Warrington Borough Council
Non HRA Housing PFI Scheme

Project Information Briefing

local government's project delivery specialist

Acknowledgements
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Section One

Background



1.1 The estate

Warrington Borough Council's (the council), Anson and Blenheim Estate, originally comprised 261 council houses on Anson Close and Blenheim Close in Warrington. The estate is located in one of the UK's top 20% most deprived wards nationally according to the Office of the Deputy Prime Minister (ODPM) statistics in 2004, but has been improving through tenure diversification and extensive investment over recent years. The Anson Close and Blenheim Close areas of the estate however have remained deprived due to:

- The high levels of anti-social behaviour.
- A low level of demand for the majority of properties combined with high levels of abandonment.
- 46% of the properties not meeting the ODPM 2010 'Decent Homes' standard.
- Streets not secured by design, resulting in high crime and nuisance.
- Limited car parking and green landscaping.

The properties on Anson and Blenheim Close when surveyed in 2000 by the council and were found to contain considerable quantities of asbestos which had to be removed in order to comply with legislative changes contained in the Asbestos Licensing (Amendment Regulations) 1998.

1.2 Options considered

To address the above issues, in 2000 the council conducted an Option Appraisal. The options identified were:

- Do nothing.
- Do nothing but encapsulate the asbestos.
- Demolish the entire estate and re-provide new homes.
- Retain the properties, remove the asbestos and refurbish.
- Develop a mix of new build and refurbishment.

Despite the reluctance by some residents to abandon the estate, the local Estates Management Board (EMB) recommended the estate be demolished and new homes be built.

1.3 Why PFI?

The council was proposing to manage all its social housing stock though an Arms Length Management Organisation (ALMO) but at the time decided not to proceed (but was later under ODPM round 3 bidding to set up an ALMO). As part of its strategic review it was decided only PFI provided sufficient funding to provide the investment to increase the amount of affordable homes needed by the Anson and Blenheim estates.

Other options had been explored but were rejected. These included:

- Stock Transfer.
- The selling land on the estate to a private house builder to create affordable homes through s106 contributions. The sales proceeds however only covered the costs of demolishing the council homes and s106 would only yield 30 or so additional rented homes, well below the councils needs.
- Bids to the Housing Corporation (HC) for Social Housing Grant (SHG) to fund further affordable social homes were not deemed likely to succeed.
- The HRA account which could not afford to regenerate the estate.

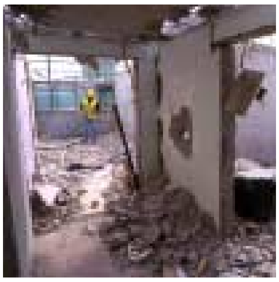
The council felt Non-HRA housing PFI new build was likely to be much simpler than the HRA PFI refurbishment due to the cost risks in stock condition surveys, and it believed that a successful deal could be concluded within 2 years. The main reason for this assumption was that the general structure of the project was not very different from traditional SHG funded Registered Social Landlord (RSL) developments which were well established. In additional other benefits were:

- Tenants would be tenants of the PFI Partner rather than the local authority.
- The majority of the financing would be provided through tenant rents (i.e. 3rd parties) rather than through direct public subsidy.

The council concluded that the PFI procurement approach provided the best opportunity of creating an integrated, sustainable estate, that balanced the needs of future tenants, but also maximised any commercial opportunities.

Section Two

Scope of the project

2.1 Objectives

The main objectives of the project were:

- The replacement of the 261 existing properties on the Anson & Blenheim site with quality homes in which the people of Warrington wanted to live.
- The provision of a sustainable, balanced community with a mixture of homes for rent and private sale.
- The achievement of the ODPM 2010 'Decent Homes' targets.

The original council aspiration was for a mixed estate comprising 75% rented homes and 25% private homes for sale. Following market consultation this was reduced to approximately 50% rented and 50% private homes in order to provide a more sustainable and manageable estate. The PFI credit allocated was sufficient to support in the end, 192 new social dwellings on the Anson & Blenheim site at a total cost of £20million: 105 PFI dwellings (£11million), 87 private dwellings (£9million).

2.2 What to include in the project?

The council considered the pros and cons of including demolition and tenant relocation within the PFI contract to support the above provision of homes. The advantages and disadvantages of demolition and tenant relocation were:

The Advantages

- The PFI partner would take the risk for cost overruns.
- The PFI partner would be able to co-ordinate the relocation of tenants, demolition and the subsequent re-building programme.

The Disadvantages

- A high commercial risk premium being attached to relocating unwilling tenants by contractors, the difficulty of assessing compensation and potential Compulsory Purchase Orders (CPOs).
- Increased security costs of protecting empty properties over a prolonged period.
- Potential asbestos and fire damage risk to the properties that are empty.
- Bidder's undervaluing the land due to cautious assumptions over demolition costs.
- A weak negotiating position potentially as the council could be under severe pressure to sign a PFI deal early so that demolition can commence.

The council decided to clear the Anson & Blenheim site, based on the advantages above.

2.3 Site and development opportunities

Warrington has traditionally used the s106 planning gain to provide approximately 15% of its affordable homes. Changes to Regional Planning Guidance (RPG) in 2003 gave Warrington a low growth option, restricting it to build only 38 new social properties per annum, which was insufficient to meet demand. This put pressure on the need for an alternative vehicle to deliver new properties. PFI procurement with some s106 gain became the preferred choice.

2.4 Project brief

The council affordability envelope was disclosed in advance to bidders at Invitation to Negotiate (ITN) who were required to submit proposals within the financial parameters. Bidders had flexibility to determine the design of the estate and the number of private and social houses. The output specification was made as brief as possible with the only constraints imposed being:

- HC development standards were to be met.
- Lifetime Homes (as recommended by the Joseph Rowntree Foundation) were to be provided.
- Council planning policies and the Unitary Development Plan had to be complied with.
- The proportion of 4 person, 5 person and 6 person homes would be stipulated.
- A robust development timetable was to be developed.

2.5 Nominations

The council was able to nominate tenants to each dwelling though, in order to comply with the RSL PFI Partners Articles of Association, this meant offering a choice of tenants for each dwelling from which the operator could choose the final tenant. If the council was unable to provide a nomination within the required timescale then the partner could put in place a tenant from its own waiting list in the dwelling. Should this not prove possible then the property could be let on a commercial basis. (The council still pays the Unitary Charge but any rent received over and above social housing rents is split 50:50 between the partner and the council).

Section Three

Procurement



3.1 Marketing

Soft Market Testing at an early stage (April 2002) revealed that construction companies and RSLs believed that the project (and the estate in particular) had development potential but there was scepticism about the costs and potential delays involved in developing the project through PFI.

The council devoted considerable effort via a bidder open day in September 2002 to demonstrate that:

- The project was a top priority and had full cross party council support.
- The project was potentially much simpler than previous Non HRA/HRA housing PFI projects.
- A fully resourced team had been put together to deliver this project to a tight but realistic timetable.

3.2 The PFI team

The project team comprised:

Task	Responsibilities
Authority In-House	
Project Manager	• Co-ordination of council departments; management of external advisors and the liaison and negotiation with bidders. • The management of the procurement programme. • Preparation of bid documentation; e.g. Pre-Qualification Questionnaire (PQQ) and ITN.
Housing Department Representatives	• Determining the outputs required in terms of homes required and service delivery proposals. • The management of the tenant relocation programme. • Bid evaluation.
Finance Department Representatives	• Review of the finances of the Outline Business Case (OBC). • The financial appraisal of the bidders' funding proposals. • Optimisation of the bidder's financial models.
Legal Department Representative	• Appointment the legal advisers. • Review of bid documentation. • Dealing with title issues and contracts.

Planning Department Representative	• Contact point for bidders to discuss initial ideas. • Ensure the compliance with Council Unitary Development Plan. • Deliver outline (full planning). • Evaluation of development proposals.
Highways Department Representative	• Ensure proposed roads comply with council standards.
External Advisors	
Consultant	• Strategic advice over the general structure of the project, in particular the Output Specification and Payment Mechanism. • Bid evaluation.
Technical	• Management of all housing demolitions. • Advice on construction costs at OBC stage. • Technical appraisal of bids received.
Solicitors	• Advice on all contract documentation associated with the project. • Contract negotiation.
Insurance	• Insurances.

The team reported on a bi-monthly basis to a Project Board headed by the Council Strategic Director of Corporate Resources and the Director of Housing.

3.3 Procurement timetable

The timetable from OJEU to Financial Close was 19 months.

3.4 The shortlist (PQQ/ITN)

Following the issue of the PQQ (August 2002), 6 responses were received: 4 from consortia led by RSLs and 2 led by commercial developers in Special Purpose Vehicle (SPV) structures. Two of the RSLs proposed to use existing loan facilities raised on Balance Sheet to fund the project while the remainder proposed to use project-specific bank finance.

At ITN the 4 consortia led by RSLs were chosen for short-listing since these organisations provided a high degree of confidence that the future needs of tenants would be at the forefront of their development proposals. All the short-listed bidders included within their consortium a major construction company that would be responsible for building the houses and taking the risk for the construction elements within their bids.

3.5 Evaluation

The 4 short-listed bid proposals varied: not only in respect of the design solutions for individual dwellings; but also in respect of the estate itself. The proposals ranged from high-density solutions delivering maximum cross-subsidy to low-density, more traditional solutions that took advantage of economies in respect of managing existing stock in the locality. The differing approaches and proposed outputs meant that evaluation proved more complex than a traditional price/quality model. The evaluation of the bids centred on:

- The number of social homes to be provided.
- The RSLs service proposals and its existing performance.
- The HC Quality Indicator (HCQI) score (bidders were required to complete the Housing Corporation's model which was then subject to audit by the council's planning department).
- The availability of funding and price.
- The commentary on the draft contract issued within the ITN.

3.6 BAFO

The 2 RSL organisations at ITN proposing to use existing finance facilities had a competitive edge, due to lower bid costs resulting from the ability to raise finance more cheaply against their balance sheets, and being RSLs and hence exempt from corporation tax. These bidders had a significant price advantage over those bids proposing project specific finance and an SPV structure. This proved important in ranking these bids first and second, although neither proposal addressed fully all the submission requirements set out in the ITN. Therefore, these bidders were asked to elaborate further on different aspects within their submission at this stage. In particular, the council sought assurances that the bidders fully understood the risks they were taking on board and that key commercial contract points would not be re-opened when chosen as Preferred Partner.

Arena Housing Association Limited (Arena) was appointed as Preferred Partner in August 2003. Arena employed Cruden Construction Ltd as its build partner, Arena FM as FM provider, and raised all the finance from internal resources and reserves. Arena is a north-west based housing association managing over 12,000 homes for around 30,000 people, predominantly in Chester, Halton, Sefton, St. Helens, Warrington, Wigan, Wirral and Vale Royal and Liverpool.

Section Four
Commercial issues

4.1 Financial

The new Anson & Blenheim development comprises 192 dwellings at a total cost of £20million: 105 PFI dwellings (£11million), 87 private dwellings (£9million). These costs were funded by pfi credits, tennant rents and s106 funds.

At the onset of procurement the Anson & Blenheim site had an estimated £nil value because the site clearance and tenant relocation costs were roughly equivalent to the value of the cleared site in the open market. Each bidder was asked to factor site clearance and tenant relocation costs into its bid by way of a site premium, payable on completion of respective phases of PFI and private dwellings.

All of the bidders at ITN provided details in respect of the cross subsidy from private sales, both in terms of the contribution to total development costs, and the corresponding reduction in the Unitary Charge (UC). This was fixed at the appointment of Preferred Bidder though there is a mechanism to share in excess profits as described in 5.3 below.

4.2 Residual Value (RV) risk

All of the bidders at ITN were required to submit 2 proposals: one on the basis that the assets remained with them at the end of the PFI contract period, the other on the basis that the assets reverted back to the council.

Assets remaining with the bidder resulted in a reduction of the Unitary Charge bids of between 8% and 30%. This was clearly a significant factor and transferred the RV risk to the PFI partner. However, other factors which support RV are:

- It incentives the PFI partner to maintain the asset over the contract period.
- It makes the case for excluding the assets from the council's balance sheet stronger as it assists in risk transfer under FRS5.

Once the PFI contract term expires the council is entitled to one further nomination per PFI dwelling. This means that the council will have control over nominations for between 35 and 45 years.

The Anson & Blenheim site was transferred to the partner on a freehold basis. The RSLs Articles of Association provided comfort that the dwellings would continue to be used for affordable housing when the PFI contract term expired.

4.3 Funding

Construction finance was raised by Arena Housing against its existing non-securitised housing stock and therefore there was no involvement from a project funder in the negotiations.

An internal rate of return is charged to the project that factors in the stock's residual value at the end of the Project Term. This was guaranteed at the ITN stage and hence remained unchanged until financial close.

Arena Housing has the option subsequently to secure funding against the completed dwellings, subject to the council's approval. This could apply to larger projects where it would not be feasible to secure all the houses against existing stock. The development could be split into phases with project finance raised at the end of each completed phase when it will be easier to evaluate risks and potentially reduce interest charges.

4.4 Service standards

Housing Corporation (HC) service standards and targets were used in the Output Specifications. Some of these included:

- The time taken to complete repairs (at least 95% to be within HC upper-quartile targets before penalties apply).
- The time taken to complete new tenancies (target 25 days).
- Help facilities (penalties apply when availability falls below 98%).
- Completion of tenant satisfaction surveys (to be completed at least every 3 years).

Services such as rent collection were excluded from the payment mechanism since the RSL would already be penalised through lost rental income.

The results of tenant satisfaction surveys were also excluded because of the difficulties in assessing the commercial risk attached to such a subjective measure. However, regular surveys are a requirement of the contract and the PFI Partner will be in default if no measures are put in place to address low service scores.

4.5 Payment mechanism

Payments in respect of performance and availability are calculated for each individual PFI dwelling. No UC (or a proportion) is payable by the council if the building/rooms are unavailable.

Houses are deemed unavailable for use if one or more rooms do not meet basic performance standards for example, heating being unavailable. The PFI Partner is allowed reasonable rectification periods in respect of building damage, plus an ability to introduce temporary fixed measures until major repairs can be implemented.

Performance targets are as similar as possible to those of a core RSL business so that any risk premium is kept to a minimum. HC upper quartile performance percentage targets at the time of signing the PFI contract formed the basic measure. There is a sliding scale of penalties for non-performance within each category accounting for up to 50% of the total UC payable in respect of each house.

4.6 Procurement costs

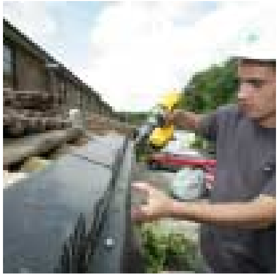
The total cost of external advice exceeded the original budget due to the following:

- Considerable new legal drafting was required because of the innovative financing structure.
- A significant number of derogations were sought against existing Standardisation of PFI Contracts (SOPC) guidance.
- With the increase in house prices over the period overage became a much more significant issue and required careful consideration.

It is important to note that subsequent to the signing of the Warrington PFI the ODPM and 4ps have issued a standard contract and Housing Procurement Pack to be followed for all housing PFI.

Section Five

Closing the deal

5.1 Negotiations

Generally there were few changes to the ITN proposals accepted at the appointment of Preferred Partner. The Output Specification, Payment Mechanism and UC remained essentially unchanged reflecting the fact that the Preferred Partner was comfortable with the proposed deal and that the targets were mostly an extension of its existing business.

Inevitably the negotiations became more of a partnership during this phase of procurement and it became much simpler dealing with one party rather than the four bidders short-listed at ITN. However there were some specific issue:

- SOPC3 derogations and overage RV legal issues.
- There was a conflict for the council in meeting the ODPM timetable to sign quickly yet at the same time not accommodate various requests from the Preferred Partner that would have reduced Value for Money (VFM).
- Sites and land remediation issues delaying Financial Close.

5.2 Land issues

Due to the complex history of the Anson & Blenheim site land registration took several months and was not completed until the Preferred Partner had been appointed. This revealed several anomalies including:

- Dealing with restrictive covenants imposed upon plots previously acquired under Right to Buy.
- A small area of land was not owned by the council and needed to be acquired without incurring a high fee.

It would have been more straightforward if the above issues had been resolved earlier on in the procurement process, and outline planning should occur at OBC.

Road Closure Orders were obtained in advance for all roads and paths contained within the site. However, during final negotiations it became apparent that two further footpaths adjacent to the site would also need to be stopped. The orders were not made until post financial close but considerable time was spent determining the fallback position should the orders not be confirmed.

5.3 Overage

All of the bidders at ITN were required to include within their financial models the cross subsidy obtained through private sales on the site. A target sum was stipulated within each bid above which 50% of the excess proceeds would go to the council. As house prices increased during negotiations, overage became more significant, and mechanisms needed to be developed to establish under what circumstances the target sum could not be increased.

5.4 Land remediation

The council conducted a preliminary site investigation of the Anson & Blenheim site prior to PFI procurement; a full survey was not practicable prior to the demolition of the houses. On the basis of the preliminary investigation bidders were instructed to include various provisional sums within their bids for land remediation.

Following selection, the Preferred Partner then conducted its own site investigation and put forward its remediation plan and resultant amendments to the provisional sums. This proved uncontentious until put forward to the council's Environmental Protection Unit for final discharge of the remaining planning condition. The proposal was refused because it did not sufficiently address traces of hydrocarbons and asbestos contained within samples taken from the site, but was later resolved.

5.5 Approvals

The above delay meant that the project was now subject to compliance with the Treasury's SoPC3, and therefore the Project Agreement would need to be resubmitted for approval by the ODPM and the Treasury. The additional delay also provided an excuse to the Preferred Partner to re-open some old contract issues (agreed in haste during negotiation in order to meet the March 2004 Financial Close deadline). A revised remediation plan was agreed in June 2004 and the revised contract approved by ODPM and the Treasury in August 2004. This was then sent to the Housing Corporation and the Inland Revenue for approval.

5.6 Stamp duty

Stamp Duty was not applicable in respect of the rented accommodation but during final negotiations it became clear that the deal had not been structured in a way to minimise Stamp Duty payable on the private houses being built. At worst, Stamp Duty is potentially payable three times in respect of the land utilised for private sale: firstly, on transfer of the land to the RSL prior to development, secondly, on the transfer to the construction company; and then finally, in respect of sale of the completed houses to the public. Following advice, the deal was structured so that:

- Stamp Duty was only payable on the latter two transactions.
- The calculation reference for the first liability was based on the pre-development value rather than the post development value.

This structure could only be confirmed once the Inland Revenue had seen the final version of the Project Agreement and provided advice on the basis of the Stamp Duty calculation. Thus, once the revised contract documents had been approved by ODPM in August, there was a further delay of six weeks until financial close.

Section Six
Project agreement



6.1 Project structure

The Preferred Partner (Arena Housing) entered into the Project Agreement with Warrington BC to design, build, finance and operate the scheme. Arena employed a construction company (Cruden) as building contractor and developers to build the social houses and deal with the sale of the private houses. Arena retained the operation and maintenance itself. This differs from the usual PFI structure that often adopts a Special Purpose Vehicle (SPV) to contract with the procuring authority, which then sub-contracts its obligations to organisations to deliver the works and services. This approach provides greater comfort to the council as it contracts directly with an RSL regulated by the Housing Corporation. For its part, Arena considers that a project structured in this way is not significantly different to what they usually do in providing social housing.

The obligations and remedies for non-performance for both the PFI and private dwellings are dealt with in the Project Agreement between the council and Arena. This proved challenging in ensuring the following:

- That the obligations in respect of private dwellings did not conflict with the Preferred Partner's charitable status.
- Stamp duty was minimised (as outlined in 5.6 above).

However, it was a pre-requisite that the contractual obligations would rest with only one party for all aspects of the project. In practice this means that although the Preferred Partner is only directly involved in the social housing provision, it has step-in obligations should the construction company fail in its obligations in respect of the private houses.

6.2 Risk transfer

All building risks were passed back on to construction company thus providing a guaranteed fixed price to the Preferred Partner (Arena Housing). This meant that the house builder was involved in completing the Project Agreement in all aspects that affected the construction phase. However, a thorough knowledge of the commercial issues resulted in better understanding of risks and their allocation i.e. the construction company understood the implications of the construction risks, while Arena understood the longer-term management risks associated with the estate.

The construction company partner of Arena has become so entwined within the overall Project Agreement that it has not proved possible to bring in an alternative construction company for alternative sites. Complete renegotiating of the Development Agreement between Arena and a new construction company would be required.

6.3 Using the standard contract

Existing Treasury SoPC guidance at the time of Preferred Bidder negotiation was not relevant in certain areas, namely:

- No SPV structure existed in the deal.
- Issues relating to the private houses were project specific and therefore not covered by standard guidance.
- Residual Value drafting did not exist.

Termination provisions also proved a major issue. Certain standard provisions such as compensation payable should the contract be re-tendered proved relatively straight forward, whereas others were more problematic. In particular, calculating the basis of compensation in the event of no re-tender by reference to an internal funding structure proved problematic. This was resolved by reference to the bidder's financial model and to the evaluation that the likelihood of items such as Force Majeur applying to each and every house within the development was low.

6.4 Articles of association

The council placed some reliance on the fact that the Housing Corporation and RSLs Articles of Association would afford protection to tenants both during and after the PFI contract term. Therefore, the council was reluctant to see significant changes in those articles that might have affected the tenants of PFI dwellings. A mechanism was developed that enabled the PFI partner to make necessary commercial changes without impacting upon the rights of tenants of PFI dwellings.

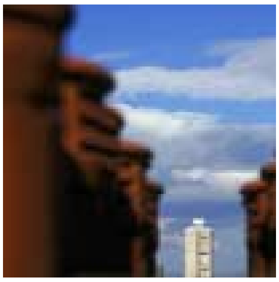
6.5 Land issues

Title risk was raised throughout the legal negotiations. Although it is an established principle within PFI contracts that this should rest with the PFI Operator, this never sat comfortably with the PFI Partner. There was a strong feeling that this should in part be transferred back to the council since it had the detailed knowledge obtained through conducting the land registration and processing the Road Closure Orders.

The fact that the final development plan included an area not originally envisaged and two additional footpaths needed to be stopped post financial close also complicated matters. In particular, alternatives needed to be available to the PFI Partner in the unlikely event that additional Road Closure Orders were not confirmed and this required careful drafting.

Section Seven

Key Lessons



7.1 Critical mass

Procurement costs particularly for those bidders using project specific finance were not significantly less than for much larger projects. This meant that 150 houses provided little scope to spread these costs, nor did it provide a commercial advantage to those bidders using internal finance.

Feedback from bidders has suggested that a project of upwards of 250 houses would have provided more scope to spread their procurement costs and management overheads. This would offer efficiency in pricing their bids.

7.2 Development potential

One of the keys to the success of this project was the fact that although the original estate was run down, the surrounding area had been regenerated and demand for houses was strong.

If there had not been confidence that the private houses would sell and that demand from tenants would be strong for social housing then this project would not have been possible. Therefore, it is clear that such projects need to complement existing regeneration strategies for the immediate area.

7.3 Scope for innovation

Providing the flexibility to build a fully integrated estate provided the opportunity for bidders to address both the needs of tenants and maximise the commercial opportunities available to them through homes for sale. This resulted in four very different bids with some very impressive development solutions. Particular benefits in the bids included:

- A potential to optimise land use in line with current planning guidance.
- The means to best integrate private and social housing.
- Maximum cross-subsidy made available to the affordable homes.

7.4 Draft contract

For this project a fairly generic PFI housing contract was issued with the ITN that did not fully address some of the project specific issues in respect of this project: in particular site issues; overage; residual value; contract termination; liquid market; insurances; and the impact of the private houses for sale. If these had been considered further at the ITN stage then less time would have been spent in the final negotiation period. Although addressing these issues up-front would have incurred costs and delayed issuing the ITN, the overall procurement period may have been reduced. The ODPM and 4ps Housing

Procurement Pack issued in November 2004 now provides a standard contract and housing PFI guidance.

7.5 Land issues

As discussed in Section 5, several issues concerning title, road closures and land remediation surfaced during final negotiations. The time taken to address these issues up-front did pay dividends but more should be done. At Warrington the council's Environmental Protection Unit was not formally part of the project management structure and hence contentious issues were only discovered at a late stage. On a site with known contamination issues this was bound to prove problematic. In this case, it was not possible to balance the needs of Anson & Blenheim estate with competing demands of other workloads, and therefore bringing in an external consultant at an earlier stage may have been a more appropriate solution. Planning needs to commence at OBC and planners need to be part of the project team.

7.6 Resources required for PFI procurement

Even a relatively small PFI project such as this requires considerable resource input and co-ordination of a wide range of council departments. Councils need to carefully weigh up the pros and cons of using internal and external advice. In the case of Warrington it was felt that an internal project manager would be best placed to manage the procurement programme and co-ordinate the various council officers. An external project manager would not necessarily be in the best position to bring together the areas of knowledge and expertise already available within the council. In particular external managers may not fully understand:

- Issues concerning tenants and their relocation.
- Heath & safety issues concerning the removal of asbestos and subsequent demolition of properties.
- The council's planning processes and guidelines.

The financial modelling in respect of this project was relatively straightforward and was provided in-house. The council did not believe that complex corporate financing models applicable to some other PFI contracts were applicable in this case.

At the onset of procurement there was very limited supply of consultants who had direct experience with this type of project, i.e. housing PFI where residents would be tenants of the Preferred Partner and that the majority of funding would be via rents rather than direct public subsidy (the Unitary Charge). Several potential consultants advocated replicating a standard PFI approach, which the council did not believe would work for this project. The council was fortunate in that the housing consultant employed had been directly involved in similar projects at Berwick and Selby and the underlying principles behind the output specification and payment mechanism were taken directly from those projects.

Property and conveyancing issues were dealt with in-house while external legal consultants were employed to deal with the PFI contract documentation and final negotiations with bidders. This approach appears to have made best use of resources and expertise while at the same time also providing the best value for money. However, fees to advisors (lawyers) did overun budget and it is important to tightly manage advisors and their costs to get VFM.

Section Eight
Conclusion



The successful Warrington Borough Council 'Anson & Blenheim' Non HRA Housing PFI project has demonstrated that it is possible for a housing project to be signed within a PFI timescale of two years. Warrington benefited from the lessons learned at Selby and subsequent projects should in turn benefit from the experience of Warrington. In addition the 4ps and ODPM have now provided a Housing Procurement Pack which includes a sector specific Contract, Service Specification, and Payment Mechanism.

Even so, PFI procurement for similar projects will require considerable levels of resources and time from a Local Authority. This is the case with housing perhaps more so than with some other types of PFI project because of the invariably complex nature of the projects:

- Multiple sites that need to be identified at OBC, owned and with outline planning at OBC.
- The need to engage a large number of tenants throughout the process.
- Cost inflation in the construction industry and the need to build affordable, vfm, lifetime homes.
- Identifying sites, purchasing sites, s106, stakeholder consultation and planning is complex and time consuming.
- The need to engage a wide range of local authority services/departments.
- The need to manage and put in place authority teams and budgets to deliver the PFI.

Housing PFI is a developing and attractive market to secure substancial investment in social housing. Authorities interested in learning more about PFI should contact the ODPM PFI Unit or 4ps.

Appendices

Appendix A: Warrington Borough Council Non HRA Housing PFI in Summary

Issues	Warrington BC
Sites to be developed	• One main brown field site owned by the council and disposed of on a freehold basis • One ancillary site as above
Number of Houses	• 105 new build properties for rent • 87 new build properties for sale
Additional Risks	• Relocation of existing tenants • Removal of asbestos • Demolition of properties • Land contamination
Capital Cost	• £20million (£6.7million pfi credits)
Procurement period from OBC	• 2 years
Financial Close	• September 2004
Project Management structure	• Project management was in-house • External consultants brought in for specific areas of expertise
Contract Period	• 30 years
Competition & Market Response at PQQ	• 6 Expressions of Interest received
Competition & Market Response at ITN	• 4 bids received, each incorporating an RSL within the consortium
	• BAFO held
Structure of bidder responses	• RSL's lead but in close partnership with major house-builder
	• All construction risks/obligations were passed on to the house-builder through a sub-development agreement. This reduced the prospects of bringing in different house builders for different sites.
Delivering Outputs	• All significant issues relating to output specifications, the payment mechanism, nomination procedures, and service delivery finalised at ITN stage
External Advisers Costs	• Approximately £250,000 (legal only)
Sticking points at Preferred Partner stage	• Compensation on termination • Title risk • Costs in respect of land remediation • Overage • Road closure orders • Double Stamp duty on private house sales

Residual Value	• Bidders submitted two prices: one retaining the houses & the other with the properties reverting back to the council • Significant reductions in the Unitary Charge resulted if the assets remained with the bidder • Council entitled to one additional nomination per dwelling at the end of the PFI term
End of contract term arrangements	• Nominations tail expected to last a further 15 years after the PFI contract ends • Reliance placed upon RSL's Articles of Association to ensure properties continue to be used as affordable housing post PFI contract
Key Success Factors	• Preferred Partner already active in Warrington with a strong commitment to making this project work • Project fitted in with previous regeneration projects • High demand for houses in Warrington and site(s) had potential so long as the development was right • Strong project sponsorship meant that the council put in resources to ensure procurement progressed as quickly as possible
Problems encountered	• Controlling costs of relocation of tenants and demolition of properties • PFI learning curve for both Preferred Bidder and council • Contamination found on site • Resolving complex land issues in respect of Title and road closure orders • Building cost inflation • Sites, planning etc

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4ps is local government's project delivery specialist. 4ps works in partnership with all local authorities to secure funding and accelerate the development, procurement and implementation of PFI schemes, public private partnerships, complex projects and programmes. 4ps' multidisciplinary team provides hands-on project support, gateway reviews, skills development and best-practice know-how.

£20