



Office of the
Deputy Prime Minister

Creating sustainable communities

Private Finance Initiative Schemes for HRA/Non-HRA Housing

Guidance for Authorities
Making Proposals

housing



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Deputy Prime Minister

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Schemes for HRA/Non-HRA
Housing*

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November 2005

Office of the Deputy Prime Minister: London

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CONTENTS

Foreword	5
Summary	7
Introduction	9
Bidding Timetable	10
Format of Proposals	10
Topics to be covered	11
Scheme location and size	11
Scope of the contract	12
Strategic context	12
Evidence of housing demand	13
Stock condition (HRA only)	13
Option Appraisal	13
ODPM Housing PFI Template Financial Model and HMT VfM Guidance – Demonstration of the maximum allowable PFI Credit, project Affordability and VfM.	14
Marketability	15
Risk transfer	15
Consultation	15
Councillor commitment	16
Project management	16
Timetable	16
Other considerations	17
Sources of further information	18
Application for provisional ODPM support for Housing PFI projects	20
Application for provisional ODPM support for Housing PFI projects	21
Annex A	22
Prioritisation criteria for HRA & non HRA housing PFI schemes	22
Annex B	24
Criteria to be applied by all Government Departments	24
Administrative Arrangements for Central Government Support	24
Annex C	29
Examples of Schemes	29
HRA PFI Schemes	29
Non-HRA PFI Schemes	30

Foreword

Quality and choice of housing has a tremendous impact on the physical and mental well-being of residents. Poor housing can contribute to damaged neighbourhoods, creating low demand and very little sense of community and stability. By working with local authorities to ensure that individuals and families in social housing have warm and weatherproof homes with reasonably modern facilities, we can help to build safe, sustainable communities.

Responding to the need to tackle the problems caused by decades of under-investment in council homes, we have significantly increased investment in social housing through the transfer, ALMO, and PFI programmes. Since 1997, local authorities have spent more than £16 billion on their homes, and a further £6.5 billion has been levered in from the private sector through transfer.

This increased investment is having a profoundly positive effect on the homes and lives of people who live in social housing. Since 1997, we have reduced the number of non-decent homes by more than 1 million. We are moving closer towards our vision of ensuring that all social housing is made decent.

As we set out in the Deputy Prime Minister's five year plan, *Sustainable Communities: Homes for All*, we are committed to increasing the supply of new social rented homes. Since 1997, we have doubled investment in affordable housing, providing more than 230,000 homes for rent and low-cost home ownership. We plan to create a 50% rise in new social rented housing by 2008, and we are aiming to help potentially more than 100,000 people into home ownership by 2010, through our new HomeBuy scheme and the First Time Buyers initiative.

In June this year we announced a further 61 decent homes schemes involving 34 local authorities. These schemes will lever in around £3 billion more investment into our social homes, helping to ensure that social housing tenants have the decent homes that they need.

The Housing PFI programme has a key role to play in meeting the outcomes we set for social rented housing in the five year plan. It enables local authorities to tackle the shortage of social housing, by providing new social homes for rent, and to deliver decent homes in improved neighbourhoods.

There are currently 37 schemes on the Housing PFI programme. We expect these schemes to reduce the number of non-decent homes by more than 28,000, and to deliver more than 4,000 new social rented homes.

This guidance sets out how local authorities can deliver decent homes and additional social housing for rent through PFI for general needs, supported and extra care housing.

I look forward to continuing to work with our local authority partners, so that together we can achieve our aims for increasing the supply of social rented homes, and ensuring that everyone living in social housing has a decent home.

A handwritten signature in black ink, appearing to read 'Yvette Cooper', written in a cursive style.

Yvette Cooper MP
Minister of State for Housing and Planning

Summary

The Spending Review 2004 announced £1.22 billion of new Private Finance Initiative (PFI) credits for social housing. These credits, some of which were allocated in the last bidding round, are available to help meet the Decent Homes target through the regeneration of local communities and the provision of additional social housing for rent.

PFI credits will give a further boost to the provision of additional social housing (including general needs, extra care and supported housing) for rent throughout the PFI programme, where this fits into regional priorities as identified in Regional Housing Strategies. This complements the work of the Housing Corporation who recently launched their bidding round inviting bids for support for affordable housing from RSLs and non RSLs, primarily starting in 2006-8.

We intend to give priority to projects that deliver a range of outputs contributing to regeneration and sustainable communities. In particular, we would encourage bids that tackle more than one of the following: reducing non decent homes; increasing social rented housing to tackle homelessness; reducing low-demand housing; and complementing local Supporting People strategies.

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

The Housing PFI Procurement Pack has been published with standard documentation for all schemes to use, building on lessons learned from current schemes. The pack is available to help authorities who successfully gain a place on the PFI programme to prepare their Outline Business Case (OBC) along with the other stages of the procurement process. All projects will need to comply with Standardisation of PFI contracts (SoPC) Version 3 (2004) and the mandatory wording in the Project Agreement approved by Treasury within the Housing PFI Procurement Pack.

Treasury Guidance set as the guideline for the minimum size of a PFI project an overall capital value of £20m. ODPM complies with this approach for individual housing projects. However, we will consider proposals that batch schemes which contain lower capital value elements. However, these must clearly demonstrate value for money and additional benefits to the community. Examples of these might include joined up/partnering proposals involving other departments and/or a number of local authorities or procurement through NHS Local Improvement Finance Trusts (LIFTs).

PFI: meeting the investment challenge (2003) recommended a new value for money assessment as part of a reform of the Public Sector Comparator. New guidance has been published along with a model to test the potential value for money of procurement options. The new document: *Value for Money (VfM) Assessment Guidance (2004)*, will replace the advice set out in Treasury Taskforce technical note 5 for PFI procurements. Local Authorities will be expected to adhere to this guidance (and any ODPM requirements for demonstrating value for money) when developing and procuring a housing PFI scheme.

A new ODPM Housing PFI Template Financial Model will shortly be released, and replaces the old HRA/Non-HRA Housing PFI Models. The new model is for use by both HRA and Non-HRA Schemes, and includes the HMT VfM Quantitative Model, which is referenced above. Whilst the HMT VfM Guidance should be considered, and the Qualitative element supplied, the Quantitative HMT VfM Model will not need to be submitted separately.

The Government's Efficiency Review set targets for efficiency gains across the public sector. The resources released through greater efficiency can be refocused on improving front line services. Ministers will wish to ensure that all housing programmes support the objectives of the Efficiency Review and make the best possible use of the big new investment being made in this area.

Applications should therefore set out how the proposed model will deliver a step-improvement in efficiency, including a clear strategy for driving efficiency through the life of the programme.

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

ODPM is exploring the possibility for developing new procurement routes to deliver additional social housing more efficiently. For further information please contact the PFI team.

Ellie Simcox
Housing Private Finance Initiative Team Leader

Introduction

1. The 2004 Spending Review allocated significant PFI credits to enable ODPM to meet the decent homes target in 2010 and to increase the provision of additional social housing for rent to help tackle homelessness.
2. This bidding round is for HRA/Non-HRA housing projects and we have issued a letter inviting outline proposals from local authorities who wish to pursue PFI projects for housing and who wish to receive central government support in the form of PFI credits.
3. In assessing and selecting schemes, the Office will take account of the housing-specific criteria (see Annex A), and will also be mindful of the criteria to be applied by all government departments in considering whether to submit schemes for Project Review Group endorsement (see Annex B).
4. We shall also be asking the relevant Government Office in your region to comment on proposals and, in particular, to give their views on the appropriateness and deliverability of individual schemes, given local circumstances and regional priorities. **Additional social rented** proposals in the **HRA and Non-HRA** need to be focussed on delivering national objectives/targets and/or priorities identified in Regional Housing Strategies. **HRA schemes incorporating existing council housing stock**, must have met the Option Appraisals (OA) requirement for sign off by the Government Offices prior to the submission of an expression of interest in this bidding round.
5. Demand for PFI credits is likely to outstrip supply. Our purpose in inviting outline proposals at the first stage is to minimise the time and effort authorities spend on developing projects which do not ultimately receive support, because of funding constraints. We do want to ensure however that estimates of the likely level of PFI credits required to support projects are as accurate as possible. We will therefore be asking all applicants to complete the ODPM model designed to generate the PFI credit requirement. Authorities who wish to develop proposals should obtain a copy of the model and guidance from the Office's website at http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/divisionhomepage/039032.hcsp or on application from the housing PFI team (see Sources of further information section for contact details).
6. Authorities should be realistic about the amount of PFI funding they intend to seek from the total housing allocation. They should set out how they will use complementary sources of funding i.e. land and dowry from the sale of properties to lessen the PFI credit requirement. All applications will need a robust justification in terms of strategy and value for money. In view of the limited credits available priority will be given to schemes that seek to maximise outputs from the credits through use of other resources.

Bidding Timetable

7. The timetable for this bidding round is set out in the accompanying letter.

Format of Proposals

8. Applications should consist of a completed cover sheet, as specified in the attachment (on page 20 or 21) to this guidance, together with a written proposal covering all the topics specified below in the order in which they appear. Proposals should not exceed 20 pages in length, excluding the annexes indicated in this guidance. All documents should be relevant to the case. Please do not include supplementary material that is not directly relevant to the bid.
9. A completed copy of the ODPM model must be attached. There should be a clear indication of the amount of PFI credits required (and the authority should specify whether these are for HRA or Non-HRA schemes). Authorities should note that the ODPM model calculates the upper limit of credits that would be required for the scheme. Success in this bidding round should not be taken as a guarantee that the scheme will receive the level of credits calculated by the model. No decision will be taken on the level of credits to be awarded to the scheme until the OBC has been approved.

Topics to be covered

Scheme location and size

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

10. Authorities should note that ODPM does not anticipate considering PFI schemes covering the whole housing stock. Rather, authorities should consider applying the PFI solution to an area or areas in priority need of housing investment as part of their wider housing strategy. The Office does not wish to place an arbitrary limit on the size of schemes or the PFI credit requirement, but resources may best be focused on a defined geographical area with a common sense of identity. Local authorities should seek to maximise the opportunity to deliver a comprehensive and coherent investment and management solution. To achieve this it may be sensible to consider working with neighbouring authorities or joining up with other PFI proposals in the area. ODPM would be willing to consider models for developing a strategic framework if this is the most efficient way to deliver a number of small projects. The Office would like to see schemes, which are mixed developments, with multiple outcomes, offering new build, re-provision and/or regeneration as part of a refurbishment programme delivering mixed and sustainable communities.
11. Please note that the capital cost of the scheme will represent the upper limit of the possible PFI credit. However, in many cases the actual credit will be lower. Local authorities will be expected to cover as much as possible of the costs of the project through resulting operating cost savings, third party use of assets and services and other sources of revenue, and to minimise their applications for PFI credits accordingly. Authorities putting forward Non-HRA proposals should note that ODPM will not support schemes with an overall capital value of below £20m for single procuring authorities.
12. **HRA schemes only** – Describe the specific geographical area to be covered and if applicable, the quantity and type of council stock (general needs, extra care or supported housing) to be included in the scheme. Give a description of the various building archetypes included in the scheme. Detail the number and location of Right to Buy (RTB) properties in the area, i.e. whether these are concentrated in specific locations or pepper-potted throughout the area, and identify numbers and location of leasehold properties. ODPM does not fund the buy backs of ex-council properties. Authorities should detail the impact of the scheme on the Decent Homes Standard in the area and consider the range of options to recover leaseholder costs. A map of the area should be attached as an annex and photographs may also be attached for illustrative purposes.
13. Those authorities submitting proposals for building new social housing in the HRA and Non-HRA schemes should detail their strategy for obtaining sites, for example the use of Section 106 sites or land owned by the council and the impact they expect the increased supply to have in tackling homelessness or in providing support to other vulnerable groups. Your strategy should aim to have all sites secured with outline planning permission by the time the Outline Business Case is approved. Please discuss this with ODPM if this is likely to be a problem.

Scope of the contract

Authorities should describe the scope and length of the contract.

14. Housing PFI should focus on delivering decent homes and the provision of additional social rented housing. This should aim to help tackle homelessness and support other vulnerable groups and the wider works required to ensure that decent homes and social rented housing are set in sustainable communities. In the HRA it is possible for authorities to build new social housing as well as reduce the number of non decent local authority housing stock. The Office would like to see HRA schemes that tackle the decent homes target and where possible see new build and re-provision. Where there is new build, there are increased costs and value for money would need to be demonstrated. The standard approach to HRA contracts takes in new build, upfront refurbishment or demolition and re-provision works, ongoing housing management services, and repairs and maintenance services. This should include programmed renewals, during the course of the contract and preferably encompass regeneration for example estate works, community safety measures etc. Any further benefits of the PFI bid should be described such as tenure diversification and the creation of additional public and private housing funded outside housing PFI credits (facilitated units). The typical contract length is 30 years. Authorities should describe their intended approach, and explain and justify any major variation from the approach outlined above e.g. where they do not intend to include housing management within the PFI contract.
15. Non-HRA schemes are usually in the form of long-term (25-30 years) service contracts usually with RSLs, with new build or acquisition and refurbishment, and continuing management and maintenance. These PFI projects would be accounted for in the General Fund. ODPM will welcome proposals for joined up schemes, including social services schemes, those with the aim of preventing homelessness and creating more sustainable communities and support to vulnerable groups. Examples of this type of scheme might include offering a comprehensive package of housing and support for homeless families and single homeless people with support needs, older people, adults with learning disabilities or vulnerable young people. We would also welcome proposals, also of a joint nature for affordable and social rented housing for specified groups, e.g. homeless families living in temporary accommodation, people with a disability or mental health problems, keyworkers etc. in areas of particularly high demand.
16. Annex C provides a few examples of schemes, some of which are underway and others that are in various stages of procurement.

Strategic context

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

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

Evidence of housing demand

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

18. Being able to demonstrate long-term need and demand for the stock is key to delivering sustainable investment and optimising the balance of risks between the partners to the PFI contract. Authorities are asked to provide evidence of current demand and anticipated demand, drawing on housing-specific information, e.g. waiting lists, levels of homelessness and use of temporary accommodation (especially for families), voids etc and more general information relating to population projections, economic development, prevalence and housing and accommodation needs of vulnerable groups etc. If there are current or anticipated problems of oversupply or variable demand for the stock, authorities will need to demonstrate they have a strategy for managing this. This will be particularly important in areas of low housing demand.
19. In all areas it will be important to set this demand in the context of the wider housing market. The ODPM's Housing Market Assessment Manual will assist authorities in understanding how their housing market works. This manual can be found on the ODPM website at http://www.odpm.gov.uk/stellent/groups/odpm_communities/documents/page/odpm_comm_029029.bcsp.

Stock condition (HRA only)

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

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

Option Appraisal

Authorities should explain why PFI has been selected as the value for money solution for the proposed project.

21. In providing an explanation of why PFI is the preferred option, authorities should provide the relevant analysis from their Option Appraisal for the area/estate and an outline analysis of options considered for additional social housing, including the 'do nothing' option.

ODPM Housing PFI Template Financial Model and HMT VfM Guidance – Demonstration of the maximum allowable PFI Credit, project affordability and value for money.

Authorities are required to complete the ODPM Housing PFI Template Financial Model and adhere to the HM Treasury Value For Money Guidance, which includes a two part approach to assessing the value for money of a PFI Project, consisting of a Quantitative and Qualitative evaluation.

22. ODPM Model:

The ODPM Housing PFI Template Financial Model is available from the ODPM Website or on application from the Housing PFI Team. The one model is for use by both HRA and Non-HRA PFI Scheme, and is designed to provide:

1. An indication of the maximum level of PFI funding that can be applied for. Authorities should note that the level of PFI Credits suggested by the model is an absolute maximum, which the ODPM will not necessarily fund. In all cases the ODPM will expect local authorities to provide contributions to the scheme, be it through revenue funding from existing budgets or through cross subsidisation, for example new build for sale.
 2. An indicative view of the affordability of the project. Whilst we recognise that at Expression of Interest stage the costing of a PFI Scheme is not going to be particularly robust, we will expect to see authorities considering the output of the model, and where necessary identifying methods by which they will ensure that the scheme remains affordable during procurement. The impact of the scheme on the wider HRA/General Fund will also need to be considered. For example, for an HRA scheme local authorities will need the resources to meet costs such as insurance that cannot be covered by the PFI credit.
 3. An indication of the value for money of the scheme in line with HMT VfM Guidance. The ODPM Housing PFI Template Financial Model includes the Quantitative HMT VfM Model, which is automatically completed using the inputs provided. The inclusion of the HMT VfM Model has been cleared by HM Treasury, and therefore authorities do not need to complete a separate HMT VfM Model (Quantitative Assessment). The model compares PFI against carrying out the equivalent level of work and services through conventional procurement.
23. The ODPM model includes a sheet for optimism bias, which should be completed in all cases. Optimism bias forms part of the value for money comparison, but does not feed through to the calculation of the level of PFI credits for schemes. Commentary must be included in the Expression of Interest to support the mitigation of optimism bias. The completed ODPM Housing PFI Template Financial Model should be provided as an annex.

Authorities should provide justification for all of the inputs used in the ODPM Housing PFI Template Financial Model.

24. HMT VfM Guidance:

The HMT VfM Guidance is a two stage approach. As mentioned above the Quantitative element is included within the ODPM Model, and is not required separately. The Qualitative assessment will however need to be supplied. The ODPM has a base case for the Qualitative assessment, which provides a qualitative case for why PFI can offer value for money over conventional procurement from a PFI Programme viewpoint. This is available from the ODPM upon request, and will need to be tailored for your specific scheme.

Authorities should note Treasury's guidance for value for money, which can be accessed at http://www.hm-treasury.gov.uk/documents/public_private_partnerships/ppp_index.cfm

Marketability

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

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

Risk transfer

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

26. A basic premise of PFI is that the risks attached to a project are allocated to the party best able to manage them. The Office expects authorities to allocate risks appropriately with significant risk transfer to the private sector while, at the same time, achieving good value for money for the public sector. At this stage authorities are asked to demonstrate an understanding of the principles of FRS5.

Consultation

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

27. In HRA schemes, tenants will remain tenants of the local authority throughout the course of the PFI contract. There will be no change in their status or their rights as a result of the PFI project and the Office would expect rents for dwellings included in the scheme to be set in accordance with the authority's general approach to rent-setting and within the Office's rent restructuring framework. Therefore, ODPM does not anticipate authorities will ballot tenants on whether or not to proceed with a PFI scheme. However, the Office does expect tenants will be given the opportunity for involvement in decision-making in

line with best practice in tenant participation and consultation incorporating the diversity of the residents. Local authorities should explain how they will comply with the tenant empowerment strategy that was agreed with the Community Housing Taskforce (CHTF) during the Options Appraisal. The consultation should also include a strategy to deal with leaseholders as part of the statutory requirement to consult them.

28. Please note the Office does not expect authorities to commission tenant surveys or other initiatives specifically to support this application, but must attach evidence of any relevant information already gathered, for example minutes or letters from steering groups, which can be attached as an annex.

Councillor commitment

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

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

Project management

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

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

Timetable

Authorities should provide an indicative timetable.

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

Other considerations

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

HRA ONLY

32. Authorities need to be aware of the implications for the scheme of stock that is managed by another party i.e. an Arms Length Management Organisation or Tenant Management Organisation (TMO) etc. in the PFI proposal, and explain how they will tackle the issues that arise from such an arrangement. More specifically, what effect would the PFI bid have on the management organisation (as a viable business) and its responsibilities under the existing arrangements with the council? The Office expects that other parties involved in the management of council stock (through delegated arrangements) are supportive in principle of the PFI project and have been informed of the implications, as evidence of the deliverability of the proposal. Minutes of any relevant meetings must be presented in an annex.

GENERAL

33. The ODPM welcomes proposals, which are jointly funded by different government departments and/or across local authority departments. These schemes need to be fully integrated and be able to demonstrate this practically i.e. where a county council is procuring on behalf of a number of district authorities there needs to be a clear strategy to manage the relationship and decision making process. Other government departments with PFI schemes are also encouraging joined up projects.

If a Local Authority is preparing a joint scheme which will require funding from other Government Departments, it is important that the financial analysis included within the bid demonstrates the affordability and value for money of the scheme in its entirety.

In these cases we require the ODPM Housing PFI Template Financial Model to be used solely to identify and support the requested level of ODPM PFI Credits, based on the works included within the ODPM element of the project. In demonstrating the affordability and value for money of the overall project, the Local Authority will have to provide its own analysis, outside of the ODPM Housing PFI Template Financial Model. This should be based on a single Unitary Charge.

Please also provide a brief description of any elements to be funded outside of the requested housing PFI credits.

If you are planning on submitting proposals for a joint scheme then please contact the ODPM should you wish to discuss your specific financial modelling requirements.

34. The national priorities under the PFI programme include two of ODPM's Public Service Agreements (PSA). They are:

PSA 5 – Achieve a better balance between housing availability and the demand for housing, including improving affordability, in all English regions while protecting valuable countryside around our towns and cities and in the greenbelt and the sustainability of towns and cities;

PSA 7 – By 2010, bring all social housing into a decent condition with most of this improvement taking place in deprived areas, and for vulnerable households in the private sector, including families with children, increase the proportion who live in homes that are in decent condition.

35. Authorities should note that PSA 7 was revised last year to include families with children. They should also note that the number of homeless families in temporary accommodation is a key indicator of achievements against PSA5. The PSA 5 and 7 technical notes have been reviewed and are published on the ODPM website.

Sources of further information

36. Information on Housing PFI can be found on the ODPM website at:
http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/divisionhomepage/039118.bcsp.
37. The aims and objectives of Housing PFI are outlined, and there are details of current initiatives as well as relevant guidance notes and guidance for local authorities on tenant consultation.
38. A guide for tenants is available on our website at
http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_house_609056.bcsp.
39. There is also a significant amount of more general guidance available on PFI. Much of it is conveniently brought together on the 4Ps website at www.4ps.gov.uk including access to the Housing PFI Procurement Pack. This also has links to other main sources of information such as the Treasury and ODPM websites.
40. To access the ODPM website on local government PFI go to <http://www.local.odpm.gov.uk/pfi/index.htm>. From this page information can be found on endorsed PFI projects, PFI regulations (including the Capital Finance Regulations) and PFI published guidance. Relevant Treasury advice can be accessed at http://www.hm-treasury.gov.uk/documents/public_private_partnerships/ppp_index.cfm.
41. The Gershon Review, Releasing resources to the frontline: Independent Review of Public Sector Efficiency (2004) can be found on Treasury's website at http://www.hm-treasury.gov.uk/spending_review/spend_sr04/associated_documents/spending_sr04_efficiency.cfm
42. Local authorities can also direct enquiries to members of the housing PFI team. Contact details for members of the team are as follows:

Sheldon Ferguson 020 7944 8117
Sheldon.Ferguson@odpm.gsi.gov.uk

Theresa Donohue 020 7944 6452
Theresa.donohue@odpm.gsi.gov.uk

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

Timothy Coburn 020 7944 8110
Timothy.Coburn@odpm.gsi.gov.uk

Application for provisional ODPM support for Housing PFI projects

HRA Cover Sheet	
NAME OF LOCAL AUTHORITY:	NAME OF GOVERNMENT OFFICE:
SCHEME TITLE:	
CONTACT NAME AND ADDRESS: Telephone: Fax: E-mail:	
SHORT DESCRIPTION OF THE SCHEME	
TOTAL NUMBER OF PFI SUPPORTED UNITS OWNED BY THE COUNCIL Before Development Non-Decent (ND): NDs To Be Demolished: After Development Made Decent through refurbishment: Made Decent through reprovision: Net New Build:	TOTAL NUMBER OF FACILITATED UNITS AFTER DEVELOPMENT (see paragraph 14) For leaseholders: For shared ownership: For social rent: For private sale: Please ensure these units are not included in the model calculations.
TOTAL NUMBER OF UNITS Before development: After development:	HAVE SITES BEEN IDENTIFIED? Y/N If so, how many units can be built on those sites? for reprovision: and for additional new social rent
ESTIMATED PFI CREDITS REQUIRED:	WHAT IS THE PROPOSED COUNCIL CONTRIBUTION TO THE PROJECT:
PLEASE LIST PFI CREDITS BEING SOUGHT OR CONFIRMED FROM ANY OTHER PFI SECTOR AS PART OF THIS PROJECT:	

Application for provisional ODPM support for Housing PFI projects

Non-HRA Cover Sheet	
NAME OF LOCAL AUTHORITY:	NAME OF GOVERNMENT OFFICE:
SCHEME TITLE:	
CONTACT NAME AND ADDRESS: Telephone: Fax: E-mail:	
SHORT DESCRIPTION OF THE SCHEME	
TOTAL NUMBER OF PFI SUPPORTED UNITS Before development: After development:	HAVE SITES BEEN IDENTIFIED? Y/N If so, how many units for social rent can be built on those sites?:
TOTAL NUMBER OF FACILITATED UNITS AFTER DEVELOPMENT (see paragraph 14): For shared ownership: For social rent: For private sale: Please ensure these units are not included in the model calculations.	
ESTIMATED PFI CREDITS REQUIRED:	WHAT IS THE PROPOSED COUNCIL CONTRIBUTION TO THE PROJECT:
PLEASE LIST PFI CREDITS BEING SOUGHT OR CONFIRMED FROM ANY OTHER PFI SECTOR AS PART OF THIS PROJECT:	

ANNEX A

Prioritisation criteria for HRA & Non-HRA housing PFI schemes

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

Value for money: Scheme finances will need to demonstrate equal or better value for money than the other main investment options. If the scheme includes joined up elements as well as housing, overall value for money will need to be demonstrated and details of other sources of income required to fund the scheme, including PFI credits from the relevant Government Department should also be provided.

Demand: Authorities will need to demonstrate continuing high demand for the refurbished/new properties over the length of the PFI contract in the context of the local or sub-regional housing market.

Policy Objectives – HRA: Authorities will need to demonstrate how the project will contribute towards achieving the Decent Homes target.

Policy Objectives – Additional Social Rented Housing: Authorities will need to demonstrate how the project will help to tackle homelessness and fit into regional housing priorities.

Strategic context: Schemes should be integrated within the authority's overall housing or homelessness strategy and should represent an investment priority for the authority. Where appropriate, the Office will also take account of the extent to which schemes are embedded within a wider regeneration strategy for the area and are linked to complementary initiatives. Authorities will also need to demonstrate how the project will contribute towards wider government priorities and initiatives, such as: tackling homelessness; combating social exclusion and helping to create sustainable communities; where there is a local need providing additional or larger units of social housing to combat overcrowding or a large number of homeless families living in temporary accommodation and the short fall in additional social rented housing; solving recruitment and retention problems in public services through the provision of key worker housing in areas of high demand; helping to revitalise areas suffering from low housing demand where the project may complement housing market renewal investment; and, fostering innovation and cost-effectiveness in construction methods and promoting energy efficiency.

Tenant participation (HRA Only): Authorities will need to demonstrate that they have considered the implications of the scheme for tenants and that they have a sound strategy for consulting tenants on the proposals. The Office will take account of the extent to which tenants have already been actively involved in decision-making for the area as part of the Option Appraisal process.

Efficiency: The Office will look favourably upon schemes that promote the use of innovative and cost-effective solutions both in meeting their objectives and during the

procurement process. ODPM is working on a number of ways in which efficiency in social housing procurement can be increased to deliver more resources to the front line. Efficiencies may not only result in cost savings but also in increased quality. Value for money is more likely to be secured if the PFI work is procured in such a way as to maximise efficiency.

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

Marketability: Authorities will need to demonstrate that there is commercial interest in the project from the private sector.

Project management: Authorities will need to demonstrate that they have a good record of programme delivery, a good grasp of the project management skills and understanding of the resources required to deliver a PFI scheme.

Design Quality: Authorities will need to take account of published guidance on design quality (some of these are referenced in paragraph 4.4 of Annex B) and revenue support depends on projects meeting this criteria. They should also promote the use of innovative and sustainable construction solutions in line with the principles set out in “Rethinking Construction”, which can be accessed at <http://www.dti.gov.uk/construction/rethink/report/>.

This should make use of Design Quality Indicators, Scheme Development Standards and set out how they expect to ensure that contractors maximise efficiencies in both the procurement of their capital programmes and in managing the housing. Authorities should set out what their expectations of contractors will be and how they might measure efficiencies that are achieved.

Authorities should set out the main aspects of how they expect to achieve such a result, and include reference to guidance documents they have taken into consideration.

ANNEX B

Criteria to be applied by all Government Departments

Administrative Arrangements for Central Government Support

- (1) **First Approach.** To reduce the risk of abortive work, authorities are recommended to discuss their proposals with the 4ps and the department concerned at an early stage. They should obtain an early indication of the realism of a project, which may involve soft market testing, and an assessment of the prospects for funding. The procedures for applying for central government support vary between departments. Some hold annual bidding rounds inviting Expressions of Interest, whilst others will assess proposals submitted at any time. Local authorities should check on the procedures at an early stage. However received, departments will prioritise proposals and inform local authorities whether they should develop them into an Outline Business Case (OBC). Sponsoring departments will benchmark capital cost estimates against other similar projects and query the costs if they are out of line. Authorities are advised to do the same and should describe any benchmarking exercises they have undertaken. Authorities should appreciate that no commitment on revenue support can ever be given until a scheme has been formally approved by Ministers and endorsed by the PRG.
- (2) **Outline Business Case.** Departments will make an appraisal of whether the project meets their policy criteria and that the OBC also properly covers all other criteria. On the basis of that, they will decide whether to submit the project to the inter-departmental Project Review Group (PRG), seeking its endorsement that the case is sufficiently developed for the project to proceed to procurement (but see paragraph 7). Departments may differ in the level of detail they require and the extent to which they wish to see documentary evidence to support the statements in the OBC, and these requirements should be ascertained early on. However, OBCs should be as concise as possible. Authorities are advised to take account of the advice in the 4ps publication *The Outline Business Case*.
- (3) **Criteria Checklist.** The OBC should always include as an Appendix a checklist indicating the paragraph numbers in the main documentation where information on each of the Qualifying Criteria and any sector specific criteria is to be found. This will help authorities to ensure that all points have been covered and assist departments and the PRG when processing applications.
- (4) **Timetable.** A timetable should be prepared covering all stages from submission of the initial proposal to start of service provision. In particular a realistic deadline should be proposed to reach contract financial close. This should be consistent with the model procurement timetables in 4ps procurement packs (where those are available). The stages of the procurement process should be kept to a minimum consistent with achieving value for money.
- (5) **Standard letters.** Various letters will be issued to local authorities by Departments sponsoring PFI projects. Some of these may relate to specific issues. However, a number are common and so standard formats have been developed. These provide a framework,

and in some circumstances options, but each letter will be tailored to meet the specific needs of each project.

- (6) **Endorsement letter.** If the project is endorsed by PRG, the sponsoring department (or major department in the case of a jointly sponsored project) will send an endorsement letter. Such a letter must always be sent and will include standard and specific conditions. One of these will be a target date for the project to reach financial close which has been agreed between the local authority and department. Intermediate targets may also be set out. The project will be subject to review should that target date be missed. Any subsequent action will be a matter for the sponsoring department. Under normal circumstances and providing there are no issues which need to be clarified, an authority should receive such a letter within two weeks of the PRG meeting at which the project was endorsed.
- (7) **Promissory note.** This type of letter does not need to be sent if the authority does not require it, but is often requested to provide assurances to lenders. It will be used where the contract values have started to be firmed up and the level of PFI Credit required can be based on actual tendered costs. This is likely to be after the appointment of the preferred bidder.
- (8) **PFI credit letter.** A formal PFI credit letter must always be sent issuing the PFI credits when the project reaches financial close. The letter must define the “start date” for PFI grant for the project. If the PFI credits are ‘phased’ that must also be recorded.
- (9) **Final Business Case.** Before finally issuing a PFI credit letter a sponsoring central Government department will request a FBC to provide reassurance that the final project continues to meet requirements (and written confirmation that financial close has been reached). The aim of the FBC is to provide re-assurance that the project continues to support the aims and outputs approved at OBC and that it continues to provide value for money. If some of that material has not changed from OBC there are two options: to repeat the material, but to highlight in the FBC what has not changed; or to refer back to the OBC and only include new material in the FBC. Both have advantages and an authority should consult with the sponsoring department in advance on which is preferred. As with the OBC, authorities are advised to take account of the advice in the 4ps publication *The Final Business Case*.
- (10) **NHS Local Improvement Finance Trust (LIFT) projects.** Procedures for applying for support when taking out a leaseplus agreement with a LIFT Company vary in a number of ways. They do not need to be endorsed by PRG and some of the qualifying criteria vary. A separate note on this is available from the ODPM at www.local.odpm.gov.uk/pfi/nhscredit.pdf.
- (11) **Building Schools for the Future (BSF) projects.** Procedures for applying for support under BSF also vary in a number of ways, and authorities should discuss the differences with the Department for Education and Skills (DfES). Unlike LIFT projects endorsement by PRG is still needed.

QUALIFYING CRITERIA

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

(1) ACCOUNTING TREATMENT

(1.1) Use of Financial Reporting Standard (FRS) 5. A project must be considered a PFI contract under standard accounting requirements. FRS5 provides the basis for determining whether projects should be accounted for as a PFI contract or as akin to a lease – when Statement of Standard Accounting Practice (SSAP) 21 should be applied. The determination is based on whether or not there is an associated service element which is not independent of payments for the property.

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

(2) CONTRACT

(2.1) PFI contract. A project contract must be based on accepted standardised contract documentation. With the exception only of projects noted in 2.2 below, this will be *Standardisation of PFI Contracts (SoPC)*, as well as recognised sector specific guidance, including Building Schools for the Future contracts and 4ps procurement packs. The version used, and possible agreement to any deviations, should comply with the instructions issued by HM Treasury.

(2.2) NHS LIFT. PFI support can also be given in respect of capital costs incurred under the alternative standard contract documentation used for NHS LIFT projects. A separate note on applying for PFI credits in this area is available from the ODPM at www.local.odpm.gov.uk/pfi/nhscredit.pdf.

(2.3) Payment mechanism. As a result of following the standard contracts noted above, eligible projects will be structured so that the transaction includes payment of fees at annual or more frequent intervals. These fees will not be paid until services start, and the level of payment will at least partly be determined by performance standards or usage.

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

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

(3) OPTIONS APPRAISAL

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

(3.2) Procurement options. Value for money must also be shown in relation to the best procurement option. This should be done using the Treasury standardised vfm assessment procedure. This includes both qualitative and quantitative elements, which should both contribute to informing a wider judgement. Local authorities need to complete a Stage 2 – project specific – assessment, which will build on the Stage 1 assessment produced by the relevant sponsoring department. They should comment on any areas where their assessment differs from the general programme assumptions. Any supporting material such as comparison with similar projects would also be useful.

(4) OUTPUTS

(4.1) Output specification. The OBC should include a first draft of an Output Specification which should be set out as a clear definition of the objectives and outputs needed, with the standards required. This is a key characteristic of PFI contracts and allows for innovation and efficiency on the part of the private sector. An illustrative solution will generally be needed in order to undertake the necessary financial analysis, but it should be clear that this does not constrain the final solution.

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

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

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

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

(5) DELIVERABILITY

- (5.1) Sponsorship and support.** Projects must have support from all key sponsors (such as Councillors and Senior Officers) and other stakeholders such as School Governors. A project owner or 'local champion' who will be sufficiently well placed to promote and pilot the project and drive it to successful implementation should be identified. Typically this would be the Director for the relevant service area or the executive member who has the authority to negotiate and ensure that the project is completed.
- (5.2) Affordability.** Projects must be affordable to the local authority and the impact on budgets of the part of the projected service payments which the authority will have to meet itself must be accepted by members, senior management and budget holders. Any affordability tests should include sensitivity analysis on factors likely to change.
- (5.3) Commercial interest.** A project must be able to show evidence of commercial interest, based either on the authority's own soft market testing or on the experience of other authorities.
- (5.4) Project team.** A project manager and properly resourced project team with project management experience and the necessary range of skills and experience needs to be demonstrated. A project manager will normally be expected to be involved in the preparation of the outline business case. A project will also need to demonstrate that suitable arrangements, funding and means of demonstrating value for money are in place external advisers. These are likely to need to cover legal, insurance, financial and technical matters. The project will be expected to be accessible to the involvement of the 4ps and departments.
- (5.5) Statutory processes.** The impact of statutory processes such as planning permission, public enquiry etc. on the project must have been considered, and an authority will need to indicate how any potential problems will be resolved in the procurement process.
- (5.6) Sharing of Information.** The local authority must confirm that they will be ready to share experience and final contract documentation, at no cost, with other local authorities procuring similar projects, with Government departments and with the 4ps. Any information of genuine commercial sensitivity may be withheld – but such material is normally expected to be minimal. Authorities should make clear to potential contractors that this information-sharing requirement is a formal condition imposed by the Government as a condition of support.

ANNEX C

Examples of Schemes

HRA PFI Schemes

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

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

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

London Borough of Lambeth 3rd round scheme will redevelop a 1970s estate comprising 494 properties, low to medium deck block groupings of flats featuring ground floor/underground garages and central stairwells. 305 units will be demolished and rebuilt, 136 will be refurbished and 182 new homes will be built. Much of the design problems have helped exacerbate crime levels affecting the estate, this is mainly drug related, graffiti and vandalism. The proposal is a mixture of demolition, refurbishment, remodelling and new build to help revitalise the area into a sustainable community. This would include the demolition of the stairwells and the conversion of ground floor/underground garages into maisonettes.

London Borough of Lewisham 4th round scheme will involve the refurbishment and management of 1857 street properties and those on adjoining Sydenham Hill and Dorrell estates. This scheme will facilitate the development of surplus land to provide units for private and affordable housing at Sydenham Hill to diversify the tenure of the estate.

Non-HRA PFI Schemes

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

Derby City Council's 3rd Round Scheme will provide a minimum of 175 homes for social renting (125 new build on sites negotiated under section 106 agreements and a further 50 acquired from the non-decent/derelict private sector for refurbishment). This will meet the increased demand for social housing in the area. The scheme is an extension of the signed PFI scheme across the city.

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

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

Warrington Borough Council's project involves the redevelopment and regeneration of part of the Blackbrook Estate. 261 existing units in Anson and Blenheim Close will be demolished and replaced with a mixed development of social rented accommodation and homes for sale. 105 new houses will be built on the existing site for social housing and 87 for sale. In addition the Authority wishes to increase social rented accommodation through 40 to 50 homes to be provided on alternative sites within the borough. This contract was signed in September 2004.

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

Medway Council 4th round scheme will provide 30 units of sheltered Extra Care housing from a facility at Shaws Wood Care Court in Strood. The procurement of this scheme will be a pilot for streamlining the delivery of small housing PFI schemes through a Local Improvement Finance Trust (LIFT) Company.