

**NCA HOUSING GUIDANCE:
SCOPE AND CONTENT OF FEASIBILITY
STUDIES**

April 2007

1 Introduction

This guidance note is one of a series issued by NCA Housing to assist social landlords (SLs) who wish to form consortia for the procurement of capital and, where appropriate, other works. It should be read in conjunction with the NCA Housing guide *Bidding guidance for support from the Efficiency Challenge Fund*, which gives an overview of the system of grants available from Communities and Local Government (CLG) to support SLs in setting up such consortia.

This note describes the purpose and content of the Feasibility Study which is required as the first step in the process of obtaining grant support, and gives guidance on its preparation and submission. NCA Housing has also produced a template to facilitate the production of the Feasibility Study, setting out in tabular form a number of specific questions to be addressed under the key headings discussed in section 3 below.

From the outset, consortia should engage with the NCA Housing team, who will give further advice and guidance. To provide access to the full range of NCA Housing guidances and networking opportunities, a representative of the consortium is asked to sign a 'Memorandum of Understanding', the text of which is attached as Annex 1

2 Purpose of the feasibility study

The core purpose of the feasibility study is to demonstrate to NCA Housing and to CLG that there are good grounds for awarding Business Planning Grant to support the intending members in taking the consortium through to business planning stage. In particular the organisations involved must show that:

- Their combined stock and the programme of works required provides a significant opportunity for efficiency gains
- They have the understanding, competence and commitment to take the consortium through to the stage of producing a business plan, with a reasonable prospect thereafter of forming a successful consortium.

Working on the feasibility study will also have significant value to the potential consortium partners in that it should help to establish whether:

- They do indeed wish to set up a consortium and work within it to achieve efficiency savings and that they have the potential for doing so, or –
- They do not wish to pursue the arrangement and fully appreciate why they have taken that decision.

3 Contents of the feasibility study

The feasibility study will need to anticipate many of the issues that will be covered in the business plan for the consortium, but only to sufficient depth to give confidence to all concerned for the consortium to move into the business planning process, as discussed in section 2 above.

It should cover the following areas.

3.1 Membership and commitment

Names and contact details are required for all the SLs that have committed to taking forward the proposal for a procurement consortium. This should be expressed in a signed letter or note from the CEO or other appropriate member of the senior management team of each SL involved, declaring the organisation's commitment to take the consortium forward to at least the stage of producing a business plan and to share learning and good practice with NCA Housing and other consortia in the programme. The feasibility study should also:

- Record how the members' management boards were involved in its preparation
- Explain how the balance of the cost of the business plan will be provided and accounted for (the grant covers up to 75% of the eligible cost – section 3.10 below refers).

SLs that have not committed to the consortium but have expressed a clear interest in joining should also be listed.

3.2 Need for a Business Planning Grant

Consortia should explain why, in their view, grant assistance is needed from the Efficiency Challenge Fund (ECF) for a business plan to be produced in a timely manner. If the consortium already exists, there should be a clear rationale and basis for ECF support for its further development and moving into capital works. If an intending member has been involved with another consortium that has received grant from the ECF, this should be recorded and the circumstances explained.

3.3 Accountable body

Grants from the ECF must be paid to an 'Accountable Body' (that is, a 'Grant Recipient'), normally one of the members of the consortium. The SL taking this role must be identified, with written confirmation from the CEO or other appropriate member of the senior management team that the organisation is willing to accept the responsibility. (This is in addition to the declaration of commitment referred to in section 3.1 above.)

Reasons for selecting the SL concerned as Accountable Body should be given, with particular reference to its financial standing and management resources.

When the Accountable Body is an ALMO, it must be supported by a letter of guarantee from its parent local authority.

If the Accountable Body is proposed to be a Company Limited by Guarantee, or other special purpose vehicle, it should be clear either that it has sufficient substance to act in this role or that it will be appropriately underwritten.

3.4 Stock profile

The scope of the capital works programme and the opportunity within it for efficiency gains should be indicated by providing the following information for each member:

- Stock numbers
- Percentage meeting Decent Homes standard
- Approximate expenditure on capital or other works planned to be put through the consortium

- Typical programme of works required – decent homes, planned/cyclical maintenance, external works, etc. If the work is primarily in decent homes, indicate the principal heads of expenditure – kitchens, bathrooms, etc.

If a member manages its stock on an area basis with different needs and priorities, leading to significantly different programmes in each area, information should be outlined for each area separately.

3.5 Consortium arrangements

The study should outline the aims and vision shared by the members of proposed consortium that would drive and sustain its formation and operation. Although detailed consideration of the consortium's governance structure and management arrangements is not expected at feasibility stage, members' thinking to date should be outlined, similarly the consortium's preferred approach to procurement.

Consortia apply for support from the ECF on the explicit understanding that they will share good practice and efficiency data with NCA Housing, for the wider benefit of the sector. The feasibility study should provide assurance of the members' intention to do so.

3.6 Use of consortium procurement arrangements

The feasibility study should estimate the proportion of the combined programme of works potentially available that will actually be undertaken through the consortium. If a significant proportion will not be, the reasons for this should be explained. In all cases consortia should consider and explain how the consortium's procurement arrangements will relate to member's existing framework or other longer-term contract commitments. Opportunities for any synergies should be identified.

3.7 Efficiency gains

Consortia should indicate what efficiency gains, both cashable and non-cashable, they realistically hope to achieve and over what timescale, related back to the capital works programme (ref section 3.4 above). Expectations may be expressed in approximate terms. However, they must be backed by a reasoned explanation of how the gains will be achieved, which for cashable gains should also cover:

- Where in the supply chain the gains are expected to be realised, eg installation or supply, or on the 'client' side
- The procurement methods the consortium expects to employ for this purpose.

As far as possible, cashable gains should be apportioned between members and distinct programmes, including capital works. They may be quoted in terms of either percentages of proposed programmes or cash sums. The gains should be measured against a base line of what might reasonably have been achieved if the consortium had not been in place.

The feasibility study should also identify non-cashable gains that the consortium expects to make and how these will be achieved.

3.8 Preparation of the business plan

Consortia should outline the processes by which the business plan will be prepared, indicating:

- By whom they will be undertaken, whether drawing on resources provided by consortium members or procured externally
- How the external resources required will be procured
- The operational structure and reporting mechanisms that will be adopted, including how the senior management of member SLs will be involved in key decisions
- Target completion date and other key programme milestones – timescales may be approximate but must be realistic.

A budget for compiling the business plan will be required as the basis of an application for Business Planning Grant (ref section 3.10 following).

3.9 Risk

Consortia should identify the principle risks to the success of their operation and indicate how they will be managed. Typically these might include geographical dispersion of stock, differing preferences on specifications and diversity of outlook on procurement. The necessary investment of time, resource and funding can also be a significant challenge.

3.10 Eligible costs, grant application

Business Planning Grant is available to cover 75% of eligible costs actually incurred in the preparation of the business plan, up to the maximum defined by the grant offer. Eligible costs are defined in the Funding Agreement letter signed by the consortium and CLG, but in summary comprise:

- Payments to a consultant accredited for business planning (see NCA Housing Guidance: *Use of accredited consultant framework*)
- The cost of staff recruited for and employed solely on production of a business plan
- The cost of agency personnel employed on the production of the business plan or covering for consortium members' staff seconded to produce the business plan.

It should be noted that the following are not eligible for reimbursement:

- Contributions in kind, being time spent by consortium personnel in preparing the business plan
- Payments of any type made prior to the award of a grant
- Payments required by contractual arrangements which were in place at the time the grant was awarded, unless such payments were contingent upon the award of a grant
- Payments between consortium members for any purpose.

However, VAT that cannot otherwise be recovered by the consortium can be treated as an eligible cost. A reference copy of the funding agreement letter is available from NCA Housing.

The feasibility study should clearly tabulate the estimated eligible costs, as the basis for the grant application. A grant application form is attached as an annex to the funding agreement letter. Grant is paid as a single lump sum upon satisfactory completion of the business planning process and the production to NCA Housing of acceptable evidence of payment of eligible costs.

3.11 Additional notes

Consortia have the opportunity under this heading to include any other information relevant to the proposed consortium.

4 Preparing and submitting the feasibility study

For the convenience of consortia, a template has been prepared for the development and submission of a feasibility study (ref '*Feasibility Study Proforma April 07*' in Excel format).

Successive drafts of the feasibility study should be discussed with the NCA Housing team. Once the scope and content have been agreed, the consortium should formally submit it to NCA Housing for onward transmission to CLG. Upon decision by CLG, any subsequent funding agreement would be entered into directly between the consortium and CLG.

While consortia may wish to appoint appropriately qualified consultants to assist in the preparation of the feasibility study, it should be noted that funding is not available for this stage of the process. Consortia considering using consultants might find it helpful to refer to NCA Housing guide *Use of accredited consultant framework*; although this does not cover feasibility as a specific area for accreditation, it gives an overview of the competencies of the consultants on the framework.

ANNEX 1: Text of Memorandum of Understanding

Proposed procurement consortium comprising: (enter member names)

This letter confirms that NCA Housing recognises the Social Landlords listed above as a member of the CLG (formerly ODPM) initiative to achieve efficiencies in the procurement of capital works by Social Landlords. We look forward to your participation in and support for the NCA Housing initiative.

For its part, NCA Housing will provide the Social Landlords listed above with template documents, guidance, best practice notes and other information that is available as part of the NCA Housing Initiative. This is on the clear understanding that such documents shall be used only for purposes relevant to the NCA Housing Initiative and their related projects and programmes. NCA Housing will also provide the Social Landlords listed above with access to the reserved parts of the NCA Housing web site, which again should only be used for purposes relevant to the NCA Housing Initiative and their related projects and programmes.

NCA Housing facilitates applications for grant funding from the CLG Efficiency Challenge Fund and the mutual exchange of information and best practice. Where specialist consultant support is required, NCA Housing will arrange access for the above listed Social Landlords to a panel of accredited consultants and a range of related appointment documents.

In return, the Social Landlords listed above agree to measure, benchmark and record the efficiency gains achieved as a result of this initiative and to share the results with NCA Housing. In acknowledgement of this I ask that you counter-sign, date and return a copy of this letter to me at the address above.