in Northampton East between 1970 and 1976. The expansion area originally covered 1,228ha and 12,850 homes were built providing accommodation for 44,400 people. Before the expansion the population of the area was around 1,200 people mainly residents of Great and Little Billing villages, which were incorporated into the developments. Northampton East brownfield and greenfield site now has a population of around 36,760 and makes up 17.9% of Northampton’s total population.

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1 Office of National Statistics (ONS) mid year estimates 2009
2 The Valuation Authority Office. 29th March 2009
2.0 Strategic Context and Business Need

2.1.3 Housing Context

Most of the social housing estates in Northampton East were built by the Northampton Development Corporation in the 1970s and much of the Council housing stock within this area is coming to the end of its expected life.

When the properties were originally let by the Northampton Development Corporation they were allocated to applicants from outside the Borough, the majority of whom were young families. As a result of this allocations policy, the estates in Northampton East have developed their own identity over the years, and the area is seen as very distinct from the rest of Northampton.

The newly developed neighbourhoods have never integrated with the rest of Northampton Town and many are stigmatised as residual and troublesome priority areas. Northampton East has been identified as an area of multiple deprivation, with the majority of the Council’s estates falling in the bottom 20% of national indicators, and particular estates in the bottom 5% or 10%.

The housing estates in Northampton East are defined by the following issues:

- Poor landscaping and lighting.
- Lack of distinction between public and private areas.
- Vandalised communal area in flats and bedsits.
- Lack of natural surveillance for car parking and play areas.
- Poor signage and road layouts.
- A multitude of alleyways providing opportunities for crime.

It is no surprise therefore that, as a result of these poor physical characteristics, residents living in Northampton East consistently raise the same issues as their priorities for improving the area:

- Crime and anti-social behaviour. Tenants on the estates feel less safe both during the day and at night compared with the Borough average. The 2009 Tenants’ Survey reported a significant number of tenants finding teenagers hanging around and vandalism and graffiti to be a ‘very or fairly big problem’.
- Enviro-crime.
- Environmental dilapidation, including a high response in the 2009 Tenants’ Survey of ‘very dissatisfied’ with external areas, specifically with ‘rubbish or litter’
- Provision for young people.
- Internal improvements to properties including heating, internal repairs, security and safety measures.

(Taken from the Council’s annual tenant survey 2007 and 2009 Northampton East Tenants’ Survey).
2.0 Strategic Context and Business Need

These regeneration proposals will certainly go a long way to addressing the current priorities of residents and securing major improvements to their quality of life, through the remodelling of poor-quality stock, the public realm and the provision of new, high quality homes for affordable rent, low-cost home ownership and outright sale.

Officer and stakeholder consultation has identified that there are two specific estates within Northampton East, i.e. Eastfield and Thorplands, which experience a disproportionate number of problems and that targeted investment and attention to these areas would have a significant beneficial ripple effect on the whole of the neighbourhood. The aim of this PFI scheme is to target the most difficult and problematic areas as a priority so that they act as a catalyst for the regeneration of the wider area within a planned strategy.

2.2 Inequalities and Deprivation

Eastfield and Thorplands estates are areas with high levels of inequalities or deprivation. Deprivation is generally measured using the Index of Multiple Deprivation or IMD. This is a national measure that combines a number of indicators, chosen to cover a range of economic, social and housing issues, into a single ‘deprivation score’ for each small area (or super output area) in England. The indicators are combined from 6 “domains” of deprivation. The scores and ranking for areas are provided for each individual domain and for an “all domain” result. This allows each area to be ranked relative to one another according to their level of deprivation. The IMD was last produced in 2007.

2.2.1 Eastfield Estate

The Eastfield estate (PFI) area generally correlates to 1 Super Output Area or SOA.

The table below shows the SOA of the Eastfield estate (PFI) is amongst the 20% most deprived in the country in each of the domains according to the Index of Multiple Deprivation.

<table>
<thead>
<tr>
<th>IMD Domains</th>
<th>Eastfield SOA in 10% most deprived nationally</th>
<th>Eastfield SOA falling in 10% - 20% most deprived nationally</th>
<th>SOA falling in top 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Domain Index</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Income Deprivation</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Employment Deprivation</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Health Deprivation and Disability</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Education, Skills and Training Deprivation</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Crime and Disorder</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Living Environment</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Barriers to Housing and Services</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The Super Output Area (SOA) correlating to the Eastfield estate (PFI) falls within the 10% most deprived areas nationally according to the all domain index.
2.0 Strategic Context and Business Need

The 4 domains showing the greatest inequalities on Eastfield estate (those falling into the worst deprivation %) are:

- The SOA falls into the top (worst) 4% of deprivation in England for **Education Skills and Training Deprivation**.
- The SOA falls into the top 4.5% (worst) of deprivation in England for **Crime and Disorder Deprivation**.
- The SOA falls into the top (worst) 9% of deprivation in England for **Employment Deprivation**.
- The SOA falls into the top (worst) 9% of deprivation in England for **Income Deprivation**.

2.2.2 Thorplands Estate

The Thorplands estate (PFI) area generally correlates to 2 Super Output Areas or SOAs. The table below shows the number of Super Output Areas in the Thorplands estate that are amongst the 10% and the 10% to 20% most deprived in the country in each of the domains according to the Index of Multiple Deprivation (2007).

<table>
<thead>
<tr>
<th>IMD Domains</th>
<th>No. of Thorplands SOAs in 10% most deprived nationally</th>
<th>No. of Thorplands SOAs falling in 10% - 20% most deprived nationally</th>
<th>Total No. of SOAs falling in top 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Domain Index</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Income Deprivation</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Employment Deprivation</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Health Deprivation and Disability</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Education, Skills and Training Deprivation</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Crime and Disorder</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Living Environment</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Barriers to Housing and Services</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Both of the Super Output Areas (SOAs) in Thorplands fall within the 20% most deprived areas nationally according to the all domain index.

The 3 domains showing the greatest inequalities on Thorplands estate (those falling into the worst deprivation %) are:

- Both of the SOAs fall into the top (worst) 3% of deprivation in England for **Crime and Disorder Deprivation**.
- Both of the SOAs fall into the top (worst) 11% of deprivation in England for **Education Skills and Training Deprivation**.
- Both of the SOAs fall into the top (worst) 13% of deprivation in England for **Income Deprivation**.
2.0 Strategic Context and Business Need

2.3 Strategic Policies and Corporate Objectives

The overarching policy context for this project is encapsulated in the following key document.

2.3.1 NBC Corporate Plan

The NBC corporate plan sets out Northampton Borough Council’s ambitions and priorities for 2009-2012 and the partnership vision for Northampton until 2031. The Council’s ambition is;

‘To be one of the best councils in terms of service delivery by 2013’

The five corporate priorities are:

- Safer, greener and cleaner communities;
- Housing, health and wellbeing;
- A Confident, ambitious and successful Northampton;
- Partnerships and community engagement; and
- A well-managed organisation that puts customers at the heart of what we do.

The PFI Scheme will have an impact on all of these corporate priorities, with the biggest impact being in the housing, health and wellbeing priority and improve the quality of life for the communities that live in Northampton East.

2.3.2 Sustainable Community Strategy (2008-2011)

The PFI Scheme will have a big impact on achieving the Sustainable Community Strategy objectives.

The Northampton Sustainable Community Strategy sets out the vision and aims for the communities of Northampton up until 2031. The vision is to ‘become a City by 2021 and by 2031 be a major regional cultural and economic centre’. In order to achieve this, the strategy has four clear themes:

- Living and thriving;
- Fit and healthy;
- Safe and secure; and
- Children and young people

2.3.3 Housing Asset Management Strategy 2010-2015 (Adopted by Cabinet in July 2010)

The Council faces considerable challenges in maintaining and investing in its stock due to the level of non-decency and the funding shortfall that exists. Analysis of the stock condition data and the finance information available show that there are insufficient resources available to reach Government ‘decent’ standards throughout the Council owned stock.
### 2.0 Strategic Context and Business Need

In April 2010 there were 5,900 non-decent homes, i.e. 48.2% of the Council stock. A further 2,041 dwellings will become non decent between 2010 and 2015. The stock condition information shows that £43.3m is required to address non-decency by 2015 and a further £86m is needed to address general poor condition. This produces an overall investment need of £129.5m up to the end of 2015. Resources of £52.1m are projected to be available to the Council during this period to carry out Decent Homes work and to deal with asbestos, fire safety works and poor condition, over and above decency, in order to manage the stock effectively. This excludes any finance made available through the Public Finance Initiative (PFI).

**By 2015, 31% of Council stock will be non-decent**

The resources available during 2010 to 2015 should result in 4,175 properties being made decent. There is currently a funding shortfall of £77.4m, which would result in approximately 3,800 properties (this equates to 31% of the Council’s housing stock) remaining non-decent at the end of 2015. The Estate Renewal Programme will review the options and wider regeneration opportunities during 2011/2012 for a number of properties within the Council’s ownership. The PFI Scheme is therefore a major and vital opportunity for the delivery of improvements to achieve ‘decency’ for a large number of properties within the proposed regeneration areas of Northampton East. It is considered as a vital and necessary vehicle to achieving the requisite standards and improvements for tenants.

#### 2.3.4 Housing Strategy 2010-2015

The Housing Strategy sets out the Council’s plans for housing in Northampton over the next five years. The strategy recognises the wider strategic role that Northampton has in place shaping, and the co-ordination role to facilitate the delivery of future growth and the maintenance of existing dwellings. The four priorities of the Strategy are:

- Manage supply and growth for the future of Northampton;
- Create resilient and cohesive communities;
- Deliver well-designed, high quality homes, neighbourhoods and services; and
- Improve customer access, opportunity and choice

The PFI Scheme is one of three geographical priorities of the Housing Strategy and will help deliver priority three, which is to deliver well-designed, high quality homes, neighbourhoods and services. This will be achieved through the transformational change suggested as part of the Scheme. The map on the next page illustrates the geographical priority areas of the Housing Strategy.
2.0 Strategic Context and Business Need

2.3.5 Northampton Economic Regeneration Strategy (NERS)

The Northampton Economic Regeneration Strategy (Appendix 2) was adopted by Northampton Borough Council in May 2008, and sets out a number of key actions required to develop Northampton from 2008 to 2026. The document is divided into a number of key subject areas such as retail, employment and also housing. One of the key housing actions being to 'refurbish poor existing housing estates noting that increased densities could be explored as a mechanism for renewal where existing landscapes and densities are working against rather than in harmony with the estate'. Related actions include targets on affordable housing and quality housing. The NERS directly supports the PFI initiative and demonstrates the connection to the current aspirations and earlier strategic planning.

2.3.6 Regeneration Strategy for Northampton East

The quality of life and outcomes for residents in many areas of Northampton East are persistently not as good as other areas of the town. Analysis of key data sets, highlights a broad picture of socio-economic decline across a significant proportion of Northampton East. Residents of some of the estates in Northampton East suffer disproportionately from a combination of inequalities but particularly from higher crime rates and poorer housing conditions.

The Council and Local Strategic Partnership (LSP) have worked to develop a Regeneration Strategy for Northampton East as a means to driving change in the area to improve the quality of life for residents. This strategy is a framework for delivery, aimed at bringing about safe, inclusive sustainable communities (economically, environmentally and socially) in the area. An emerging high-level action plan sets the framework for delivery.
2.0 Strategic Context and Business Need

The Regeneration Strategy for Northampton East (Appendix 3) signifies a long-term holistic approach to socio-economic regeneration within the PFI area, with the focus on outcomes for the community and seeking to tackle the drivers of deprivation such as unemployment and low skills alongside enabling fundamental changes to housing and the local environment.

A detailed baseline analysis has been completed for Northampton East, which has informed the development of the framework strategy and high-level action plan. The emerging priorities for Northampton East change are:

- Improve the quality of the housing (including Decent Home Standards) – particularly in Thorplands, Blackthorn and Bellinge estates,
- Reduce crime and anti-social behaviour across Northampton East as a whole but particularly in Thorplands and Lumbertubs wards,
- Improve skills and employment (all areas),
- Improve the quality of local facilities (both; local and neighbourhood shops, community centres, open space provision. Priority areas – Thorplands, Blackthorn, Lumbertubs, Lings, Goldings estates),
- Improve connectivity between the estates, to the Town Centre and to employment areas.

2.4 Housing Needs

The two estates within the PFI Scheme were originally 100% social housing, and although a significant number of properties particularly in Thorplands have been sold under Right to Buy legislation there is still a large proportion of Council owned stock on both estates. There are also 72 properties owned by Registered Providers, 28 of which are in Thorplands and 44 in Eastfield. Home ownership accounts for only 45% of the stock in Eastfield and 62% in Thorplands compared to 71% in the Borough as a whole.

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Eastfield</th>
<th>Thorplands</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mix</td>
<td>%</td>
</tr>
<tr>
<td>NBC</td>
<td>378</td>
<td>49%</td>
</tr>
<tr>
<td>RP</td>
<td>44</td>
<td>6%</td>
</tr>
<tr>
<td>Private</td>
<td>349</td>
<td>45%</td>
</tr>
<tr>
<td>Total</td>
<td>771</td>
<td>100%</td>
</tr>
</tbody>
</table>

The West Northamptonshire Strategic Housing Market Assessment, which was published in June 2010, suggests that a total of 10,300 affordable homes are required across the Borough between now and 2026. In order to achieve this the Council would need to provide an additional 600 affordable homes per year between 2010 and 2026. The PFI will be a key element in being able to meet this demand as the proposals provide 221 new Council rented homes and a potential for a further 80 new build homes on development sites.
2.0 Strategic Context and Business Need

As of 13th August 2010, there were 6,215 live applications on the Housing Register in Northampton for social rented accommodation and the Council operates a Choice Based Lettings (CBL) system. Applicants are no longer asked to specify their preferred areas for housing, however demand for specific areas can be demonstrated by applicants’ bids through the CBL system through bids for any properties that became available in 2009/10. Eastfield is only slightly below the average for the Borough, whereas Thorplands is substantially below the average for social rented accommodation.

The statistics in the following table reflect the popularity of the estates shown by the average number of CBL bids per property, number of void properties and number of new lettings for financial year 2009/10. The table below also shows average length of tenancies overall.

<table>
<thead>
<tr>
<th>Area</th>
<th>CBL Bids per property</th>
<th>Void rate</th>
<th>Turnover Rate</th>
<th>Average Tenancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastfield</td>
<td>37</td>
<td>18%</td>
<td>14%</td>
<td>17 years</td>
</tr>
<tr>
<td>Thorplands</td>
<td>24</td>
<td>13%</td>
<td>10%</td>
<td>14 years</td>
</tr>
<tr>
<td>Borough wide</td>
<td>40</td>
<td>12%</td>
<td>9%</td>
<td>15 years</td>
</tr>
</tbody>
</table>

Generally, the requests for the Eastfield estate reflect the location of the estate, which is nearer to the town centre. Although the average tenancy is 17 years, this hides the unpopularity of bedsits. These flats are not as popular as the remaining properties in Eastfield and this is reflected in the high void and turnover rate. These will therefore be remodelled to provide much needed family accommodation.

Thorplands is not quite as popular as Eastfield. The low number of CBL bids, a lower tenancy length and a higher void/turnover rate demonstrates this is below average for the Borough. This can, in part, be attributed to the poor condition of the stock and the outmoded ‘Radburn’ layout. The PFI Scheme will address these issues so that the properties in Thorplands will become attractive to families on the Council’s waiting list.

The PFI Scheme will re-provide the same amount of rented units on the two estates and these will be predominately family houses and therefore will provide homes for a larger number of tenants. This will address the differing issues on the two estates whilst retaining and improving their popularity.

As these two estates were originally 100% public sector owned, the only properties currently available for sale on the open market are those that have been sold under ‘Right to Buy’ legislation. Sourced from Home track, the average property price in Thorplands Ward in June 2010 was £109,434 and in Eastfield Ward was £143,647 (the Eastfield figure is higher because it includes part of the Ward which has always been privately owned and is not included in the PFI).
2.0 Strategic Context and Business Need

Whilst these Right to Buy purchases reflect the popularity the estates enjoyed in the past, these properties are not popular with current market purchasers and the provision of new good quality, well designed, properties for sale would be more attractive to potential buyers. For comparison, figures from Land Registry data on the average house prices for surrounding towns are shown below:

<table>
<thead>
<tr>
<th>Town</th>
<th>Average House Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northampton</td>
<td>£147,655</td>
</tr>
<tr>
<td>Leicester</td>
<td>£131,871</td>
</tr>
<tr>
<td>Kettering</td>
<td>£140,820</td>
</tr>
<tr>
<td>Milton Keynes</td>
<td>£203,165</td>
</tr>
</tbody>
</table>

2.5 The Council’s Housing Stock in the PFI areas

A breakdown of the archetypes of the Council owned properties on the Eastfield and Thorplands estates is set out in the table below:

<table>
<thead>
<tr>
<th>Archetype</th>
<th>Eastfield</th>
<th>Thorplands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional house 1945-64</td>
<td>154</td>
<td>0</td>
</tr>
<tr>
<td>Traditional house 1965-74</td>
<td>34</td>
<td>180</td>
</tr>
<tr>
<td>Traditional house post 1974</td>
<td>2</td>
<td>49</td>
</tr>
<tr>
<td>Bungalows</td>
<td>9</td>
<td>21</td>
</tr>
<tr>
<td>Low-rise flats post 1945</td>
<td>99</td>
<td>108</td>
</tr>
<tr>
<td>Medium rise flats</td>
<td>80</td>
<td>97</td>
</tr>
<tr>
<td>Total number of units</td>
<td>378</td>
<td>455</td>
</tr>
</tbody>
</table>

There is a good mix of property types in Thorplands all built in the early seventies, however the fabric of the stock is poor and the estate suffers from an out-dated ‘Radburn’ layout and poor overall appearance.

In Eastfield the properties are predominately family houses however there are several low rise blocks of flats which are poor quality, unsuitable for present day needs and subject to anti-social behaviour issues. These are very difficult for the Council to manage and unpopular with residents.

The decent homes position on the two estates is as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>No. of properties</th>
<th>Properties non-decent at April 2010</th>
<th>2010/11 % of Council Housing Stock</th>
<th>Properties non-decent April 2011/12</th>
<th>2012/13 % of Council Housing Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastfield</td>
<td>378</td>
<td>149</td>
<td>39%</td>
<td>238</td>
<td>63%</td>
</tr>
<tr>
<td>Thorplands</td>
<td>455</td>
<td>230</td>
<td>50%</td>
<td>232</td>
<td>51%</td>
</tr>
</tbody>
</table>

Owing to repair and thermal comfort, by 2013, 63% of Eastfield and 51% of Thorplands are expected to be non-decent.
2.0 Strategic Context and Business Need

2.6 Meeting Project Objectives

Eastfield estate is served by a single convenience store, however there is a local centre to the west of the PFI boundary. There is a primary school within the site area and extensive secondary education opportunities to the west of the site. Thorplands has a small group of shops off Farm Field Court and a primary school within the PFI area.

It is apparent that the Eastfield and Thorplands estates would be more popular if decent homes issues were addressed, larger properties were available and the estate layouts were improved. New properties will be high-quality and meet Code for Sustainable Homes level 4, thereby eradicating the non-decency issues of the existing stock.

Currently NBC’s Supplementary Planning Guidance for Affordable Housing requires that 35% of all new build housing is affordable with 70% of this being for social rent and 30% being for Intermediate tenure. This will be reflected in the mix for any new homes provided on the development sites within the PFI proposals. The development of these sites will help to diversify tenure in the neighbourhood.

Both estates have been identified as areas of multiple deprivation and are included in the 20% most deprived areas in the country. Residents suffer from a combination of inequalities but particularly from higher crime rates and poorer housing conditions.

The re-provision proposals will result in densities being reduced to provide larger size family houses and reducing the number of unpopular flats. This will practically address the overcrowding issues experienced by many of the current tenants who are on the Council’s Housing Register awaiting a transfer to a larger property.

The PFI Scheme will, in this way, bring about transformational change and the re-provision of the social housing on the estates, which will meet the needs of applicants on the Council Housing Register.
3.0 OPTIONS APPRAISAL

3.0 Outline of Section

An option appraisal has been undertaken to examine the range of options available to the Council to address the housing and wider regeneration needs of the area.

A two-stage assessment has been undertaken in accordance with Housing Procurement Pack guidance. Firstly, a high level qualitative assessment is carried out, using a range of evaluation criteria to assess the options and secondly, a more detailed quantitative and qualitative assessment of selected options, using both indicative cost assessments of the options and a range of evaluation criteria.

It is through this process of qualitative and quantitative options analysis that the Preferred Option has been identified and is proposed by this Council.

3.1 Stage 1 - Strategic Assessment

3.1.1 Qualitative Appraisal Summary

The Council's Housing Strategy sets out how the Council, in partnership with others, promotes the enablement of investment in housing. The Housing Asset Management Strategy sets out how it will manage its own resources for the improvement of its existing stock. Local strategies are developed in consultation with residents and other local stakeholders, and major investment projects are managed through formal partnerships at a strategic level.

Northampton East is a key area that has been identified within the Housing Strategy as requiring investment and delivery of such investment through the most appropriate funding route.

A range of possible procurement and scope options have been identified by the Council to address the housing and wider regeneration needs of Northampton East and in particular the Eastfield and Thorplands estates. This range of options is summarised immediately below and the options are described in further detail within the 3.2.2 Range of Options section below.

3.1.1.1 Procurement Options

- Option A- ALMO
- Option B - Stock Transfer
- Option C- PFI

3.1.1.2 Scope Options

- Option 1- Do Nothing
- Option 2- Reprovision and refurbishment
- Option 3- Refurbishment only
- Option 4- Full demolition and new build
3.0 Options Appraisal

The seven options assessed encompass physical, investment level and funding route options in order to provide a range of real options to be examined in the qualitative assessment.

The purpose of the qualitative assessment is to determine the extent to which each of the options would satisfy the overall aims of the Eastfield and Thorplands (Northampton East) Regeneration Scheme from the resources available.

3.1.2 Range of Options

3.1.2.1 Procurement Options

<table>
<thead>
<tr>
<th>Ref</th>
<th>Option</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>ALMO</td>
<td>This option involves assessing the prospect of delivering the aims and objectives of the Eastfield and Thorplands (Northampton East) Regeneration Scheme through the ALMO (Arms Length Management Organisation) route. Funding would be through DCLG, Council funding of the ALMO and its business plan.</td>
</tr>
<tr>
<td>B</td>
<td>Stock Transfer</td>
<td>This option involves assessing the prospect of delivering the aims and objectives of the Eastfield and Thorplands (Northampton East) Regeneration Scheme through stock transfer route. Funding would be through DCLG gap funding of the stock transfer plus the Registered Providers' business plan and possibly also grant funding from the HCA.</td>
</tr>
<tr>
<td>C</td>
<td>PFI</td>
<td>This option involves seeking to deliver the aims and objectives of the Scheme through the PFI procurement route.</td>
</tr>
</tbody>
</table>

3.1.2.2 Scope Options

<table>
<thead>
<tr>
<th>Ref</th>
<th>Option</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Do nothing</td>
<td>This option involves doing the minimum necessary to meet statutory obligations through the Council’s own available resources. This may involve re-housing and demolition as dwellings fall into a greater state of disrepair over the next 30 years. Funding would be through HRA management, maintenance subsidy and Major Repairs Allowance.</td>
</tr>
<tr>
<td>2</td>
<td>Refurbishment only</td>
<td>This option seeks to bring the Council owned housing stock up to Decent Homes standard</td>
</tr>
<tr>
<td>3</td>
<td>Reprovision and refurbishment</td>
<td>This option involves both bringing the Council owned stock up to the Decent Homes standard and also the replacement of unsuitable and unpopular housing with the construction of new family homes where required.</td>
</tr>
<tr>
<td>4</td>
<td>New build</td>
<td>This option seeks the replacement of all Council owned stock with new build family homes.</td>
</tr>
</tbody>
</table>
### 3.1.3 Key Success Criteria

The above options have been assessed on a qualitative basis across a range of key success criteria.

The key success criteria are set out in the tables below. They have been given equal weightings.

The Procurement Options have been assessed against the following criteria:

<table>
<thead>
<tr>
<th>Key Success Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding</td>
<td>Availability of sufficient capital and revenue funding to deliver the housing and regeneration aims for the Eastfield and Thorplands estates</td>
</tr>
<tr>
<td>Deliverability</td>
<td>Likelihood of the required homes and regeneration aims being met through the market and being commercially deliverable</td>
</tr>
</tbody>
</table>

The Scope Options have been assessed against the following criteria:

<table>
<thead>
<tr>
<th>Key Success Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing need</td>
<td>Provision of accommodation of the required size, type, quality and location to meet the identified housing need in the Eastfield and Thorplands estates</td>
</tr>
<tr>
<td>Stock condition</td>
<td>Improvement of stock condition to bring up to Decent Homes standard</td>
</tr>
<tr>
<td>Quality services</td>
<td>Provision of housing management and maintenance and other environmental and community services to high quality standards</td>
</tr>
<tr>
<td>Private housing</td>
<td>Provision of private residential housing for owner-occupation</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Creation of long-term sustainable mixed-tenure community and neighbourhood with positive sense of identity and character</td>
</tr>
</tbody>
</table>

The options identified have been assessed across the seven key success criteria and scored in accordance with the scoring mechanism set out below.
3.0 Options Appraisal

The objective was to assess and score the options in terms of their ability to meet the key success criteria. Each option was given a raw score out of a maximum ten marks, on the following basis:

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>The option does not meet the criteria in any way</td>
</tr>
<tr>
<td>1-2</td>
<td>The option does not meet any significant element of the criteria</td>
</tr>
<tr>
<td>3-4</td>
<td>The option makes some progress towards the achieving of the criteria but remains an unsatisfactory solution</td>
</tr>
<tr>
<td>5-7</td>
<td>The option goes some way to meeting the criteria but a large element remains unresolved</td>
</tr>
<tr>
<td>8-9</td>
<td>The option meets the criteria but reservations remain</td>
</tr>
<tr>
<td>10</td>
<td>The option meets the criteria in full</td>
</tr>
</tbody>
</table>

3.1.4 Initial Strategic Assessment and Short-Listing of Options

This high level strategic qualitative assessment has been undertaken both to assess and compare the options and also to discount those options which it is considered should not be examined further and should not be taken forward to the quantitative analysis stage.

The summary results of the overall qualitative assessment are set out in table below:

<table>
<thead>
<tr>
<th>Option</th>
<th>Key Success Criteria</th>
<th>Funding</th>
<th>Deliverability</th>
<th>Total out of 20</th>
<th>Total as %</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>ALMO</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>B</td>
<td>Stock Transfer</td>
<td>5</td>
<td>5</td>
<td>10</td>
<td>50%</td>
</tr>
<tr>
<td>C</td>
<td>PFI</td>
<td>8</td>
<td>8</td>
<td>16</td>
<td>80%</td>
</tr>
</tbody>
</table>

The qualitative assessment of the Procurement options discounts two options.

The options set aside at this stage and the summary reasons for reaching this decision are set out below:

**Option A - ALMO:**

This option has been discounted as the Council does not have an ALMO, nor is an opportunity likely to arise in the future where the ALMO option and the associated funding is available to the Council.
3.0 Options Appraisal

Option B – Stock Transfer:

This option has been discounted as the Council considered stock transfer as part of the initial options appraisal carried out in 2005. This was not agreed as an acceptable route forward by the Council, and was therefore not put forward as a formal proposition to tenants. Current consultation on the reform of Council Housing finance is not clear as to how the coalition Government will take the matter forward. Therefore until a decision is made by central Government it is difficult to know whether this is a viable option.

3.1.4.2 Scope Options

<table>
<thead>
<tr>
<th>Option</th>
<th>Key Success Criteria</th>
<th>Housing Need</th>
<th>Stock condition</th>
<th>Quality Services</th>
<th>Private Housing</th>
<th>Sustainability</th>
<th>Total out of 50</th>
<th>Total as %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Do nothing</td>
<td>2</td>
<td>6</td>
<td>5</td>
<td>0</td>
<td>3</td>
<td>16</td>
<td>32%</td>
</tr>
<tr>
<td>2</td>
<td>Refurbishment only</td>
<td>4</td>
<td>10</td>
<td>6</td>
<td>0</td>
<td>4</td>
<td>24</td>
<td>48%</td>
</tr>
<tr>
<td>3</td>
<td>Reprovision and refurbishment</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>47</td>
<td>94%</td>
</tr>
<tr>
<td>4</td>
<td>New build</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>9</td>
<td>7</td>
<td>45</td>
<td>90%</td>
</tr>
</tbody>
</table>

The qualitative assessment of the options has been used to discount further consideration of two options. However these will be further considered at the second stage of quantitative assessment.

The options set aside at this qualitative assessment stage and the summary reasons for reaching this decision are set out below:

Option 1 – Do Nothing:

This option has been discounted, as it is clear that the do-nothing option is not appropriate for the Eastfield and Thorplands estates. It will not provide accommodation to meet the housing need or improve the condition of the stock to decency. Also the provision of services cannot be improved if this approach is adopted. The estates suffer from disproportionate levels of crime and anti-social behaviour and this would continue to have a significant impact on the council’s ability to deliver effective services unless investment is made. There will be no opportunity to provide private housing with this option. Finally, in terms of sustainability many of the properties on the two estates are no longer fit for purpose and this compounds the social and economic problems faced by residents. The Council has identified a solution for these estates, which is broader than doing the minimum necessary to meet their statutory obligations.
3.0 Options Appraisal

Option 2 – Refurbishment Only:

This option has been discounted as although Council owned properties will be brought up to decency, this option will not meet the housing need by tackling properties which do not provide the required size, type and quality in the right location or deliver the transformational change that is required on both estates. As with the ‘Do nothing’ option it will also not improve services, provide no opportunity for private housing nor provide a sustainable solution.

3.1.5 Conclusions

The conclusions reached from the qualitative assessment of Procurement and Scope options for the Eastfield and Thorplands estates are that only the PFI funding route options provide an opportunity for the Council to facilitate strategic intervention on two of its most challenging estates to initiate the transformational regeneration of Northampton East and deliver the improvements. It will provide an opportunity to bring the private sector into the area and its significant regeneration experience and expertise, where there are no other obvious opportunities for this to occur, unlike in some other parts of the Borough. It also enables the Council to transfer much of the risk associated with a Scheme of this nature to the private sector. The neighbourhood will then benefit from a regeneration strategy approach with targeted intervention through the PFI Scheme to address the estates, which need a radical physical solution to provide a catalyst effect on a range of deprivation indices.

The Council’s strategic, qualitative assessment of the various options therefore concludes that the following should be considered using the PFI procurement-funding route:

- Reprovision and Refurbishment
- New build

This is due to the fact that both of the above options will meet the housing need requirements, deliver homes that meet the Decent Homes Standard, provide services to high quality standards, provide an opportunity for private housing on the estates and enable the long term sustainability of the local communities and neighbourhoods.

3.2 Quantitative Appraisal Criteria

The Council has undertaken a Quantitative Appraisal of the scope options and benchmarked them against the Base Case (Do nothing) option. The Net Present Value (“NPV”) of the total capital, lifecycle and operating costs associated with each respective option has been calculated. This NPV has then been given a respective score out 40, on the basis of the cheaper the option, in quantitative terms, the more attractive it is to the Council (and therefore is allocated a higher score).

The second part of the detailed Options Appraisal conducted by the Council is to consider the input costs associated with the scope options. The Council is aware that it is important to ensure that the costs associated with these options are robust and has taken all reasonable steps to ensure that this is the case. The Quantitative Appraisals in each case are based on a 30-year contract period and have been prepared in accordance with HM Treasury’s Green Book.
3.0 Options Appraisal

3.2.1 Input Costs

Detailed below is a summary of the basis of input costs for each of the four options, which are the basis of the Quantitative Appraisal.

<table>
<thead>
<tr>
<th>Cost</th>
<th>Do Nothing Option £m</th>
<th>Refurbish Option £m</th>
<th>Re-provision &amp; Refurbishment Option £m</th>
<th>Full New Build Option £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital New Build Costs</td>
<td>0.00</td>
<td>0.00</td>
<td>32.12</td>
<td>82.77</td>
</tr>
<tr>
<td>Capital Renovation Costs</td>
<td>5.18</td>
<td>27.50</td>
<td>18.39</td>
<td>0.00</td>
</tr>
<tr>
<td>Demolition Including Asbestos</td>
<td>0.00</td>
<td>0.00</td>
<td>0.95</td>
<td>2.85</td>
</tr>
<tr>
<td>Roads and Infrastructure</td>
<td>0.00</td>
<td>0.00</td>
<td>0.12</td>
<td>6.25</td>
</tr>
<tr>
<td>Total Lifecycle Costs</td>
<td>12.77</td>
<td>16.90</td>
<td>11.56</td>
<td>11.56</td>
</tr>
<tr>
<td>Maintenance Costs</td>
<td>22.64</td>
<td>18.65</td>
<td>18.65</td>
<td>18.65</td>
</tr>
<tr>
<td>Total Costs</td>
<td>51.69</td>
<td>82.17</td>
<td>100.90</td>
<td>141.19</td>
</tr>
<tr>
<td>Homes Retained and Refurbished</td>
<td>647</td>
<td>647</td>
<td>426</td>
<td>0</td>
</tr>
<tr>
<td>New Build</td>
<td>0</td>
<td>0</td>
<td>221</td>
<td>647</td>
</tr>
</tbody>
</table>

3.2.2 Capital and Lifecycle Costs

3.2.2.1 Refurbishment of Retained homes

The Council has used evidence from Stock Condition Surveys (Appendix 4) undertaken by Rand Associates and benchmark refurbishment costs from Gleeds.

These costs also include additional sums for enhanced boundary treatments to increase security, and remodelling for certain homes to be reversed to enhance the layout and design of the area.

3.2.2.2 New Build Re-provision of homes for social rent

The Council Team has developed the new build costs on the basis of HCA Design Guidance and new build unit capital cost supplied by Gleeds.

The new build lifecycle costs have been informed by Gleeds.
3.0 Options Appraisal

3.3 Other Capital Costs

There are a number of other capital costs attributable to each of the short-listed options. These are detailed on the next page:

3.3.1 Demolitions

The Council has conducted a full evaluation of the estimated cost of demolishing each of the different home types within the area. This estimation is based upon the Gleeds professional expertise.

The demolition cost associated with the Reprovision option is £945k. The same costs for the full new build option being £2.849m.

3.3.2 Roads and Infrastructure

The Reprovision option propose a high level of redesign, including the creation of necessary new and improved road layouts within the project area to facilitate the level of change required.

As a result, the Council has developed robust costs of the revised road layout based upon advice from Gleeds. The cost of roads and infrastructure cost to be carried out on HRA land is £184k for the Reprovision option and £6.249m for the full new builds option.

3.3.3 Green Open Spaces

In addition to the costs of re-providing a more improved road layout, the Council has included robust costs for the provision of community focussed green open spaces.

3.3.4 Land Contamination

The Council has assumed a £nil provision in respect of land contamination and asbestos removal.

3.3.5 Housing Office

The Council has made provision of £0.1m (at 2013 prices) for the construction of a new Housing Office under all PFI options.

3.3.6 Operating Costs

The Council envisages the proposed contract to include continuing housing management and general day-to-day maintenance of the Council owned homes over 30 years.
3.0 Options Appraisal

3.3.7 Section 106 agreements

No provision has been included in the Financial Model for any planning gain under Section 106 agreement.

3.4 Quantitative Appraisal Score

The quantitative appraisal of the strategic options compares the cost estimates for each option over the estimated 30-year life of the projects and discounting these at 3.5% (Real), in line with Green Book guidance. This ensures that a consistent comparison between the options.

The expenditure figures included have been calculated using:

- Construction cost/pricing data consistent with current construction costs for similar accommodation. This has provided realistic estimates of capital costs including fees and charges;
- Current expenditure and budget information adjusted for anticipated changes; and
- Cash flow analysis of relevant whole life costing.

A summary of this analysis is set out below.

3.5 Summary - Qualitative and Quantitative Evaluation

<table>
<thead>
<tr>
<th>Short List Option</th>
<th>Description</th>
<th>Social Housing Properties remaining</th>
<th>NPV of costs (£m)</th>
<th>Qualitative Assessment Weighted Score</th>
<th>Cost per point of weighted score (£’000/point)</th>
<th>Cost per point of weighted score per property (£’000/point)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Do minimum</td>
<td>647</td>
<td>33.2</td>
<td>23</td>
<td>1,443</td>
<td>2.23</td>
</tr>
<tr>
<td>2</td>
<td>Refurbishment Only</td>
<td>647</td>
<td>58.8</td>
<td>40</td>
<td>1,470</td>
<td>2.27</td>
</tr>
<tr>
<td>3</td>
<td>Re-provision &amp; Refurbishment</td>
<td>647</td>
<td>77.6</td>
<td>64</td>
<td>1,213</td>
<td>1.87</td>
</tr>
<tr>
<td>4</td>
<td>Full demolition &amp; new build</td>
<td>647</td>
<td>113.3</td>
<td>54</td>
<td>2,098</td>
<td>3.24</td>
</tr>
</tbody>
</table>

3.6 Conclusion from the non-financial and financial strategic option

The costs calculated as described in section 3.4 have been combined with the qualitative scores by calculating a cost per point per unit (i.e. dividing the NPV for each option by the qualitative score, and dividing this by the number of units). The option with the lowest cost per point (of the qualitative score) is deemed to be the preferred option.

This option appraisal shows that the preferred scope listed option is the re-provision and refurbishment scheme (option 3).
4.0 PROJECT COSTS AND VALUE FOR MONEY

4.0 Overview of Section

This section of the OBC identifies and compares the two potential procurement routes available to deliver the preferred option - the traditional route (the Public Sector Comparator - PSC), and Private Finance Initiative (PFI) route. It demonstrates that the PFI route is the most appropriate of these options and offers Value for Money (VfM).

4.1 Procurement Options

The Council recognises that it is necessary to demonstrate that the most appropriate procurement route is used to deliver the preferred option. In order to demonstrate VfM, the total Net Present Value (NPV) cost of any PFI procurement must be lower than that of the PSC.

A PSC gives the best possible indication of the cost to the public sector of procuring the same service outputs as defined under the PFI Contract, using ‘traditional’ procurement techniques (which may not be deliverable due to the constraints on local authorities raising capital within its prudential guidelines).

Her Majesty’s Treasury (HMT) has produced VfM guidance and developed a VfM Model, which supports local authorities in identifying the most appropriate route for procuring projects. HCA/CLG has incorporated this into their revised Housing Financial Model.

The Council has conducted both the Qualitative and Quantitative VfM assessments as appropriate.

4.2 HMT VfM Qualitative Assessment

The HMT Qualitative Assessment considers the level of viability, desirability and achievability of the proposed PSC. The Assessment involves answering a series of standardised questions. The Council has carried out this exercise and the results support the Council’s decision to procure this project through the PFI route, with the project being viable, desirable and achievable.

4.3 HMT VfM Quantitative Assessment

The HMT VfM Quantitative Test compares two procurement routes available to the Council for the proposed Preferred Option; through traditional local government means PSC, and PFI.

The PSC has been prepared using the standard HMT Financial Model and using the guidance set out in:

HMT’s Green Book;
Supplementary Green Book guidance on optimism bias and taxation adjustments; and,
HMT’s VfM guidance (together with the model user guide) issued in August 2004.
4.0 Project Costs and Value for Money

The HMT Financial Model used provides a Quantitative Assessment in Net Present Value (NPV) terms of the likely costs of the preferred option procured via the PFI and the traditional procurement route (the PSC).

The assumptions that underpin this Quantitative Assessment, key inputs and adjustments are summarised as follows:

4.4 Input Costs

This section sets on the costs used in assessing the procurement route for this project. Detailed inputs costs are in the Data Book within the Affordability and Funding Paper (Appendix 6).

4.4.1 The PSC

The Public Sector comparator (“PSC”) has been developed taking into account the costs likely to be incurred if the [Preferred Option] were to be procured conventionally. The input costs for the PSC are:

- Capital costs totalling £59m 2014/15 terms;
- Lifecycle costs £495k real terms per annum; and,
- Operating costs £1,837k in real terms per annum for the 30 years of the contract.

Additionally, amounts have been included for insurance and project management costs, given the nature and complexity of the project. Insurance costs are broadly in line with the PFI procurement route, [as advised by the Councils insurance broker Jardine Lloyd Thompson, and project management arrangements have been estimated at £6.2m.

4.4.2 PFI Option

The principal input costs for the PFI option are the same as for the PSC option with the following adjustments:

The Council anticipates a risk premium to be included within the PFI contractors risk in respect of the capital works, therefore initial build costs (Capital) and have been uplifted as follows:

- The PFI Capital cost for the preferred option is £61m; and,
- The PFI Lifecycle cost for the preferred option is £521k real terms per annum.

Operational costs are assumed to be as for the PSC.

Capital Cost

£61m
4.0 Project Costs and Value for Money

Cost data has been provided by the Council’s Technical Advisers, Gleeds, based on their experience of the PFI sector.

- Consistent with other PFI projects, the capital is assumed to be funded by 90% bank debt and 10% equity/quasi equity, with a 14.0% nominal, blended equity pre-tax Internal Rate of Return (IRR). A 5.0% SWAP rate has been assumed, which included a “buffer” or 0.5%. The Council considers that its assumptions are sound and prudent at this stage with the overall blended rate (inc SWAP, margins, MLAs, credit spread and arrangement fees) for the senior debt financing being 7.77%.
- A composite trader tax structure has been assumed with a 28% corporation tax rate.
- Bid costs £2.8m have been included within the SPV to cover the successful bidders costs in bidding for the project.

4.5 Adjustments to the PSC

In line with the guidance, the Council has made the following adjustments to the PSC.

4.5.1 Taxation Adjustment to the PSC

An adjustment has been made to take into account the benefit to the public purse of the Corporation Tax.

The Council has the supplementary Green Book guidance on ‘Adjusting for Taxation in PFI v PSC Comparisons’ to develop the appropriate PSC Taxation Adjustment Factor. The PSC Taxation Adjustment Factor included within this PSC is 7%. The flowchart can be seen at Appendix 5.

4.5.2 Optimism Bias

The Council has adopted the guidance set out in the Green Book based on Mott MacDonald’s assumptions identified the potential risks that may increase the costs over the current estimates for both the PFI and PSC. The Council has considered the extent to which these risks have been mitigated, and the extent to which any still remains.

Optimism Bias factors were developed and applied to the capital, lifecycle and operating costs of both the PSC and PFI options as appropriate.

The Optimism Bias factors (pre financial close) included in the HMT Financial Model are as follows:

- Capital expenditure - 13%
- Lifecycle expenditure -7 %
- Operating expenditure -12%
4.0 Project Costs and Value for Money

The PSC has been adjusted in the VfM assessment by applying the following post financial close Optimism Bias factors to take account of the various risks that will remain with the Council under the PSC route:

- Capital expenditure - 17%
- Lifecycle expenditure - 17%
- Operating expenditure - 29%

4.6 Value for Money Assessment

The results of the VfM Quantitative Assessment for various required bidder returns are set out below indicated the PFI offers value for money in each:

<table>
<thead>
<tr>
<th>IRR Target</th>
<th>PSC Costs (NPV) (£m)</th>
<th>PFI Costs (NPV) (£m)</th>
<th>PFI VFM</th>
</tr>
</thead>
<tbody>
<tr>
<td>13%</td>
<td>154</td>
<td>144</td>
<td>6.6%</td>
</tr>
<tr>
<td>15%</td>
<td>154</td>
<td>147</td>
<td>4.8%</td>
</tr>
<tr>
<td>18%</td>
<td>154</td>
<td>151</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

4.7 Sensitivity Analysis

The results of the Treasury Quantitative Assessment Tool (TQAT) sensitivity analysis, considering the “break even” points for value for money by flexing on of the key factors, is summarised below:

<table>
<thead>
<tr>
<th>Indifference Points</th>
<th>VfM @ 15% IRR</th>
<th>VfM @ 13% IRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Capex</td>
<td>8.5%</td>
<td>11.6%</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>14.3%</td>
<td>19.4%</td>
</tr>
<tr>
<td>Transaction Costs</td>
<td>259%</td>
<td>352%</td>
</tr>
<tr>
<td>PFI – Unitary Charge</td>
<td>5.7%</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

The above results show that:

- PSC capital costs would have to decrease by between 8 and 12% or more to make the PFI not the preferred route in VfM terms;
- PSC operating costs would have to decrease by 14 to 19% to make the PFI not the preferred route in VfM terms; and
- The Unitary Charge would have to increase by between 6 to 8 % to make the PFI not the preferred route in VfM terms.
4.0 Project Costs and Value for Money

The Council has also tested the sensitivity of the ‘Indicative’ VfM by changing key assumptions of the Scheme. For this exercise an IRR of 15% has been assumed for the Scheme. The results are shown in the following table:

<table>
<thead>
<tr>
<th>Sensitivity testing:</th>
<th>IRR @ 15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base position</td>
<td>4.8%</td>
</tr>
<tr>
<td>Increasing capital costs of the PSC by 5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Reducing capital costs of the PSC by 5%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Increasing operating expenses of the PSC by 5%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Reducing operating expenses of the PSC by 5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Applied Post FC optimism bias on Capex 16% instead of 21% (-5% points)</td>
<td>2.8%</td>
</tr>
<tr>
<td>Applied Post FC optimism bias on Opex 26% instead of 36% (-10% points)</td>
<td>2.6%</td>
</tr>
<tr>
<td>VfM Tax adjustment factor +2%</td>
<td>6.4%</td>
</tr>
<tr>
<td>VfM Tax adjustment factor –2%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

The Council understands the importance of monitoring the ongoing VfM of the Scheme as it progresses through the PFI procurement process, and recognises the importance of incorporating the above sensitivities into any decision making related to the Scheme going forward.

4.8 Summary

The results of the HMT Qualitative and Quantitative Assessment demonstrate that the Council’s preferred route for procuring the Scheme is the PFI route. The PFI route offers Value for Money over the PSC route.
5.0 AFFORDABILITY AND FUNDING

5.0 Overview of Section

This section sets out the work the Council has undertaken to understand that the Council’s resources and PFI Credits can meet the Scheme that it has developed.

This sections has a number of key functions:

- To test the Council’s financial resources are sufficient to fund the Scheme;
- To quantify the necessary Council’s commitment and making this transparent to Members and;
- Once in procurement, to provide a price ceiling against which bidders can develop their solution.

As required the CLG model for Housing PFI has been used in determining the Unitary Charge, the PFI Credits and the resulting additional Council contribution.

The affordability calculation can be seen in the model that accompanies the Affordability and Funding Paper (Appendix 6).

5.1 Total Council Resources

The Council Resources are made up of the PFI Credits, rental income and additional HRA contribution. These are described in more detail below.

5.2 Estimated PFI Credit

The Council understands that the PFI Credits will be capped at £100m and will meet capital costs related with this Scheme up to the level of the cap, understood to be:

- Initial construction and setup costs;
- Net financing costs and
- Costs of future lifecycle works

The PFI Credits have been calculated from the CLG model as shown in the table below:

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPV of Unitary Charges @ service commencement date</td>
<td>144.0</td>
</tr>
<tr>
<td>Less NPV of operating costs</td>
<td>(41.0)</td>
</tr>
<tr>
<td>Less NPV of expensed set-up/development costs</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Maximum PFI Credits allowable</td>
<td>103.0</td>
</tr>
<tr>
<td>PFI Credits applied for</td>
<td>100.0</td>
</tr>
</tbody>
</table>
5.0 Affordability and Funding

5.2.1 Housing Revenue Account Budget Contribution

The Council understands that the HRA will meet the affordability gap of £395k per annum (2014-2015 real).

5.2.2 Rental Income

Rental income is assumed to be target rents uplifted by inflation plus 0.5%.

5.2.3 Internal Interest

The affordability calculation recognises that in the early years of the Scheme, the Council’s resources are greater than the Unitary Charge. The additional cash is assumed to accrue interest, which will be available to meet the cost of the Unitary Charge in future years.

An interest rate of 3.5% has been assumed. This is based on the prevailing deposit interest rates the Council receives with the surplus assumed to reduce the Council’s borrowing requirement in the year.

5.2.4 Additional Cost to be funded outside of the Project

It is necessary for the Council to fund the costs of acquiring homes and commercial assets/land in private ownership (either via voluntary acquisition or compulsory purchase orders) and necessary statutory orders to enable the proposed design to be delivered. These costs are not included within the model as they are to be funded outside of the Scheme.

<table>
<thead>
<tr>
<th>Category</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council Tenant Home Loss and Disturbance</td>
<td>1.8</td>
</tr>
<tr>
<td>Leaseholder Buy-Out/CPOs</td>
<td>2.4</td>
</tr>
<tr>
<td>Freeholder Buy-Out/CPOs</td>
<td>6.3</td>
</tr>
<tr>
<td>Freeholder Home Loss and Disturbance</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12.0</strong></td>
</tr>
</tbody>
</table>

5.2.5 Set Up Budget

The Council’s set up budget for the Scheme is £3m part of the approved HRA budget.

5.3 Calculation of Total Council Costs

5.3.1 Estimated Unitary Charge

The estimated NPV of the PFI Unitary Charge at service commencement is £146.1m.

Council Funding

£12m
5.0 Affordability and Funding

The ramp up of Unitary Charge is based on the percentage of works costs completed, so that the contractor is rewarded as value is added to the area and broadly reflects the cost of services provided by the PFI contractor.

5.3.2 PFI Contract Monitoring

The Council recognises that it needs to make provision for the ‘in house’ post procurement monitoring of the PFI contract in considering the affordability implications of the Scheme. It has assumed a staffing structure to monitor all of the Council’s Housing PFI Schemes, and the Scheme’s share of this cost is £87k per annum.

5.3.3 Procurement Costs

There are sufficient funds in the Council’s PFI budget to cover the costs of procurement of this Scheme. The budget is £3m.

5.4 Project funding & bankability

The difficulties in the financing market are well publicised and have impacted on the PFI funding market. The principal challenges have been in reducing the number of market participants and reducing the ability of banks to take on large exposures. Additionally, pricing has for the most part increased as banks require higher margins.

It is worth noting that these changes are not the result of any fundamental change in the way the PFI credits are viewed, but rather in the knock on impact the banking industry from non-performing US mortgage backed securities. A falling housing market and the tightening in the residential mortgage market have also impacted the PFI Housing Schemes. PFI Schemes across all sectors (including housing) have seen the following characteristics in the past 18 months:

- Lending terms offered by banks have worsened, with bank margins increasing from below 1% to between 2.2-2.6%. Other funding terms have also worsened, increasing the cost of debt;
- With limited capital, banks are focussing on supporting existing strong relationship customers;
- Banks are unable or unwilling to hold credit terms for any significant length of time and the “Market Failure” clauses have come into sharper focus;
- Previously, a single bank has been willing to act as Lead Arranger, taking on credits in excess of £100m, in the knowledge it could then pass this debt on to other banks through syndication. Syndication is now much harder to achieve, and therefore banks are generally unwilling to commit to more than £25-50m, per scheme to hold on their balance sheets. This has seen a number of Schemes being funded by a banking “club” of two or more banks.
- Competition from other large PFI programmes;
5.0 Affordability and Funding

The Council has been proactive in marketing its Scheme to both sponsors and funders. The Council has held a bidders day for sponsors and funders. Steps have been taken to address their issues in structuring this Scheme.

There are limited funders for Housing PFIs, which may present a challenge, as a number of Round 6 Schemes come to market at the same time. From the dialogue conducted for the funding strategy paper, the level of senior debt required for this Scheme (of £100m) will require a club of funders, and with three bidders expected at ISDS. In order to address this issue, we have already proposed a number of strategies, set out in the funding paper (Appendix 7), including the requirement for only one lead funder up to ISDS, and requiring exclusivity to be waived by bidders not proceeding to future rounds.

Funders have expressed a reluctance to fund private development properties and any cross default provisions will make bankability challenging. Taking this into account, the Council intends to include private development within the Scheme, but under a separate development agreement.

The Council believes that private development is necessary to achieve regeneration for the area, and that proposals for the private development have to be integrated within the PFI. It is proposed, therefore, to procure both the PFI and private development in a single process, and for both to be evaluated jointly. The evaluation criteria will, however, be weighted toward getting the best PFI solution, and the Council intend to allow flexibility in proposals for the private development. Consultation with funders has indicated that to the extent that there are no cross defaults, financing solutions can be found for the private development.

Given the complex nature of Housing PFI, the level of existing funders in the market, the terms and conditions subscribed by funders and the complexity of conducting a competitive dialogue, the Council wants to ensure that the funding strategy strikes the right balance between funder involvement to provide surety on the bankability of Schemes and securing value for money on the cost of financing.

The Council is aware that the HCA is currently in discussions with the European Investment Bank (“EIB”) over its potential involvement in the Housing PFI programme going forward. The Council, in conjunction with the HCA, will provide EIB with any necessary information regarding the Scheme at any given time during the CD process, to give them the opportunity to engage as they see fit. Given the improvement in the funding market and the lack of activity to date, the Council considers it unlikely to require intervention from the Treasury’s Infrastructure Finance Unit (“TIFU”) to fund the Scheme.
5.0 Affordability and Funding

Despite the challenging economic and financial climate, there is a continued commitment by banks to fund Housing PFI Schemes and there is no market intelligence suggesting that this will change for the Round 6 Schemes. Additionally, with the abandonment of the Building Schools for the Future (“BSF”) programme, lenders may have additional capacity to lend to PFI Schemes. Based on our experience and knowledge of the Housing and Accommodation PFI sector and the funding terms that are currently available, we have made the following assumptions on funding terms in our financial model:

<table>
<thead>
<tr>
<th>Funding Sources:</th>
<th>Latest Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arranging fee</td>
<td>2.00%</td>
</tr>
<tr>
<td>Agency fee (annual charge)</td>
<td>£25,000</td>
</tr>
<tr>
<td>Commitment fee</td>
<td>1.25%</td>
</tr>
<tr>
<td>Margin - during construction</td>
<td>2.50%</td>
</tr>
<tr>
<td>Margin - post-construction</td>
<td>2.50%</td>
</tr>
<tr>
<td>Sterling Swap Rate</td>
<td>5.00%</td>
</tr>
<tr>
<td>MLAs</td>
<td>0.02%</td>
</tr>
<tr>
<td>Credit spread</td>
<td>0.25%</td>
</tr>
<tr>
<td>Gearing (Debt:Equity)</td>
<td>90:10</td>
</tr>
</tbody>
</table>

It is possible that these terms may ease slightly between now and the completion of the OBC, however it is not expected that any such reduction in margins would be material. The Council will, with the aid of its financial advisors, monitor the funding market and terms throughout procurement to ensure that the Scheme remains affordable.

If terms received from bidders’ funders do not appear to be on market, the Council reserves the right to hold a funding competition.

The Council's market testing exercises completed prior to the Expression of Interest and Outline Business Case submission to HCA, identified considerable interest and funder appetite for the PFI Scheme. Market testing is covered in detailed within Section 7.

5.5 Affordability Position

<table>
<thead>
<tr>
<th>Type of Revenue / Cost</th>
<th>First Year Full Operations Nominal (Year 6) £m</th>
<th>NPV £m</th>
<th>Project Total Nominal £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFI Credit - Revenue Support Grant</td>
<td>6.8</td>
<td>125</td>
<td>204</td>
</tr>
<tr>
<td>HRA Revenue Budget Contribution*</td>
<td>1.9</td>
<td>43</td>
<td>77</td>
</tr>
<tr>
<td>Other Council Contribution</td>
<td>0.4</td>
<td>10</td>
<td>17</td>
</tr>
<tr>
<td>Interest Earned from Financing Reserve</td>
<td>0.3</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total Resources</strong></td>
<td><strong>9.4</strong></td>
<td><strong>183</strong></td>
<td><strong>306</strong></td>
</tr>
<tr>
<td>Unitary Charge</td>
<td>9.3</td>
<td>176</td>
<td>302</td>
</tr>
<tr>
<td>PFI Post-Procurement Monitoring Costs</td>
<td>0.1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total Costs Payable</strong></td>
<td><strong>9.4</strong></td>
<td><strong>178</strong></td>
<td><strong>306</strong></td>
</tr>
</tbody>
</table>

* Constitutes rental income and Management and Maintenance allowances less guideline rents.

Based upon the robust assumptions detailed within this OBC, the Scheme is affordable.
5.0 Affordability and Funding

5.6 Sensitivity Analysis

The Scenarios included in the paper are based on combinations of HCA mandated scenarios in the HCA “Housing PFI Sensitivities and Scenarios” template.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Total Unitary Charge (Nominal) £000</th>
<th>Capital Funding Gap/(Surplus) £000</th>
<th>Revenue Affordability Gap/(Surplus) pa £000</th>
<th>PFI Credit Requirement to Close Funding Gap £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case</td>
<td>301,629</td>
<td>0</td>
<td>395</td>
<td>100,000</td>
</tr>
<tr>
<td>1</td>
<td>306,227</td>
<td>2,788</td>
<td>502</td>
<td>102,155</td>
</tr>
<tr>
<td>2</td>
<td>288,597</td>
<td>-8,874</td>
<td>9</td>
<td>92,229</td>
</tr>
<tr>
<td>3</td>
<td>296,206</td>
<td>-6,110</td>
<td>130</td>
<td>94,516</td>
</tr>
</tbody>
</table>

Scenario 1

The Council’s base case, has assumed construction inflation to follow BCIS forecasts between now and Financial Close, and to be prudent has assumed a 4% inflationary uplift to construction costs after Financial Close.

The Scenario 1 envisages that construction inflation will increase by a further 1% per annum between Financial Close and the end of the 5 year construction period and that total lifecycle costs increase by 5%. The Council will manage this risk by:

- Using prudent assumptions for capital and operational cost spend, benchmarked by Northampton’s technical adviser’s, Gleeds, throughout the process;
- Build in a buffer in respect of the Council’s affordability envelope against the base case; and
- Will continue to monitor and drive cost down through the procurement.

Scenario 2

In the second scenario, the Council has included the impact of a 6 month delay on the Project reaching Financial Close.

The Council has also considered potential improvements in the capital funding markets by the time of Financial Close, yielding two main benefits to a PFI Project:

- Reduction in funding terms; and
- Improvement on interest earned on balances.
5.0 Affordability and Funding

This scenario therefore is based upon:

- Financial Close in September 2014 (with 6 month indexation uplift);
- Margins on the senior debt facility reducing by 1% from 2.5% to 1.5% and the commitment fee reducing from 1.25% to 0.75% as appropriate (i.e., half of the margin); and
- interest earned on both the Council’s Smoothing Reserve and any cash surplus within the SPV’s financial model increasing by 1.0% from 3.5% to 4.5%.

In respect of delay, the Council will run an efficient timetable and take steps to minimise delay, including:

- Engaging with Planning early to ensure clear guidance throughout the process;
- Early engagement with tenants and other stakeholders; and
- Resourcing a strong project management function to deliver to timetable.

**Scenario 3: A combination of Scenarios 1 and 2**

Scenario 3 combines 1 and 2, assuming that increase cost and inflation may be the result of economic conditions.

An improving economy should increase availability to finance for the construction industry, and also reduce the cost of borrowing. This in turn may result in higher inflation in the short term, resulting in higher capital costs.

**5.7 Summary**

The Council considers that the Scheme is affordable based upon the inputs and assumptions as detailed in Sections 4 of this OBC. To make the Scheme affordable, the Council recognises that it needs to obtain approval from the HCA for a PFI credit award of £100m.

This OBC has gone through the appropriate decision making channels of the Council and has been signed off accordingly. The Council is therefore registering its commitment to the Scheme.
6.0 OUTPUT SPECIFICATION

6.0 Overview of Section

This Section outlines the standards that the Council requires the contractor to meet in respect of the outputs and associated services that are to be delivered within the Scheme.

6.1 Development of the Output Specification

The Council has developed an Output Specification along with its Technical Advisors, Gleeds, in accordance with the model output specification within the CLG HCA guidance. The Output Specification defines the services and standards that the PFI contractor will be required to deliver and gives details of how their performance will be measured.

The Council’s requirements are defined in terms of availability standards and performance standards. A dwelling is available if it meets all of the availability standards set out in the specification. The contractor meets the required performance standards if it provides all of the services to the standard service level as set out in the Output Specification.

The Output Specification includes:

- Design Standards
- Works Requirements
- Certification Standards
- Availability Standards
- Tenancy and estate Management Services
- Handback

6.2 Design Standards

The PFI scheme focuses on the replacement and refurbishment of Council owned stock on the two estates of Eastfield and Thorplands, in Northampton East. The proposals include:

- The demolition of 195 Council owned and owner occupied homes and 5 other buildings, which are to be replaced with 221 new build Council owned homes.
- The refurbishment of 403 Council rented properties on Thorplands, all of which are to exceed Decent Homes standards.
- The remodelling of 92 Council owned and owner occupied smaller units into 23 family dwellings on Eastfield.
- Extensive environmental improvement works within the re-provision sites to design out crime, address environmental concerns and shape better places for residents.
- Delivery of housing tenancy and estate management services.
- There is potential for additional development of ‘Development Sites’ (not part of this bid but complementary to it) to provide homes for private sale, low cost home-ownership and homes for rent.
6.0 Output Specification

6.3 Works Requirements

The requirements of the Scheme are diverse, encompassing:

- The refurbishment of existing housing stock to exceed the Decent Homes standard;
- The development of new housing;
- The upgrading of existing and/or creation of new infrastructure;
- The upgrading of existing and/or creation of new open spaces;
- The provision of a new Housing Office

As a minimum the Council requires the following design and mix of unit types to meet established need:

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Thorplands</th>
<th>Eastfield</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Houses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 bed 4 person</td>
<td>30</td>
<td>22</td>
<td>52</td>
</tr>
<tr>
<td>3 bed 5 person</td>
<td>51</td>
<td>43</td>
<td>94</td>
</tr>
<tr>
<td>4 bed 6 person</td>
<td>31</td>
<td>15</td>
<td>46</td>
</tr>
<tr>
<td>Flats</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 bed 2 person</td>
<td>4</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>2 bed 3 person</td>
<td>6</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>Totals</td>
<td>122</td>
<td>99</td>
<td>221</td>
</tr>
</tbody>
</table>

Where the new dwellings are constructed for the HRA or on a leasehold basis, the contractor will be expected to subsequently manage and maintain these in accordance with the Output Specification (Appendix 8).

The contractor is also required to design, construct, maintain and manage a new Housing Office. The Office is required to provide a community room for resident engagement activities.

The quality of design, construction/refurbishment, and equipment to be provided is specified in the Output Specification. Secured by Design certification will be achieved prior to the issuing of an Availability Certificate for each dwelling by the Independent Certifier. The Minimum SAP ratings for refurbished dwellings are 75. All new dwellings must be maintained at a minimum SAP rating of 86. As part of the Authority’s ongoing commitment to excellence in this area, the PFI contractor is expected to meet a minimum of 20% of the energy and natural resources consumption for the new developments from renewable sources. All new dwellings are to meet the Code for Sustainable Homes level 4. Also in relation to EcoHomes XB, a score of 60 is required for existing dwellings.

6.4 Certification Standards

In order for full services to commence in respect of an individual dwelling, it must meet the Certification Standards for new build, refurbishment, infrastructure/landscaping and the Housing Office respectively.
6.0 Output Specification

These standards ensure that:

- The design and construction requirements contained within the Output Specification have been attained.
- The standards of workmanship and materials used are in accordance with the Output Specification.
- The quality standards set out in the contractors Proposals of the Project Agreement have been attained.
- The availability standards contained within the Output Specification have been met.

6.5 Availability Standards

The detailed availability standards are contained within the Output Specification. The Availability Standards are split into 4 areas:

- Housing availability standards – as applied to all dwellings whether refurbished or newly constructed. Where appropriate, these same standards apply to leasehold as well as tenanted dwellings.
- Housing Office availability standards
- Open Spaces availability standards
- Existing retail unit availability standards

There are two types of Availability Standards; they are the Initial Standard (prior to refurbishment or demolition) and the Full Standard (post refurbishment or new build).

6.5.1 Initial Standard to Existing Dwellings/Retail Units

Until such time as dwellings have been either refurbished and certified or demolished, they must be maintained at the Initial Availability Standard as set out in the Output Specification. Repairs necessary as a result of a failure to meet any one of the initial availability standards should be carried out in such a manner as to achieve compliance within the Rectification Period.

6.5.2 Full standard to Existing Dwellings/New Dwellings

Once a dwelling has been certified post refurbishment/new build, the contractor is required to ensure that each such dwelling is available and meets the Full Availability Standard set out in the Output Specification.

The contractor is expected to maintain the dwellings at the Statutory Minimum Standard at all times as stated in the Initial Standard. In addition, the contractor must maintain the dwellings at ‘Decent Homes’ standard. This is defined with reference to the Decent Homes: Definition and Guidance for Implementation; Department for Communities and Local Government, June 2006.
6.0 Output Specification

6.5.2.1 Tenancy and Estate Management Services (TEMS)

The contractor is required to deliver Tenancy and Estate Management Services (TEMS) during both the Initial Services Period and the Full Services Period to the Performance Standards and Service Levels laid out in the Output Specification.

- Legislative Compliance and Good Practice - The contractor is to manage the delivery of services in compliance with all legislation and in accordance with good industry practice.
- Contract Management - The contractor must ensure that all, processes and procedures are in place in respect of all of the services required under the Contract.
- Maintenance – The contractor is to provide a maintenance service that shall be designed in such a way as to minimise breakdowns and to maintain the required Availability Standard of dwellings and surrounding areas within the Scheme’s scope.
- Cleaning & Waste Management - The contractor is to supply a professional, efficient, and reliable cleaning and waste management service to Communal Areas.
- Grounds Maintenance - The Council is to explore the PFI contractor’s appetite to have the Council’s Environmental Services Contract assigned to them through the PFI Competitive Dialogue (CD) process in respect of the PFI areas. The existing Environmental Services Contract is to adapt to whichever outcome is decided through the CD process and is therefore deemed to be most advantageous to the Council.
- Tenancy and Leaseholder Management - The contractor is to provide a comprehensive tenancy and leaseholder management service that ensures the smooth and efficient running of a well-balanced and contented community.

For each of the areas of Tenancy and Estate Management Services (TEMS), adequate records must be kept so that accurate Key Performance Indicators information required in the Output Specification can be monitored and achieved.

6.5.2.2 Hand-back

The Council expects all dwellings to be passed back in a good state of repair, with a limited need for capital investment in the 5 year period following the Expiry Date. The contractor will therefore be expected to meet minimum standards at Hand-back.

- The contractor shall ensure that dwellings are handed back to the Council in a condition sufficient to meet the Output Specification for a further 5 years beyond the Expiry Date with the Council acting as a competent maintenance contractor but without requiring significant capital investment (the “Hand-back Standard”). This will be assessed by ensuring that all individual components to Properties will have no less than 50% of their expected lifecycle at the Expiry Date or 5 years remaining on their expected lifecycle, whichever is the lesser.
- The contractor shall prepare and maintain a life cycle plan that covers the entire Concession Period plus the following five years following the Expiry Date.
- The Council will be entitled to carry out a Hand-back survey no earlier than 24 months prior to the Expiry Date, having given the contractor 14 days notice of its intention to do so. The survey will be used to determine whether the contractor will meet the Hand-back Standard.
7.0 Deliverability: Securing Project Sites and Market Sounding

7.0 DELIVERABILITY: SECURING PROJECT SITES AND MARKET SOUNDING

7.0 Overview of Section

This section provides details of the proposed sites within the Scheme on the Eastfield and Thorplands estates, including their ownership, planning, statutory approvals and the securing of those sites for the delivery of the Scheme.

Also the results of the soft market sounding undertaken to date is provided.

7.1 Information on the Proposed Sites

There are two sites identified to form the subject matter of the Project Agreement- Eastfield and Thorplands estates. In preparation for the Scheme, the Council has undertaken a review of the property title of both estates (Appendix 9) and can confirm that it owns the freehold of each estate, in the Housing Revenue Account, subject to:

1. 15 owner occupied freehold dwellings in re-provision sites within Eastfield estate. These dwellings were purchased from the Council pursuant to the Right To Buy Scheme.
2. 16 Leaseholder flats in the re-provision sites within Eastfield estate. These dwellings were purchased from the Council pursuant to the Right To Buy Scheme.
3. 42 owner occupied freehold dwellings in the re-provision sites within Thorplands estate. These dwellings were purchased from the Council pursuant to the Right To Buy Scheme.
4. 7 Leaseholder flats in the re-provision sites on the Thorplands estate. These dwellings were purchased from the Council pursuant to the Right To Buy Scheme.

- There are a further 167 freehold and leasehold dwellings within the PFI boundary whose properties will be unaffected although they will benefit from transformational change in the Eastfield estate as a result of the PFI process
- There are a further 325 freehold and leasehold dwellings within the PFI boundary whose properties will be unaffected although they will benefit from transformational change on the Thorplands estate as a result of the PFI process.
- In addition to the above, 3 dwellings at Eastfield estate and 3 dwellings at the Thorplands estate are currently subject to the exercise of a Right to Buy application.

The areas of land which have been identified to form the subject matter of the Scheme are identified on the Zoned plans at Appendix 10. The vast majority of properties in these areas are within the Council’s ownership.

The Council will endeavour to acquire those dwellings at the estates not currently in the Council’s ownership by negotiation with the owner occupiers/leaseholders, and failing that will seek to rely on CPO powers. The Council’s strategy to deal with this is set out in the Vacant Possession Policy (Appendix 11) along with the Procurement and Development
7.0 Deliverability: 
Securing Project Sites and Market Sounding

works paper (Appendix 12). The rights granted and reserved in respect of the Right to Buy properties are of a standard type as permitted and implied by the relevant Housing Act. There are no onerous covenants imposed on the Council. Where those properties are acquired by the Council it is anticipated that such rights will merge and extinguish having regard to the Council owning the adjoining land over which rights may be granted.

As highlighted in the latter, 161 dwellings on Eastfield estate have been identified to be outside the scope of the works as these dwellings will be subject to a wider Council strategy to deliver Decent Homes and will be funded through the Capital Works Programme. Please note that these exclude those existing properties within the Development sites (Zoned Plans indicating the development sites can be found in Appendix 10).

In preparation for the Scheme, and in order to present registered title to the bidders for both estates, the Council has submitted applications for first registration of 4 parcels of land at the Eastfield estate. The Council anticipates a response from HML and Registry confirming successful registration by the end of October 2010. The Thorplands estate is already registered under 4 separate title numbers.

The Council will in due course prepare replies to standard pre-contract enquires which will be made available to bidders and will be warranted to the contractor by the Council under the Project Agreement.

7.2 Current Position on Planning Requirements and Permission

Planning Department has been actively involved

Planning permission will be required to deliver substantial elements of the proposed PFI Scheme. In moving to submission of Outline Business Case, the planning department has been actively involved in the PFI Project team. Currently two local planning authorities in Northampton Borough determine planning applications, Northampton Borough Council and West Northamptonshire Development Corporation. The Development Corporation deals with significant major applications (currently over 50 dwellings). However, by the time that the PFI preferred bidder will be submitting planning applications, Northampton Borough will be the determining Council.

Draft Planning Briefs (Appendix 13) in which the Planning Department have had a significant input into and have agreed for the purposes of this stage of the Scheme, are accompanying the submitted Outline Business Case. The draft briefs should provide comfort to the Homes and Communities Agency (HCA) and the bidders that the PFI Scheme has been developed with the Planning Department being engaged in the process. They clearly set out the planning parameters within which bidders should work in order to receive planning permission.

The briefs have been drafted at this stage so as to not stifle potential innovation from bidders in meeting the PFI Output Specification. It is anticipated that, once the preferred bidders start to work up their plans for the area and Planning can realistically gauge the extent of likely change in the estates, the draft briefs will be amended and subjected to formal consultation. The briefs will then be adopted by the Council and be significant material in the determination
7.0 Deliverability: Securing Project Sites and Market Sounding

of the planning applications. It is acknowledged by the Council that funders will require full planning consent prior to Financial Close.

7.3 Potential Bidders

In January 2010, Northampton Borough Council was invited to take part in Homes and Communities Agency’s (HCA) PFI Market Facing Day, which was attended by 12 other PFI recipients together with a small number of potential investors and senior staff from Government agencies.

All 12 recipients had an opportunity to present information on their Scheme and, those present were able to receive details of our Revised Expression of Interest together with our Regeneration Principles and contact details for key members of the PFI Project team. During this time, 6 interested parties approached officers from Northampton Borough Council. Two parties both requested a 1-2-1 meeting with officers in order to discuss our proposals in more detail.

These 1-2-1s were held in February with both of the potential bidders advising officers that due to its simplicity, the Scheme was extremely interesting and a high priority for them both.

In March 2010, a Bidders Day was held in order to further test the market interest for the Scheme. This was an opportunity for officers to present the detail of the Scheme to a wider audience A total of 45 organisations represented the event, including contractors/Developers, Registered Providers (RP), Architects and a small number of funders. We also invited some of our local contractors to give them the opportunity to find out about the Scheme and also discuss possible future links with local workforces. As the financial, technical and legal advisors had been appointed, representatives from these also attended to illustrate our level of commitment to the Scheme.

Thereafter, potential bidders were able to discuss the Scheme informally with senior members of the project team.

As with the HCA facing day, potential bidders were given details of the Revised Expression of Interest.

Within days of this event, officers sent out a short questionnaire to all attendees asking potential bidders the following questions: -

1. Did they find the day useful?
2. Where they still interested in the Scheme and would they wish to continue receiving information from NBC?
3. Where there any concerns in respect of the Scheme?
4. Is the Scheme commercially attractive?
5. Are there any areas within the bid that should be improved?

The majority of the replies were very positive, with a number of potential bidders suggesting that our Scheme, due to its simplicity, was high on their priority list and therefore very keen to receive information when available.
7.0 Deliverability: Securing Project Sites and Market Sounding

7.3.1 Replies from Potential Bidders

The following are extracts from the replies:

1. “Your project remains on our radar as a project we would be keen to bid on”
2. “It was reassuring to see so many reputable advisors in attendance”
3. “The Scheme is very attractive and in terms of scope and opportunity, this project is consistent with our core business”
4. “We would welcome further information on how the project and development agreements will be structured and any linkage between the two”
5. “Interesting to see the level of interest in the project from other potential bidders”
6. “There is now a strong interest from our construction colleagues as well as strong interest from at least one of our RP partners in your proposals”

(Copies of other replies are contained within Appendix 14)

Officers continue to receive requests for updates from potential bidders and a further bidders day will be held once the OJEU notice is issued by the Council following the approval of the Outline Business Case.

More recently, we have exchanged e-mails with some of the potential bidders, to ascertain their thoughts on their appetite to provide outright sale/new build home buy/fixed equity options to the market. Plus, the inclusion within a separate development agreement, for the provision of a community hub on Thorplands in the form of retail units. The following is an example of one of the responses received:

“We would be entirely comfortable with the inclusion of a variety of tenures. We have vast experience of such mixed tenure models. Flexibility of tenure has been crucial to maintaining sales activity on a number of our affordable housing developments over recent years and we have enjoyed particular success, when operating on a demand-led basis on a tenure blind development. It is imperative that the Council has realistic aspirations in terms of capital receipts from land identified for development”.

“The requirement for a community hub would be welcomed. Such retail/community facilities are often crucial to the sustainable regeneration of an estate and are an essential piece of the jigsaw if we are to achieve a truly holistic improvement to residents’ lives.”

7.4 Registered Providers

Northampton Borough Council has eight current RP development partners:

- Bedfordshire Pilgrims HA
- Derwent Living
- East Midlands HA
- Home Group
- Metropolitan Housing Partnership
- Midland Heart
- Nottingham Community Housing Association
- Orbit Group
- The Guinness Partnership
- The Hyde Group

This framework is currently under review.
7.0 Deliverability: Securing Project Sites and Market Sounding

Officers have regular review meetings with all the above present and at a recent meeting, all attendees were asked to obtain feedback from their internal sales team on their thoughts about the future market for outright sale, intermediate housing and shared ownership in Northampton.

The following are extracts from a few of the responses received:

“For open market sales, the market in Northampton is predicted to be strong, according to Savills research department with house prices enjoying a 5.3% growth. The forecast for the East Midlands as a whole is:

- 2010 down 4.5%
- 2011 up 2.9%
- 2012 up 5.8%
- 2013 up 7.7%
- 2014 up 5.4%
- 2015 up 5.3%

With its strong transport links and proximity to London, the likelihood is that Northampton and especially East Northampton will probably exceed the East Midlands average.”

“The market for HomeBuy New Build products should get stronger as house price inflation exceeds wage inflation putting home ownership beyond the reach of an increasing number of people. Currently in Northampton, approximately 19% of working households are unable to afford to buy a suitable home for their needs without assistance and a further 42% are unlikely to achieve home ownership even with the assistance of low cost products. That aside, we remain confident that the market for any low cost products will grow in East Northampton by 2014.”

“The current situation is that the oversupply of properties on the market has to be addressed before we would support any new developments. However, there is no reason why, by the time this project in East Northampton goes live, shared ownership shouldn’t be as popular and commonplace as it is in Milton Keynes.”

“In regard to the future market for shared ownership, it will depend greatly on a number of factors, such as current stock levels being sold or obtaining tenure change to such things as ‘rent before you buy’ or Intermediate Market Rent, population growth and affordability levels. One would like to think that by the time sites in this area come to the market, the demand will have risen for such products.”

“There is a strong need for flexibility on options available such as the ‘rent to buy’ products which will stop homes remaining empty together with opportunity for people to benefit from cheaper rents to save a deposit.”

(Copies of these replies are contained within Appendix 15).

7.5 Summary

In conclusion the results of our findings so far reinforce our belief that our proposals are not only deliverable but also sound and attractive to the market.
8.0 Key Contractual Terms and Conditions and Payment Mechanism

8.0 KEY CONTRACTUAL TERMS AND CONDITIONS AND PAYMENT MECHANISM

8.0 Overview of the Section

This section outlines the Key Terms and Conditions of the Project Agreement for the Scheme, including the Payment Mechanism approach to be taken by the Council.

8.1 Documentation

The Council proposes to adopt the HPP drafting (taking account of SoPC4) and will take account of guidance issued by HCA, IUK, HMT, CLG, HPP and Local Partnerships.

The Council will be issuing a fully drafted Project Agreement including associated schedules at the ISDS (Invitation to Submit Detailed Solutions) stage of the competitive dialogue procurement process. The documentation will form the basis of the final agreements and will be drafted in accordance with standard form drafting and guidance in existence at the time of issuing the ISDS, subject to any derogation that arise as a result of genuine project specific circumstances.

The proposed allocation of risk between the Council and the contractor is set out in the Risk Matrix at Appendix 16. The Risk Matrix reflects the Council’s initial view although if bidders can successfully demonstrate sound Value for Money (VfM) reasons for a change in those risk positions the Council will consider this in the context of the Council’s objectives and requirements, the affordability of the Scheme and whether such change in risk position would entail derogations to standard form (with appropriate justification).

Other key project and strategic risks are set out in Section 9 (Risk Allocation and Accounting Treatment).

The Procurement and Development Works Approach Paper explains the relationship between the PFI element and the Development element of the Scheme. The Project Agreement will govern the construction, refurbishment, and delivery of services and management of the PFI dwellings.

8.2 Key Terms

As will be evident from the remainder of this OBC, the Council, with its team of advisers, has undertaken a thorough review of the potential risks associated with the Scheme and, has developed a familiarity of the standard documentation contained within the current HPP. We do not intend to list out here those key provisions, which are contained within such documentation, but rather identify a very limited number of key terms that are likely to be relevant to this particular Scheme. Namely:

- Concession Period - The concession period is proposed to be 30 years.
- Changes in Law – The Change in Law provisions will reflect standard drafting. The Change Protocol is to apply noting that there will be an agreed cap on capital expenditure by reference to a progressive cost share by the Council.
8.0 Key Contractual Terms and Conditions and Payment Mechanism

- **TUPE** - No TUPE transfer is proposed.
- **Market Testing** - Market Testing is proposed to apply to the Repairs and Maintenance and Grounds Maintenance services provided.
- **Site Matters and Surveys** – The Council has already received the results of:
  - A Stock Condition Survey which involved the internal and external survey of 100% of dwellings.
  - A Type II Asbestos Survey of each dwelling archetype.
  - Utility searches

Broadly, the contractor is expected to take the risk of ground conditions and site matters save in respect of dark ground (which will be a Council risk) and asbestos to the extent that this is not (and would not have been) revealed by the Asbestos Surveys (Type II). The Council may be prepared to accept some risk (having regard to value for money reasons) in relation to off-site contamination and radon gas, subject to survey information, although initially this is to be treated as a contractor risk.

- **Decant and Vacant Possession** – The Council will take the risk of achieving vacant possession in respect of the new build works. The Council will meet the associated compensation payments, and CPO any relevant dwellings. The Council seeks to mitigate the risk attached to these obligations and has devised a Decant Strategy and a Vacant Possession Policy. The contractor will take the risk of decanting in respect of the refurbishment works and may be required to provide alternative accommodation and meet the associated compensation payments. The decant process will to an extent be dependent upon the proposed solution and phasing. The Council is in the process of identifying appropriate parameters within which bidders will be required to work/bid.
- **Defects** – The contractor is expected to take the risk of defects, subject to receipt of a collateral warranty in relation to the Stock Condition Survey.
- **Linkage with Development Element** – Termination of the Development Agreement is not proposed to affect the PFI element of the Scheme. Termination of the Scheme Agreement is proposed to entitle the Council to terminate the Development Agreement. The Council acknowledges that PFI credits should not be used to subsidise the Development element of the Scheme.

8.3 Grounds Maintenance

Tenant or Third Party Damage – This is to be treated as a contractor risk given that the Council considers (and can demonstrate) this is a low risk which, the contractor is better placed to manage and mitigate.

8.4 Derogations

The Council fully understands the central policy on striving to eliminate any derogations from the HPP drafting, save where there are genuine Scheme specific circumstances that render the drafting in question unacceptable and inappropriate. Accordingly, the Council will, from the outset, disseminate a very strong message to bidders that derogations from Standard Form drafting will not be permitted. Any derogations that Bidders persist with, will be subject to the HCA and IUK approval.

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Eastfield and Thorplands (Northampton East) Regeneration Scheme
Housing PFI Round 6 - Outline Business Case
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8.0 Key Contractual Terms and Conditions and Payment Mechanism

The Council acknowledges the CLG HCA Guidance Derogations Guidance dated July 2010.

8.5 Payment Mechanism

The Payment Mechanism ("PM") will be based on the Local Partnerships Model documentation, amended to reflect Scheme specific issues and drawing on the experiences of our advisers from other Schemes, discussions with other local authorities and guidance received from Local Partnerships and the HCA.

The PM will directly link payment to availability and performance in a way that is consistent with the allocation of risks between the parties. As such, no payments will be made to the service provider until service is available.

Throughout the competitive dialogue the Council will seek, where appropriate, to adapt its draft PM in the light of bidders' submissions, particularly where concessions will deliver better value for money. Where inappropriate, however, the Council will robustly maintain its original position. In striking this balance, the Council will also draw upon its advisors experience in negotiating previous Schemes. The deductions regime will, however, be realistic in relation to anticipated performance levels and not introduce any "hair triggers" which would make it impossible for a contractor to improve performance prior to their contract being terminated.

Consistent with guidance, the Unitary Charge will be allocated on a per unit basis, regardless of the size of the property, and deductions will also be applied regardless of property size.

An Initial Standard will apply to properties prior to refurbishment or replacement with a new build property. In order to ensure affordability; the Council will require the bidders to commit to build programmes that will be fixed at financial close. This will set out the earliest that properties can move from initial to full standard.

Consistent with guidance, performance deduction will be limited to 30% of the total Unitary Charge, with deductions based on Key Performance Indicators ("KPIs") developed in the Output Specification ("OS"). The KPIs, and resulting deductions, will be weighted to reflect the priorities of the Council.

In drawing up the OS and developing the Availability and Service Performance Standards, the Council has strived to ensure that:

- Service delivery itself is capable of measurement;
- The PM will be objective, transparent, and easy to operate;
- Both quantity and quality of service are accorded the importance they merit, and both will be capable of measurement;
- Availability and Service Performance Standards will be measurable, recordable and reflect commercial reality;

The relationship between the PM and risk is acknowledged. The structure of the PM will drive the allocation of risk between the Council and the contractor, and deliver Value for Money.
9.0 RISK ALLOCATION AND ACCOUNTING TREATMENT

9.0 Overview of Section

This Section describes how all-foreseeable project risks will be allocated between the Council and its contractor. An initial view is also provided of the Accounting Treatment.

9.1 Risk Allocation

The Scheme will be structured through the Project Agreement, and particularly the Payment Mechanism, to allocate risks appropriately to the relevant parties in the transaction.

The risk allocation/risk matrix reflects the allocations of risks included in the Housing Procurement Pack (taking account of SoPC4).

9.1.1 Strategic Risks

A key feature of the PFI Scheme is the way in which risks are allocated to the party best able to manage them.

The following key commercial risk areas have been identified in regard to part of the new build and refurbishment elements of this Scheme:

- Decant Risk/Vacant Possession;
- Construction and Design risk;
- Operating cost risk;
- Defects risk;
- Availability risk;
- Linkage with private development

Each of these risks is described in more detail below together with a description of how these risks are allocated between the parties. For further information relating to the contractual allocation of risks please refer to the Risk Matrix at Appendix 16.

9.1.2 Decant Risk/Vacant Possession

The Council will take responsibility for achieving vacant possession of the relevant properties identified for demolition and re-building as this is to an extent within the Council’s control. The properties comprise secure tenanted properties, owner-occupier, leaseholder and RP properties.

The contractor will take responsibility for any decanting of tenants necessary to take place in respect of refurbishment works and will meet the cost of any compensation payments successfully claimed.
9.0 Risk Allocation and Accounting Treatment

The Council will take responsibility for the decanting of any tenants necessary to take place in respect of the new build works and to ensure the Council achieves vacant possession of the new build work areas. The Council will be responsible for pursuing any Compulsory Purchase Orders as necessary and for meeting any compensation payments successfully claimed.

The Council is in the process of identifying suitable proximate decant properties and is considering mitigation strategies to deal with this. The Council is also considering how flexibility can be built into the decanting process having regard to the contractor’s programme and how loss of rental income may be minimised.

The Council is also taking the following steps:

- The Council has drafted a Vacant Possession Policy for the affected estates.
- The Council is devising a Decant Strategy to enable the Council to provide the contractor vacant possession for the new build accommodation. The Decant Strategy will, to an extent, be further developed to take account (as appropriate) of bidders’ proposed solutions as part of the competitive dialogue process.
- The Council is developing tenant guidance and leaflets and decanting of residents is also considered as part of the Council’s overall Communications Strategy.

Please refer to the Procurement and Development Works Paper for further information on the Council’s proposals for decant and Vacant Possession (Appendix 11).

9.1.3 Construction and Design risk

Construction and Design risk is the risk that the development of the dwellings/facilities is more expensive, takes longer to deliver than envisaged by the contractor, or cannot be delivered to meet the Council’s requirements/specification. This is a significant risk, which under conventional (non-PFI) procurement would be borne by the Council.

Under the proposed Scheme the Council has identified its requirements in terms of an Output Specification and the contractor will be responsible for the design and construction of the buildings to meet this including obtaining detailed planning permission.

As a result, the construction and design risk will be transferred to the contractor.

9.1.4 Operating Cost risk

The risk that the operating costs and maintenance of the dwellings/facilities are higher than envisaged will be borne by the contractor.
9.0 Risk Allocation and Accounting Treatment

9.1.5 Defects Risk

The contractor is to take the risk of inherent and latent defects.

The Council is providing a stock condition survey in which 100% of the stock was surveyed internally and externally. The contractor will receive a Collateral Warranty in respect of that survey. The contractor will be entitled to carry out further surveys and will be expected to take the risk of defects.

There are no works planned to take place before financial close. However, any works which do take place will be recorded in a log which may be made available to the contractor prior to financial close.

9.1.6 Availability Risk

The risk that the contractor is unable to make the services available at the required level will be borne entirely by the contractor. Challenging availability targets will be set and should the contractor be unable to achieve these targets (both initially and on an ongoing basis) availability deductions will be imposed.

9.1.7 Linkage with Private Development

There are 8 development sites identified for potential private development. The development of these sites is under consideration having regard to the transformational change that the Council intends for the Scheme to provide to the Eastfield and Thorplands estates.

A range of options is being considered regarding the procurement approach of the development works which are discussed in the Procurement and Development Works Paper. A separate Development Agreement is likely to be entered into regarding this development with the PFI element and Development element of the Scheme being jointly procured.

The Council is aware that PFI funders will not generally accept non-PFI development risk within the Scheme Agreement. This is consistent with the Council’s approach that the PFI element of the Scheme is to be ring fenced from the Development element.

Whilst the Council would not envisage the termination of the Development Agreement leading to an (automatic) ability of the Council to terminate the Project Agreement, the Council would like to seek a position whereby termination of the Project Agreement could trigger the Council’s ability to terminate the Development Agreement. It is proposed that this latter point is explored with bidders (and their funders) during the Competitive Dialogue process.

The principle that PFI credits should not subsidise the Development element of the Scheme is acknowledged and accepted by the Council.
9.0 Risk Allocation and Accounting Treatment

9.1.8 Project Risks

A Project Risk Register has been developed which details the foreseeable Project Risks. Please see Appendix 17.

9.1.9 Key Contractual Risks - Risk Matrix

The Council and its advisors have carried out a review of the likely risks to be addressed within the Scheme documentation and considered the way in which they should be allocated between the Council and the contractor.

The Council has used the Risk Matrix contained within the Housing Procurement Pack as a starting point and adapted this to suit a regeneration Scheme involving new build and refurbishment.

The current draft of the Risk Matrix is at Appendix 16.

9.2 Accounting Treatment

The Council has no unusual features within the Scheme thus we have programmed to complete the more detailed Accounting Treatment work in the Preferred Bidder Phase which covers the completion of the Final Business Case.

Based on our understanding and current accounting standards, the PFI will be on balance sheet for the Council and off balance sheet for National Accounts Budgeting purposes.

The table on the following page sets out our indicative view and summarises some of the technical issues involved for the likely accounting assessment.
### 9.0 Risk Allocation and Accounting Treatment

<table>
<thead>
<tr>
<th>Attribute</th>
<th>NBC budget</th>
<th>National Accounts budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis for deciding whether a Scheme is on or off balance sheet</td>
<td>Which party has control of the project? In practice this means that if the government is assessed to (1) control or regulate what services the operator must provide with the infrastructure, to whom it must provide them and at what price and (2) the public sector controls, through beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, then the asset would be deemed to be on balance sheet.</td>
<td>Which party bears the balance of risk associated with the project? On this basis there have been and may in future be cases where the private sector bears enough of the risk for the project to be off the public sector’s balance sheet under ESA 95, while being on balance sheet under IFRS.</td>
</tr>
<tr>
<td>Budgeting impact</td>
<td>The capital cost of the Scheme falls on the budget in the year the infrastructure comes into service and the asset will be recorded on the balance sheet. The annual payments relating to services and interest will be a recurring revenue cost for the duration of the contract together with depreciation.</td>
<td>The budget impact is spread over the duration of the contract in the form of the annual payments relating to services and interest (unitary charge elements). These score against Treasury Resource Departmental Expenditure Limit (Resource DEL) budgets.</td>
</tr>
<tr>
<td>How will NBC deal with a PFI Scheme, which is on balance sheet under IFRS but off balance sheet under ESA95?</td>
<td>Under IFRS, we will budget and account for PFI arrangements in accordance with the Government Financial Reporting Manual (the FReM). For NBC the application of IFRS has resulted in PFI projects, previously classed as off balance sheet, coming on balance sheet from 1 April 2009. Going forward any pipeline or new PFI arrangements will be assessed under IFRS with the strong likelihood that the arrangement will be on balance sheet for accounting purposes.</td>
<td>Where a project is on balance sheet under IFRS, but off balance sheet under ESA 95, then in respect of the HM Treasury budget, provision will only be required for the unitary charge elements associated with the project, i.e. Resource DEL. In essence, for planning purposes, if the total unitary charge is affordable within the National Accounts budget, then the capital cost and depreciation disclosed in the accounts can be regarded as an accounting adjustment when compiling the Budget.</td>
</tr>
</tbody>
</table>
10.0 PROJECT MANAGEMENT AND THE PROCUREMENT APPROACH

10.0 Overview of Section

This Section describes the Project Management that has been put in place by the Council to ensure the efficient procurement of the Scheme.

10.1 Project Management, Resources and Governance

The Council clearly understands the level of resource and commitment required to develop and deliver a Scheme of this scale. It has put in place a robust project management process and a suitable resourced project team to procure the Scheme on behalf of the Council. It has also appointed a strong team of experienced advisors.

The key roles within the team are:

- Lesley Wearing - Project Director
- Bill Lewis - Financial Lead
- Chris Cavanagh - Project Leader/Lead Commercial Negotiator
- Diana Marten - Legal Lead
- David Tatman - Project Manager
- Gleeds - Technical Advisors
- Christine Ansell - Technical Lead
- Devonshires - Legal Advisors

The PFI Project Structure details how this team fits within the governance and management arrangements that are already in place to ensure the streamlined delivery of this Scheme can be found in Appendix 18 along with detailed CVs of Key Role team members in Appendix 19.

10.2 Project Timetable

The draft Scheme timetable for the Scheme is based on a 36 month programme, in accordance with CLG’s indicative timescale for procurement of HRA projects, and is summarised below:

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submit OBC</td>
<td>November 2010</td>
</tr>
<tr>
<td>PRG Endorsement of OBC</td>
<td>February 2011</td>
</tr>
<tr>
<td>Issue OJEU &amp; hold Bidders' Conference</td>
<td>March 2011</td>
</tr>
<tr>
<td>Issue ISOS to selected bidders</td>
<td>June 2011</td>
</tr>
<tr>
<td>Issues ISDS to successful bidders</td>
<td>October 2011</td>
</tr>
<tr>
<td>ISDS responses returned</td>
<td>February 2012</td>
</tr>
<tr>
<td>ISRS issued (If required)</td>
<td>April 2012</td>
</tr>
<tr>
<td>ISFT Issued</td>
<td>July 2012</td>
</tr>
<tr>
<td>Appoint preferred bidder</td>
<td>February 2013</td>
</tr>
<tr>
<td>Planning Approval granted</td>
<td>December 2013</td>
</tr>
<tr>
<td>Judicial Review Period Expires</td>
<td>March 2014</td>
</tr>
<tr>
<td>Financial close/start on site</td>
<td>March 2014</td>
</tr>
<tr>
<td>Complete new build &amp; Refurbish social housing</td>
<td>March 2018</td>
</tr>
</tbody>
</table>

A more detailed Scheme timetable is included in Appendix 20.
10.0 Project Management and the Procurement Approach

10.3 Competitive Dialogue

Owing to the complexity of the Scheme, the EU Competitive Dialogue (CD) route will be used to procure the PFI contractor. In order to mitigate the potential risk of challenge in this approach the Council will:

- Ensure the timetable as set out above is robust and realistic thereby giving confidence to Treasury, HCA and Bidders;
- Use the standard documentation in the Housing Procurement Pack to follow best practice, standardised documentation and a process familiar to the market;
- Reserve the right to hold a Preferred Bidder Funding Competition to ensure robust funder terms;
- Market the PFI Scheme as widely as possible post OBC to include a bidders’ day and further soft market testing;
- Not be requesting variant bids;
- Ensure the evaluation methodology is transparent and equitable; and
- Maintain a Risk Register to identify, monitor and manage risks.

The procurement approach that the Council intends to follow is predicated on gaining maximum certainty for bidding organisations on the deliverability of the Scheme, whilst minimising costs and avoiding unnecessary and abortive Scheme costs for the private sector.

10.3.1 Pre Qualification Questionnaire (PQQ)

The EU Competitive Dialogue procurement process will begin once the Council has received approval to its Outline Business Case and will begin with a Contract Notice being published in the Official Journal of the EU (OJEU). Interested parties will then submit Expressions of Interest to the Council. All those expressing interest will be sent a PQQ to complete. The Council will assess the completed PQQs and prepare a long list of interested parties.

10.3.2 Invitation to Submit Outline Solutions (ISOS) (minimum of 3 bidder’s maximum of 6)

Bidders will be requested to submit initial design proposals at master plan level for a small study area including identifying opportunities and constraints on the development generally. They will also be required to answer questions around design development, sustainability, and complying with planning policy including an invitation to provide a commentary on the Planning Brief (issued with ISOS instructions and in the data room). The Council will also require the bidders proposals associated with the delivery of the Tenancy and estate Management Services (TEMS) and will request example service delivery plans. It is not anticipated that at this stage the ISOS will be priced, rather comments will be sought on commercial aspects of the Scheme including the Project Agreement, Payment Mechanism, RTB model etc.
10.0 Project Management and the Procurement Approach

The outline solution will be evaluated against pre-set criteria that will remain consistent throughout the procurement process and a short list of 3 bidders will be invited to submit detailed solutions.

10.3.3 Invitation to Submit Detailed Solutions (ISDS) (3 bidders remaining)

At ISDS, the Council will require bidders to provide a full suite of technical information including: Full master plans for each of the estates, detailed designs for each house type, showing general arrangements, elevations and external treatments. Local area plans and elevations with detailed costing for each of the above, including the infrastructure required to support the development will also be required. These will allow the Council to explore design principles and costs in detail.

The above will be sufficient to allow the Council at ISDS evaluation stage to understand designs and the commercial proposals (construction and maintenance costs, construction programmes, etc) that underpin them and identify any planning showstoppers (albeit it is unlikely bidders will have been given access to the Planning Council throughout the design development period). A full suite of commercial information will also be required including a fully marked up project agreement and full financial model etc.

The submission will be evaluated resulting in one bidder being de-selected, leaving 2 bidders to continue dialogue and be invited to submit refined solutions.

10.3.4 Invitation to Submit Refined Solutions (ISRS) (2 bidders remaining) (If required)

The Council will expect at this stage:

- The development of more detailed master plans demonstrating bidders have resolved issues regarding potential planning problems, risk of not meeting the Scheme requirements, or where areas of cost or risk uncertainty need closing out;
- Submission of certain planning documents that will be required as part of their full planning application.

Prior to Closing Dialogue, the Council will ensure it is in a position whereby:

- There is a complete pricing mechanism for determining all Scheme costs with appropriate level of due diligence to enable funder sign off;
- There is a detailed programme in place for managing design works post-preferred bidder appointment to ensure that all designs are rapidly and smoothly progressed to achieve planning in the shortest possible timeframe. The Council will ask bidders to develop their design programmes for the period from Preferred Bidder announcement through to submission of the final planning application to reflect the actual amount of work they still have to do bearing in mind the Council’s requirement for all planning consents to be secured before financial close and in the shortest possible time from appointment of Preferred Bidder.
10.0 Project Management and the Procurement Approach

This will be evaluated by the Council for:

- Recognition of where the design proposals are up to by final tender, and the amount of work necessary to complete planning applications;
- Allowance of appropriate timescales to complete all remaining works; and
- Sufficiency or otherwise of resources and commitment to delivering the proposed timetable.

10.3.5 Invitation to Submit Final Tender (ISFT)

Once the Council has confidence that all commercial issues are resolved and that it has two bids that are both affordable and deliverable, dialogue will be closed and an ISFT will be issued to bidders. This will require them to submit a full suite of documents including a fully marked up and agreed project agreement, payment mechanism, output specification, financial model and detailed contractor’s proposals. This will form the basis of the final evaluation and selection of a preferred and reserve bidder. It should be noted that beyond this stage only fine-tuning and refinement is permitted under the procurement regulations.

10.3.6 Preferred Bidder

Assuming a project finance funded solution, it is expected that the Preferred Bidder will need to obtain planning permission for each estate before Financial Close, and the programme agreed at the previous stage will reflect this and act as a monitoring tool. It is anticipated that the bidder will not accept Judicial Review risk and as such the Council will await the expiry of this period prior to Financial Close. It is recognised that on occasion, planning applications do not progress as smoothly as anticipated and therefore the contract will include a mechanism to deal with outstanding consents post contract.

10.4 Planning and Other Statutory Processes

10.4.1 Establishing the Planning Framework

The Council fully understands that planning is critical to HRA Housing PFI transformation and regeneration Schemes and is investing a large amount of time upfront at this OBC stage to establish a proper framework. This has included; discussions with the Local Planning Authority (LPA), (planning officers form part of the PFI Project Team) community consultation through an ongoing communication strategy, internal consultation with legal advisors who are part of the PFI team (around title, CPO’s, rights of way, statutory issues) and advice from external technical advisors.
10.0 Project Management and the Procurement Approach

The Council is not applying for outline planning permission and the intention is that the preferred bidder will submit detailed planning applications as soon as practicably possible after their appointment. The Council is currently developing a Planning Brief document, which will effectively give bidders both a starting point and the guidance they need to develop their proposals. The Council’s capacity studies will not be shared directly with bidders in the anticipation is that this will further allow creativity and innovation. The Council intends to gain support from the LPA on the planning brief for development control purposes prior to submission of its OBC and for this to be adopted by the Invitation to Submit Detailed Solutions stage.

The Planning Brief(s) will:
- Be in a consistent and uniform format;
- Identify the policy framework, which will form the basis for consideration of future planning applications on each estate. This will capture all relevant Council policies and design guidance (including guidance produced by others that the Council considers a requirement of its own);
- Provide a scoping assessment in terms of the requirements of the planning Council for supporting information that would be required as part of a planning application (for example, flood risk assessments, ecological studies, contamination surveys, etc.);
- Identify the basis on which any planning gains or contributions will be levied;
- Identify site-specific development considerations, providing guidance on how these should be addressed where relevant. Examples include:
  - Site context – in particular identifying issues of local vernacular to provide a framework for bidders on aesthetic requirements. Any specific site context issues (including the relationship to surrounding communities and structures) will also be identified;
  - Access arrangements to/from the estate, including an indication of the work that Highways consider necessary as part of any subsequent successful application for example, Travel Plan Statements and Traffic Impact Assessments;
  - Guidance on height, massing and density of developments. The precise nature of the development (the mix of unit types, etc) will be captured in the Output Specification (which may evolve as the procurement process proceeds). Similarly, requirements in terms of Design Quality Indicators, Code for Sustainable Homes, etc will all be captured in the Output Specification;
  - Responses from Statutory Consultees (where obtained);
  - The process and outcomes required of/from public engagement and consultation.
- In connection with the scoping assessment, a site pack will be assembled, collecting together all available title and site data. The Council is undertaking warranted desktop surveys to inform the process and OBC costing. To the extent that these identify specific risks for which reasonable cost allowances cannot be made, the Council may undertake further selective, on-site surveys.
- To the extent that the site packs identify issues and planners have views on how these issues should be addressed, further commentary will be provided. This will set out the ‘preferred approaches’ to address identified issues and in particular identifying what responses will be considered mandatory and which are offered as guidance by the Planning Authority.
10.0 Project Management and the Procurement Approach

The Project Team and Planning Authority working collaboratively will prepare the Planning Brief(s). The brief(s) will each be considered and approved by the Council's Cabinet by ISDS stage currently programmed for October 2011 thereby giving them a formal status and point of reference in respect of any future applications for the sites.

In accordance with CLG guidance, (each of) the Planning Brief(s) will undergo a period of consultation with key departments, agencies and the general public, prior to adoption.

10.4.2 Procurement of Land, Property and 3rd Party interests

The vast majority of land required for the Scheme is already in the Council's ownership, principally in the Housing Revenue Account (HRA). However, the Council has identified a number of leasehold and freehold properties that it will need to acquire in order to fulfil the requirements of the Scheme. The leasehold properties are the result of right to buy activity by former secure tenants of the Council who have purchased leasehold interest in flats on the estates. To enable the Council to either remodel or replace these homes they will need to be acquired.

The acquisition of any one of these properties is not crucial to the Scheme as a whole and if necessary redesign could fulfil the broad outcomes of the Scheme if it proved impossible to acquire one particular interest. Throughout the procurement stage, the Council will negotiate with owner-occupiers with a view to acquire land interests without the need of a CPO. The Council will however, pursue a CPO to acquire all such identified properties if required in good time to support the successful bidder’s programme whilst at the same time de-risking the vacant possession issue for the Council.

10.4.3 Road and footpath closures

The Thorplands estate was designed and built to the Radburn set of design principles. Modern living and the modern requirements of car parking have rendered these types of arrangements unpopular and it is the Council's intention to remove as much of the Radburn layout as possible. The estate at present is crisscrossed with footpaths and alleyways and in consultation with the community, the Council would wish to identify those alleyways that have contributed to antisocial behaviour and have made navigation through the estate difficult, with a view to removing these as part of the new Scheme. To do this, the Council will need to instigate road and footpath closures and these have statutory and local consultation requirements.

The Council is aware that such closure programmes need careful planning, dovetailing with the construction works, and will need to have a high degree of community consultation to ensure that they work successfully. The Council and its contractor will need to demonstrate that where appropriate, alternative routes will be available to the community who have used these footpaths since the estate was built. The Council is aware of the lengthy time periods necessary to achieve this.
10.0 Project Management and the Procurement Approach

10.4.4 Achieving Vacant Possession

The works related to remodelling or replacing homes will require that the Council hand over the properties to the contractor with vacant possession to a phased programme. In order to achieve this programme the Council will have to put in place a Decant Strategy. The properties to be vacated will either be a secure tenanted property owned by the Council or properties sold by the Council on a leasehold or freehold basis. The Council has developed a Decant Strategy and this details the approaches that will be taken to de-risk this aspect of the Scheme, notably identifying decant properties and running down nominations prior to financial close.

10.4.5 Tenanted property

The Scheme on the Thorplands estate is primarily refurbishment and these works intend to be carried out with tenants in occupation. Due to the nature of the works, it is anticipated that disruption will occur during the daytime, leaving the house entirely habitable during evenings and weekends. The Output Specification will clearly identify this as the preferred method of working required and the need for the contractor to provide suitable respite facilities. There are approximately 205 social units on the Thorplands and Eastfield estates, which the Council will need to provide, with vacant possession, to the contractor in order for them to carry out remodelling, demolition and replacement. Secure Council tenants occupy these properties and the Council has established the following documents:

- Vacant Possession Policy relating to the PFI estates
- Decant Strategy for yielding up vacant possession in phases as required
- Tenant guidance and information leaflets

The Council has a substantial waiting list for affordable housing and to establish the priority for decanting from the PFI estates it has considered the effect on its statutory duty to the homeless and also its duty to its existing body of tenants who are seeking a move for a variety of reasons including overcrowding, the effects of domestic violence or antisocial behaviour etc. These matters have been considered and the Council will award due priority to the decanting of tenants on the PFI estates as part of their decant strategy to enable vacant possession to the incoming service provider. It is not the intention of the Council to have large sections of the estates empty at any one time and it will work in partnership with the contractor to establish an appropriate decant plan.

10.4.6 Ground 10 Possession

It is the intention of the Council to obtain vacant possession from current tenants with the tenants’ consent, through direct offers of permanent alternative accommodation or through the Council’s Choice Based Letting Scheme, where possible. Where vacant possession cannot be obtained by consent, the Council will take legal action through Ground 10 of the Housing Act 1985 (where new build/redeveloped properties are to
10.0 Project Management and the Procurement Approach

be retained by the Council) or Ground 10A of the Housing Act 1985 (where properties will be disposed of following re-development in accordance with the Scheme).

In order to rely on either Ground 10 or Ground 10A of the Housing Act 1985 the Council will provide the tenants with suitable alternative accommodation, which must be available when any order for possession comes into effect. The Council will also have to satisfy the court that the works cannot be carried out without obtaining possession of the property. In order to rely on Ground 10A the Council will also have to apply for consent from the Secretary of State, having carried out a due period of consultation.

Where commencing legal proceedings becomes necessary, the Council will still aim to obtain tenants’ consent to move through Resident Agreements, but will seek possession orders where no agreement has been reached.

10.4.7 Leasehold and Freehold Acquisitions

The Council would wish to acquire all properties necessary for the PFI Scheme by agreement, which may necessitate providing leaseholder or freeholders with enhanced Home Loss Payments/ offers of alternative accommodation /shared equity, as an incentive for agreement.

The Council is however mindful of the need to establish certainty for the Scheme and therefore has identified in its Cabinet papers the need to pursue compulsory purchase if necessary. In accordance with the Land Compensation Act 1973 and subsequent other legislation the Council can assess the cost of purchasing these interests and can budget accordingly. The Compulsory Purchase Order (CPO) cannot be made until the Secretary of State is satisfied that there is a Scheme in place with sufficient certainty of delivery. The proof of this certainty will come in the form of planning permission or rather a planning framework which identifies that the property interest in question is necessary to fulfil the Scheme as designed.

It will not be possible for the Council to CPO any of these interests until the Secretary of State can be satisfied as outlined above. The PFI guidance for “Different Solutions” Schemes advises against authorities obtaining outline planning permission for its Scheme on the basis that this might fetter or hinder any developer's plans. The Council will therefore prepare for the CPO without actually obtaining the order and then work in partnership with the bidder(s) at the latter stages of the procurement.

Due to the length of time it can take to obtain and enforce a Compulsory Purchase Order, the Council will consider commencing the CPO process while negotiations with leaseholders/ freeholders are ongoing.

The Council will aim to prevent current tenants from becoming leaseholders by serving Demolition Notices to suspend /stop new Right to Buy applications where possible.

10.4.8 Procurement Risk

In order to assess procurement risk, the Council has developed at OBC stage with its advisors, a Risk Register for the Scheme up to Financial Close. Please see Appendix 17.
11.0 POST- PROCUREMENT CONTRACT MANAGEMENT

11.0 Overview of Section

This Section outlines the arrangements proposed for post procurement contract management including the performance monitoring expected of the contractor and their interrelationship with the Council’s contract management and monitoring proposals and structure.

11.1 Background

A significant amount of public money will be invested in the PFI Scheme for Eastfield and Thorplands and expectations of all stakeholders are high. It is, therefore, important that there are robust post-procurement contract management arrangements in place to deal with the ongoing operational management of the contract, once awarded.

11.2 Objectives

The objectives of the post-contract monitoring process are to:

- Ensure that there are robust procedures for identifying contractor performance against the specified outputs required;
- Ensure that payments made to the Contract, reflect accurate, up-to-date performance against service standards;
- Ensure that any problems are identified and rectified as early as possible;
- Ensure that the relationship between the Council and the contractor are positive and contributing to excellent service delivery;
- Ensure that there is good communication between the Council and the contractor and that there are mechanisms for settling any disputes;
- Deal with the formal governance of the contract and any changes to contract documentation.

11.3 Contract Monitoring Framework

Contract monitoring and reporting requirements will be specified in the Output Specification and Payment Mechanism. However, there will also be a Performance Information Reporting Protocol that will specify the Council’s reporting requirements of the contractor. These will include meeting wider reporting requirements to ensure that the Council can meet its statutory and regulatory reporting obligations. The Authority’s budget for contract monitoring is £87k per annum.

Performance reporting duties by the contractor will include compliance with an IT protocol to ensure the required use of IT systems and data reporting. This will contain specific requirements covering performance data to be maintained by the contractor, data format, issue of and interface with Council IT systems, use of the contractor’s own IT systems, transmission data, frequency of data provision and access by the Council’s own Client Monitoring Team to contractor IT systems, other records and data.
11.0 Post-Procurement Contract Management

The importance of tight performance recording and reporting by the contractor is not underestimated. The contract monitoring process needs to be sufficiently robust to ensure that any contract under-performance or breaches are identified and that the necessary deductions and sanctions can be readily determined and implemented.

There will be monthly contract monitoring meetings with the contractor, with lead responsibility vested in the Head of Landlord Services. This will be supplemented with a series of sub group meetings as below which will be held on a bi-monthly basis, which will report to the main monthly contract meeting:

- Finance monitoring sub group
- Decent Homes and Asset Management sub group.

Sub groups will involve staff with the relevant operational responsibility from the Council and the PFI contractor and will aim to resolve as many issues as possible.

The Council will employ an Independent Certifier to ensure that the actual level of availability and service provision meets the Output Specification Requirements. The checks will include, but will not be limited to:

- Tenant surveys
- Investigation of last stage complaints (pre ombudsman)
- Technical investigations to verify availability
- Non-technical inspections to verify availability
- Audits of contractor data records – for example to check categorisation of repairs.

11.4 Contract Management Structure
12.0 COMMITMENT OF PROJECT SPONSORS AND STAKEHOLDERS

12.0 Overview of Section

This Section confirms the Council’s formal commitment to the Scheme and its Financial Implications. It also outlines the engagement undertaken and proposals with Stakeholders and Residents.

12.1 Introduction

The Council recognises that effective communication and engagement with all stakeholders is essential to the success of the Scheme. Reflecting this importance, the Project Board approved and adopted a Communication and Engagement strategy in April 2010 and can be seen in Appendix 21.

In addition significant resources have been allocated to ensure the development and implementation of a Communications and Engagement plan;

- The Council established an internal communications team to support the Project Team to develop and take forward the communications and engagement plan. This team includes the Head of Communications.
- Appointment of The Bridge Group to support and deliver the Communications and Engagement plan – particularly to do with residents.
- Resources allocated to appoint an Independent Resident Advisor.

12.2 Communications and Engagement Strategy

A full stakeholder analysis was completed which identified key groups and individuals, their interest in the Scheme and the most appropriate means of communication. The analysis informed the development of a Communications and Engagement Strategy and a comprehensive engagement plan. (See Appendix 22)

The communication plan had several key aims:

- To raise awareness of the process
- Provide for structure and meaningful dialogue for all stakeholders
- Encouraging tenant and resident engagement and participation

The Communications and Engagement Plan is supported by a Media Support Plan (See Appendix 23).

12.2.1 Elected Member

Portfolio Holders and Ward Members from both Northampton Borough Council and Northamptonshire County Council are briefed on an informal and formal basis, monthly, to ensure they are fully aware of progress on the Scheme, and are able to input into the development of proposals.
12.0 Commitment and Project Sponsors and Stakeholders

12.2.2 The Council’s Cabinet and Scrutiny Committee

The Cabinet has been kept both informed of the development of the Outline Business Case through informal briefings and through formal reporting mechanism. On the 10th November 2010 the Cabinet gave the Outline Business Case full consideration including financial, legal and other implications for the Council and approved its submission to the HCA (See Minutes in Appendix 24).

12.2.3 Residents – Tenants/Lessees/Owner Occupiers

Local residents are key stakeholders in the Scheme and it is essential that the proposals address their local priorities and aspirations. The Council has sought to build on the engagement process, which began during the development of the Expression of Interest.

Residents have been kept up to date on the development of the OBC – through regular Newsletters delivered to all homes on Eastfield and Thorplands (Appendix 25), information on the Borough website (Appendix 26) and locally available Fact Sheets (Appendix 27). In addition members of the PFI Project Team have attended Resident’s Association Meetings, distributed ‘While I’m here Cards’, (Appendix 28) and supported community events.

Residents have been encouraged to become involved in the Scheme through a number of ways:

- Workshops- 2 workshops were held on the estates in March 2010, which outlined the process for developing the PFI and Outline Business Case
- Resident Steering Groups- a Steering Group for each estate has been established. The Steering Groups meet on a monthly basis and have had an input into the development of key documentation for the OBC. The groups decided not to appoint an Independent Resident Adviser at this stage.
- Let’s start here events. The Council assisted by The Bridge Group supported events on both estates.
- Door Knocking – Officers supported by The Bridge Group interviewed 591 households across Thorplands and Eastfield to find out what residents knew about the PFI Scheme and gauge support and concerns.

Of 591 Residents 27 (4.5%) are broadly against the Scheme
12.0 Commitment and Project Sponsors and Stakeholders

12.2.4 Door Knocking Results

Of the 591 responses, 50.5% were broadly in favour, 45% were undecided, however only 4.5% (27 residents) were broadly against. (Door Knocking Report can be found in Appendix 29).

<table>
<thead>
<tr>
<th>Estate</th>
<th>Total Number Of Responses</th>
<th>Those Broadly In Favour</th>
<th>Those undecided</th>
<th>Those Broadly Against</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastfield</td>
<td>218</td>
<td>86</td>
<td>116</td>
<td>16</td>
</tr>
<tr>
<td>818 homes in total</td>
<td>27% of 818</td>
<td>40% of 218</td>
<td>53% of 218</td>
<td>7% of 218</td>
</tr>
<tr>
<td>Thorplands</td>
<td>373</td>
<td>212</td>
<td>150</td>
<td>11</td>
</tr>
<tr>
<td>1256 homes in total</td>
<td>30% of 1256</td>
<td>57% of 373</td>
<td>40% of 373</td>
<td>3% of 373</td>
</tr>
</tbody>
</table>

Residents are broadly supportive of proposals to replace, remodel and refurbish houses in Eastfield and Thorplands. Understandably some residents (tenants and homeowners) have concerns about wider redevelopment and whether their homes will be affected. These concerns will be addressed through subsequent phases of the Competitive Dialogue.

The Communications Strategy takes into account the need to communicate proactively with disenfranchised or housebound tenants who may not otherwise engage and are therefore at risk of missing out on information disseminated through existing channels. The Council has identified via the door knocking exercise a number of vulnerable residents (be they elderly, house bound or indeed residents whose first language is not English) and endeavored to keep them informed through personal contact/letters.

12.2.5 Other Stakeholders

The Council’s internal stakeholders including Regeneration, Planning Policy, and Communications have been involved through their membership of the PFI Project Team. The PFI Project Team members are responsible for ensuring that information is disseminate more widely at relevant departmental team meetings.

Key stakeholders such as Northamptonshire Police, NCC Highways and the HCA regional office have been involved in the Scheme through 1-1 meetings and their input has informed the development of the OBC. Northamptonshire Police have confirmed their support for the proposals and the positive contribution that they will make to help address crime and anti-social behaviour on the estates.

Two workshops have been held with wider stakeholders to discuss both the development of the Northampton East Regeneration Strategy (and the role of the PFI Scheme within the Strategy). Over 30 people representing organisations and community groups attended the workshops.
12.0 Commitment and Project Sponsors and Stakeholders

12.2.6 Consultation and Engagement Post OBC

The Council recognises the importance of maintaining and enhancing engagement post Outline Business Case submission. Key stakeholders, including the community and elected members, will continue to be involved in various stages of the procurement process and contract management. The Council will undertake a comprehensive review of the Communications Strategy and develop the Communications and Engagement Plan to ensure stakeholders are able to input into the development of the Scheme at the appropriate stages.

Post OBC it is critical that residents are increasingly involved in developing and shaping the Scheme: Resident Steering Groups on both estates will play a significant role as the Scheme continues and develops. This will be achieved through a variety of means including:

- Allowing resident representatives to input into the evaluation of bids and the decision making process for contractor selection;
- Statutory consultation on Planning Briefs/Full Planning Application;
- Statutory consultation of tenants and leaseholder at Preferred Bidder Stage to obtain S.27 consent.

The Output Specification will require the contractor to undertake consultation and engagement with tenants and residents, during the operational phase of term of the PFI Scheme.