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Procedure Rules 10.2 (a) and 10.4 (3)**

Report of the Director of Neighbourhoods and Housing

Executive Board

Date: 17th May 2006

Subject: Little London Housing Private Finance Initiative – Outline Business Case

Electoral Wards Affected:
Hyde Park and Woodhouse

Specific Implications For:

- Ethnic minorities
- Women
- Disabled people
- Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the report)

1.0 EXECUTIVE SUMMARY

- 1.1 The report contains proposals to regenerate Little London, an area of Leeds that has not benefited from investment and the success and prosperity of the city as a whole. High levels of poverty, crime and unemployment and relatively low levels of educational attainment and poor health has meant that parts of Little London are ranked amongst the worst 10% of areas in the index of Multiple Deprivation for England. The community is diverse, with approximately 30% of residents from Black and Ethnic Minority backgrounds.
- 1.2 To tackle a number of the above issues two options have been subject to a detailed option appraisal, consultation and evaluation process – Decency and Comprehensive Regeneration. The conclusion is that Comprehensive Regeneration primarily delivered through a PFI scheme (the Outline Business Case for which is the subject of this report) along with service improvement via neighbourhood management offers the best option.
- 1.3 This option is supported by the majority of residents and is the option which best meets the Council's regeneration objectives for Little London. It is this scheme which is the subject of the PFI Outline Business Case (OBC) which Members are asked to approve.

- 1.4 Proposals for future consultation and resident involvement are outlined, in response to Gateway Review recommendations and submissions from Little London Tenants and Residents Association.
- 1.5 Key information from the financial appraisal in the OBC is summarised at Appendix 3, which outlines the scheme costs and the affordability to the Council under the provisions outlined in the Appendix, and demonstrates that the project offers value for money. The financial implications for the Council are set out in the same Appendix and Members approval to these is sought.

2.0 Purpose Of This Report

- 2.1 To seek Executive Board approval to proposals for a Regeneration Plan for Little London, which will include a neighbourhood management approach to service delivery and the Comprehensive Regeneration of the area, as described in the report, as the preferred option for improvements to the built environment.
- 2.2 To seek Executive Board approval to the Outline Business Case (OBC) for the Little London Housing Private Finance Initiative (PFI) scheme, including the scope of the scheme and the financial implications for the Council as outlined in the report and Appendix 3.
- 2.3 To seek Executive Board approval in principle, and subject to acceptable terms being agreed, to the disposal of the development sites identified on the plan at Appendix 1, and of Lovell Park Grange, Heights and Towers and the application of the Capital Receipts from such disposals to the Comprehensive Regeneration scheme.
- 2.4 Subject to the above to develop a Communication Strategy jointly with tenants and residents, through the Neighbourhood Management delivery structure as outlined in Appendix 2, and that this strategy should include the appointment of an Independent Tenant Advisor as recommended in the Gateway 1 Review

INTRODUCTION

Given the importance of this subject, the report is necessarily detailed and complex. The report falls into two parts: part 1, an explanation of the process through which officers have been to arrive at the recommended option; part 2, a description of the features of the Outline Business Case.

PART 1 – THE OPTION APPRAISAL

3.0 Background Information – Strategic Priority

- 3.1 Little London is identified as a priority for regeneration in the Council Plan, the Regeneration Plan for Leeds and the Leeds North West Area Committee and District Partnership's plans for the area. It is identified as a regeneration area in the Leeds Unitary Development Plan Review (UDP Review). The scheme outlined in this report will assist the Council in meeting Local Area Agreement for Leeds targets relating to social exclusion, housing availability and demand and compliance with the Decent Homes Standard.

3.2 Housing Strategy

- 3.2.1 The proposed scheme contributes to meeting each of the three key strategic aims of the Leeds Housing Strategy 2005/6 – 2009/10, which are:-
- To ensure that all neighbourhoods across the city are “decent places” where people want to live
 - To achieve decent homes for all Leeds residents
 - To tackle difficulties or disadvantages in accessing housing or housing services (including improving access to affordable housing)
- 3.2.2 The Leeds North West Housing Strategy 2005-8 identifies Little London as a priority and as exhibiting characteristics of a fragile housing market. The strategy identifies a number of actions to address this, including:-
- Matching supply and demand by selective remodeling and replacement
 - Meeting the needs and requirements of BME communities
 - Providing ‘aspirational’ housing
 - Reducing the amount of obsolete and poor quality housing whilst improving housing which is in demand
 - Continuing management of anti-social behaviour and action to reduce crime
- 3.2.3 These factors have been taken into account when developing the scope of the proposed scheme.

3.3 Regeneration Plan for Little London

- 3.3.1 A Regeneration Plan for Little London is being developed, which is intended to help address issues of multiple deprivation. It will relate to the Council’s strategic objectives and to Leeds North West area priorities.
- 3.3.2 The Plan has three strategic objectives, as follows:

- **Community** – stable mixed community with the opportunity for people to live healthy, safe and successful lives
- **Services** – transforming delivery of services for the people of Little London
- **Environment** – safe, clean areas and well maintained environment

To achieve those objectives, the Regeneration Plan will include two main strands:

- Actions to improve service delivery via a **neighbourhood management** approach
- Actions to improve the **built environment**, including improvements to homes, the public realm and the neighbourhood centre.

The boundary of the area covered by the Regeneration Plan is shown on the plan attached at Appendix 1.

Further information on the proposals relating to Neighbourhood Management, which will complement the scheme outlined in this report, is contained in Appendix 2.

3.4 Office of the Deputy Prime Minister & Housing PFI programme

- 3.4.1 A scheme was developed for Little London to Outline Business Case (OBC) stage and approved by Executive Board in August 2002, but the OBC was not supported by Government. The main reasons were:-

- Affordability issues relating to the housing PFI subsidy system current at that time which affected all projects (the system has since been changed to address these issues)
- ODPM's preference for the Council to prioritise the housing PFI Pathfinder scheme at Swarcliffe and to apply the lessons from it to Little London. Swarcliffe reached financial close in March 2005 and, following a scheme review, a corporate action plan was developed for implementation on future PFI projects

3.4.2 During 2005/6, as part of the development of the Regeneration Plan for the area, a comprehensive review of the scheme which was submitted in 2002 has been undertaken, along with an assessment of the other options now available for delivering a range of built environment improvements.

The matters referred to above have been taken into account, along with a number of other changes which have taken place since 2002, such as:-

- Revised regeneration plans for Leeds generally and the area in particular
- The interface with and potential impact on Leeds North West Homes (LNWH), the Arms Length Management Organisation which was established in February 2003, after the original OBC was submitted, and which is currently responsible for managing Council homes in Little London on behalf of the Council
- Market views, following contract closure of a number of new build and refurbishment housing PFI schemes nationally
- Changes in the regulations regarding use of housing PFI credits, which are now available to support development of new Council homes as well as for the refurbishment of existing homes
- Views on issues and priorities as expressed in recent community consultation

3.4.3 ODPM have agreed to a project programme leading up to submission of a revised OBC by May 2006. If the proposals are to be progressed through the PFI route, it is critical to adhere to this deadline, to ensure that the OBC for Little London is assessed prior to selection of schemes under Housing PFI Round 5, in which Leeds also has an interest (a report on the Expression of Interest for Beeston Hill and Holbeck under Round 5 was approved by Executive Board in April 2006).

3.5 Gateway Reviews

The Little London regeneration scheme has been the subject of two independent Gateway Reviews. These are peer reviews conducted under the auspices of the 4Ps, a national body which advises the public sector on procurement of PFI and PPP schemes. Gateway Reviews are carried out at each key stage to test the state of readiness of the project to proceed. In both cases the assessment of the scheme has been positive.

4.0 Development of the proposals

4.1 Project objectives.

The project objectives were approved at Executive Board in 2002, and it is proposed that they remain unchanged.

Those objectives are:-

- to refurbish and maintain Council owned stock in Little London

- to achieve wider regeneration objectives by contributing additional Council assets to foster tenure diversification

The anticipated benefits of the project for the area are:-

- Popular Council homes in close proximity to the City Centre to be brought up to and maintained at modern standards
- Improvements to poor quality external areas around homes and to safety and security
- Positive action taken, by contributing Council assets, to foster tenure diversification and stability, as a means to address the social consequences of changes in demand and tenancy turnover in multi-storey flats and maisonettes

4.2 The Option Appraisal

Four options were considered for funding and delivering any improvements:-

- ALMO Option via LNWH using Supplementary Credit Approvals (SCAs)
- PFI and complementary Development Agreements with the private sector
- Stock transfer
- Joint venture

The table below summarises the assessment of each.

Option	Comments
ALMO Option via LNWH	<ul style="list-style-type: none"> • LNWH & ALMO option already approved by ODPM • LNWH has two stars following June 2004 inspection and as a result can access additional funding available to high performing ALMOs • Potential funding to carry out Decent Homes works where required • Some funding for environmental improvements
PFI with Development Agreements	<ul style="list-style-type: none"> • Already selected by ODPM for housing PFI programme • Potential to secure funding via PFI credits to carry out Decency Plus works to all homes, to build new Council homes, and for significant environmental improvements • Potential, via Development Agreements, to link development of neighbourhood centre and new homes for sale to this option • Market interest established (see below)
Stock Transfer	<ul style="list-style-type: none"> • Negative Value Stock –a Dowry would be required • Requires bid to be submitted to ODPM for consideration for inclusion on the programme • Requires majority of tenants to support the option in a ballot as a change of ownership is involved. • Option not supported by tenants under Going Local consultation. • Timescale to prepare submission to ODPM, prepare business case and conduct consultation
Joint Venture	<ul style="list-style-type: none"> • Does not deliver investment in the Council stock, which has a high investment need

	<ul style="list-style-type: none"> • The development opportunity is too small to attract private sector interest – insufficient ‘critical mass’ • Timescale to get partnership in place
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Taking into account the factors described above, two delivery options were considered realistic and worthy of full evaluation, the ALMO Option and the PFI & Development Agreement Option. The ALMO Option is the delivery route for the Decency Option. The PFI and Development Agreement option is the delivery route for the Comprehensive Regeneration Option.

4.3 Stakeholder involvement in developing the options

Throughout the option appraisal process a Stakeholder Group met regularly and acted in an advisory capacity. Those attending the Group included officers of relevant Council Departments, officers of Leeds North West Homes and the Chair of the Board, representatives of Little London Tenants and Residents Association (LLTRA) and of Community Action Little London (CALLs) and Ward Members. In September 2005 the Stakeholder Group established a Task Group which was charged with developing the options for consultation. The Task Group comprised officers of the Council and LNWH, representatives of LLTRA and CALLS and was chaired by the independent tenants advisor, Banks of the Wear.

4.4 Factors influencing the scope of the options

Background information used to inform the work of the Task Group when developing the scope of each option included:-

- Area profile information
- Trends in tenancy turnover and duration in Council homes
- Numbers of applications per vacancy and empty homes for different property types of Council homes
- Refurbishment compared to new build and demolition costs; estimated site values
- Stock condition and long term estimated investment requirement
- Anticipated resources
- Current tenure mix by comparison to city and area averages
- House price trends and levels of Right to Buy in the area
- Site analysis and indicative densities for potential development sites
- Site analysis and impact of options for improving access, parking, permeability and community safety on the existing stock
- Site analysis to identify opportunities to improve access, permeability and links to City centre
- Use of facilities in the neighbourhood centre
- Community views on issues and priorities

4.5 Scope of the options

A summary of the scope of each Option and the extent to which they meet strategic regeneration objectives is set out in the table below.

Comprehensive Regeneration	Decency
<p data-bbox="284 215 820 389"><i>Regeneration Plan Objective - Community – stable mixed community with the opportunity for people to live healthy, safe and successful lives</i></p> <p data-bbox="284 394 820 613"><i>Housing Strategy Objectives- To ensure that all neighbourhoods across the city are “decent places” where people want to live To achieve decent homes for all Leeds residents</i></p> <ul data-bbox="284 658 820 1240" style="list-style-type: none"> <li data-bbox="284 658 820 837">• Refurbishment of 912 Council homes to Decency Plus standards - 100% renewals of all major components by 2013; maintained at improved standard. <li data-bbox="284 1016 820 1240">• Demolition of 40 maisonettes at Carlton Gate and Carr and 100 multi-storey flats at Carlton Towers and replacement with 125 new council homes to modern standards <p data-bbox="284 1285 820 1420"><i>Housing Strategy objective -To tackle difficulties or disadvantages in accessing housing or housing services</i></p> <ul data-bbox="284 1464 820 2047" style="list-style-type: none"> <li data-bbox="284 1464 820 1711">• Increased choice and changes to tenure mix by disposal of 297 multi storey flats at Lovell Park Grange, Heights and Towers for refurbishment for sale with a high proportion being affordable or for low cost home ownership <li data-bbox="284 1756 820 2047">• Increased choice and changes to tenure mix by disposal of sites in Council ownership (see Appendix 1) for development of an estimated minimum of 90 new homes for sale, a high proportion of which are to be affordable or for low cost home ownership 	<p data-bbox="842 215 1422 389"><i>Regeneration Plan Objective - Community – stable mixed community with the opportunity for people to live healthy, safe and successful lives</i></p> <p data-bbox="842 394 1422 613"><i>Housing Strategy Objectives- To ensure that all neighbourhoods across the city are “decent places” where people want to live To achieve decent homes for all Leeds residents</i></p> <ul data-bbox="842 658 1422 1173" style="list-style-type: none"> <li data-bbox="842 658 1422 904">• Refurbishment of approx 1300 Council homes to Decent Homes Standard – renewal of major components where required to meet the standard (ie not 100% renewals) by 2010; normal repairs and maintenance continues after 2010. <li data-bbox="842 1016 1422 1173">• Demolition of Carlton Gate and Carr maisonettes being considered, but would not be replaced with new Council homes. <p data-bbox="842 1285 1422 1420"><i>Housing Strategy objective -To tackle difficulties or disadvantages in accessing housing or housing services</i></p> <ul data-bbox="842 1464 1422 1688" style="list-style-type: none"> <li data-bbox="842 1464 1422 1509">• Existing stock largely retained <li data-bbox="842 1532 1422 1688">• Limited opportunities for redevelopment to increase choice and accessibility (eg if Carlton Gate & Carr maisonettes demolished)

<p><i>Objective - Environment – safe, clean areas and well maintained environment</i></p> <ul style="list-style-type: none"> • Demolition or conversion into larger homes of 12 besits over access ways to improve community safety • Comprehensive environmental, permeability and access, parking, and community safety improvements across the area. • Redevelopment and redesign of neighbourhood centre site to improve community safety and provide mix of local amenities, including shops, community centre, outlet for housing management services, and potentially GP services (subject to GP/PCT support) 	<p><i>Objective - Environment – safe, clean areas and well maintained environment</i></p> <ul style="list-style-type: none"> • Demolition or conversion into larger homes of 12 bedsits over access ways to improve community safety • Limited programme of environmental improvements. • Limited works to shops on neighbourhood centre site
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4.6 The table demonstrates that the Comprehensive Regeneration Option matches strategic objectives more closely than the Decency Option as it includes the following features that the Decency Option lacks :-

- It can deliver a more comprehensive programme of decency improvements to Council homes
- It will provide a 'decent place' as well as decent homes by comprehensively improving the environment and tackling safety and security issues
- It will provide new homes and increased choice and access to the housing market

4.7 Consultation on the Options

Banks of the Wear (BoW), with a brief to provide support to local residents, have acted as a source of independent advice and audited the consultation to ensure it was balanced, inclusive and effective. A two stage consultation process was used.

4.7.1 Stage 1 consultation

From June to September 2005 BoW undertook a Stage 1 consultation exercise with local residents in Little London to seek their views about priorities for improvements to the estate's housing, environment and its management. The issues identified through this consultation included:

- importance to residents of housing and environmental improvements.
- a majority of residents liking the area, wanting to stay in the area but wanting to see major improvements.

- scruffiness associated with the streets in the area, exacerbated by flytipping and residents discarding rubbish.
- fear of crime and a perceived lack of security presence.
- a need for improved amenity space maintenance.

4.7.2 Stage 2 consultation methodology

A Task Group was established to consider options for investment, as well as neighbourhood management, and to develop further consultation about the options. The Task Group was chaired by Banks of the Wear and included representatives of Leeds City Council, the ALMO, Little London Tenants & Residents Association and a local community organisation - CALLS.

The main part of the consultation on the regeneration options took place in January and February 2006, starting with a newsletter to all households which provided information about the two options, the process of the consultation and a timetable of events during the consultation.

The newsletter was followed by the distribution of a more detailed guide providing information for residents about the options and the impact on their particular part of the estate (five different guides produced).

A door-to-door consultation took place from February 3rd to February 16th. Initially areas of potential threat of demolition or disposal were targeted and these residents were also asked to complete a housing needs questionnaire. All properties were visited a minimum of three times. Calling cards were left offering appointment times to suit the resident, home visits, and translation or interpretation services if needed. A number of exhibitions were held in tower block foyers. Towards the end of the consultation period freepost return surveys were posted to any household not having responded to the survey in person.

4.8 Community Consultation and outcomes

4.8.1 The survey results were collated and analysed by BoW. The outcome is summarized below.

- Around two-thirds of the households on the estate returned reply slips - 967 replies from 1431 properties:
- Residents expressed a preference in all areas other than the Lovell Park tower blocks for Comprehensive Regeneration;
- **Overall 64% prefer Comprehensive Regeneration, whilst 36% prefer Decency**
- Preference for Comprehensive Regeneration was highest in areas unaffected by potential demolition or disposal (456 to 195), with a majority also favouring this option in Carlton Towers (proposed for demolition, 44 to 33);
- There is a majority preference stated for the Decent Homes option in the Lovell Park tower blocks (97 to 77). This preference was most pronounced in Lovell

Park Grange (40 to 17), with a smaller majority in Lovell Park Heights (35 to 30) and evenly balanced in Lovell Park Towers (30 to 30);

- There is a very strong statement from all residents in the area that they want to see it cleaner. People also want to see a good level of improvements and modern facilities, and the vast majority state that staying in the area is very important to them.

4.8.2 Little London Tenants & Residents Association Consultation Dossier

Following the community consultation exercise undertaken in February 2006, LLTRA complied and circulated a 'Stage 2 Consultation Process Dossier'. A copy of this document and the Council's formal response is available for consideration by members of Executive Board.

A number of concerns were raised by LLTRA regarding the planning and delivery of the community consultation. Below are responses to a number of the key issues raised.

- **No LLTRA input into the design of consultation materials** - at least two discussions were held at Task Group (see para 4.3) meetings about the content of the consultation material. The only materials produced without input from the LLTRA were summary cards of the two options, which the LLTRA felt were unbalanced.
- **Consultation starting 3 days early** - the process was started earlier than originally planned, due to consideration being given to the time needed to cover all households within the area (1431).
- **Sending out information stating LLTRA approval (which had not been given)** – to the knowledge of officers no information stating this was published.
- **Neutrality of the Interviewers** - the interviewers were sourced from both Leeds North West Homes (LNWH) and Neighbourhoods and Housing. All were briefed prior to undertaking the interviews and were clearly instructed to keep a neutral stance (LLTRA were represented at the briefings). Neither LNWH, nor Neighbourhoods and Housing received any complaints from individual residents about interviewers.

The Banks of the Wear report on the consultation process and outcomes acknowledges that there were complaints from both sides about incidents during the consultation period, but that there was nothing *"intrinsically wrong with the process"*.

4.9 Evaluation of the Options

Following the Stage 2 consultation the Comprehensive Regeneration and Decency Options along with their respective delivery routes, were evaluated against four key criteria:-

- Technical - compliance with objectives and quality of solutions (20%)
- Financial (25%)
- Deliverability (20%)
- Consultation (25%)

For an option to be considered viable it had to score at least 50% of the potential score of 1,000.

Four Evaluation teams, with appropriate expertise, assessed each criterion, and their scores and reports were considered by a Main Evaluation Panel, who awarded the final 10% of the marks, based on their assessment of the individual Evaluation Group reports and the overall comprehensiveness of each proposal.

Little London Tenants and Residents Association were invited to be represented on the Consultation Evaluation Group and the Main Evaluation Panel, but chose not to do so, as they did not wish to compromise their ability to give an independent view on each option.

The outcome of the evaluation process was that the Comprehensive Regeneration option scored 713 (71%) and the Decency Option scored 447 (45%). A breakdown of the scores is in the table below

Comprehensive Regeneration		Decency	
Criteria	Score	Criteria	Score
Technical	140	Technical	64
Financial	165	Financial	125
Deliverability	132	Deliverability	92
Consultation	196	Consultation	126
Main Evaluation Panel	80	Main Evaluation Panel	40
Total	713	Total	447

The Main Evaluation Panel's recommendation is that the Comprehensive Regeneration option, to be delivered via PFI be selected.

The outcome and proposed recommendation was reported to the Stakeholder Group on March 14th 2006.

4.10 Summary

Having due regard to the option appraisal, consultation and evaluation process described above, and the outcomes, Executive Board are requested to approve proceeding with the Comprehensive Regeneration Option, to be procured via a PFI contract and associated Development Agreements.

PART 2 – THE OUTLINE BUSINESS CASE

5.0 The PFI Outline Business Case

5.1 Subject to Members' approval of the Comprehensive Regeneration Option and the proposed delivery route via PFI, the next step is to submit a revised OBC for ODPM and Treasury approval, as per the programme agreed with ODPM and referred to at para 3.4.3.

5.2 ODPM require the OBC to follow a standard format, covering the following key issues:-

- Strategic context and business need
- Project objectives
- Options appraisal

- Preferred option
- Project delivery issues, including the contractual arrangements, the Output Specification, design quality, risk transfer, site and planning issues, programme and procurement period management arrangements
- Employee issues
- Other relevant information, which in the case of the Little London project will include partnership, stakeholder and consultation arrangements and application of lessons learnt from the Swarcliffe project and Gateway Reviews.

The next section of the report summarises the key issues in each section of the OBC.

5.3 The **strategic context and high level business need** are covered in section 3.0 above.

5.4 The **business need section** of the OBC also includes a description of the works in the scheme and the specific technical issues in relation to the stock and housing market in Little London that the project will address, including the following:-

- Summary of the works included in the scheme (see table at 4.5 – Comprehensive Regeneration option)
- Description of the properties in the scheme, including archetypes and scope of works required
- Investment needs of the stock
- Description of the external environment and public realm, community safety and security works proposed

The section of the OBC has been developed with the Council’s technical advisors, Gleeds, who have scrutinised existing stock condition information, conducted a further sample survey, and advised on quality standards and cost estimates.

5.9 Preferred option

5.9.1 This section of the OBC will contain a summary of all of the relevant information relating to the Comprehensive Regeneration Option, and will cover the following:-

- Description of proposed improvement and development works (see para 4.5)
- Services (see para 5.9.2- 5.9.6 inclusive)
- Financial assessment (see para 5.10 and Appendix 3)

5.9.2 Services

The PFI contract will contain service delivery requirements for the refurbished Council homes and the new Council homes. This will be a long term arrangement that ensures homes are maintained at the improved standard and day-to-day service delivery is carried out to clear performance standards.

5.9.3 Consideration has been given to the range of services to be included in the PFI contract as part of the option appraisal process, and it is proposed to include the following services:-

- Repair and maintenance of Council homes, including planned, cyclical and life cycle renewals and repairs
- Void property repairs
- Caretaking and cleaning

- Tenant and community liaison associated with the above services.

5.9.4 It is proposed that LNWH will continue to deliver the following services:-

- Lettings
- Income collection and debt recovery
- Tenancy management
- Tenant and community liaison associated with the above services

5.9.5 Before reaching a view an appraisal of each option was carried out, taking the following factors into account:-

- Affordability and value for money
- LNWH's performance as a Two Star organization with promising prospects for improvement (inspection June 2004),
- Impact on the LNWH as a business,
- Managing the interface between LNWH and the PFI contractor, based on experience of a similar arrangement on an operational contract at Swarcliffe,
- Interface with the proposed neighbourhood management approach,
- Market views on each option,
- Risk assessment of each option

5.9.6 The ODPM have agreed that the Council can proceed with the proposed service package, should it wish to do so.

5.10 **Financial assessment**

The financial appraisal has been undertaken with the Council's financial advisors for this project, PriceWaterhouseCoopers, and is summarized in Appendix 3. The ODPM financial model has been used to assess the level of PFI credit that the scheme requires, project affordability and value for money. A shadow bid model, developed by PricewaterhouseCoopers has also been used to cross check the assumptions and to calculate the Unitary Charge for the project.

The analysis identifies the project cashflow and the resources required to meet the anticipated Unitary Charge payments, taking into account the proposed Capital Receipts contributions from the disposal of the identified development sites. The impact of proceeding with the PFI contract on LNWH has been considered jointly with them as part of this exercise.

The financial analysis also included comparison to traditional procurement using the Treasury's 'Value for Money Assessment Guidance'. This includes a quantitative and qualitative assessment. The outcome is that PFI is expected to offer better value for money than traditional procurement.

The conclusions of the financial appraisal are that, subject to Executive Board approving the proposed Council contributions to the project which are identified in Appendix 3 , and Government approval of the PFI credits, the Comprehensive Regeneration Option is affordable to the Council and represents value for money.

ODPM have indicated that the information provided to the Council regarding the indicative level of PFI credits that may be available for the scheme is confidential, as it is subject to approval.

5.11 Project delivery issues

5.12 Contractual arrangements – Project Agreement

- 5.12.1 The refurbishment of 912 Council homes and the construction of 125 new Council homes, will be carried out under a 20 yr contract under the Government's Private Finance Initiative, for which standardised contract guidance (SOPC3), local government and sector specific guidance (Housing PFI Procurement Pack) exists. Following further detailed financial and technical work a 20 year rather than a 30 year contract is proposed. This may mean that after the first five years for example new kitchens, windows etc. would not be replaced for a second time during the lifetime of the contract. However, it would result in an average spend/home of £68k.

It is proposed that the Project Agreement would be based on the Model Project Agreement adjusted, subject to approval of any such amendments by ODPM and Partnerships UK, to reflect any Project specific issues that arise during procurement.

The contractor will have the exclusive right to design, build, finance and operate the facilities which form the Project. In addition to the main Project Agreement, there will be a Direct Agreement between the Council and the Senior Debt funders providing the funder(s) with step in rights in the event of default by the PFI contractor.

- 5.12.2 The Project Agreement and the Lenders' Direct Agreement will need to be certified for the purposes of the Local Government (Contracts) Act 1997. The Council has the powers to enter into such contracts under this Act.
- 5.12.3 The Project Agreement includes a Payment Mechanism which sets out the tests that must be passed for a dwelling to be classed as Available, and the deductions that will apply for failures of Availability. It also contains the performance standards that will apply to services delivered within the contract, the performance level required and the deductions that will apply for poor performance.
- 5.12.4 Consents are required under section 27 of the Housing Act 1985 before the Council can enter into the Project Agreement.

5.13 Contractual arrangements – Development Agreement 1

- 5.13.1 There will also be a Development Agreement covering the terms under which the development sites shown in Appendix 1, for new homes for sale and for the neighbourhood centre, will be disposed of to the private sector. The duration of this Agreement will be subject to negotiation, but is expected to be for a five to ten year period, to ensure that development takes place within reasonable, agreed timescales and to an agreed programme.
- 5.13.2 The private sector partner for the Project Agreement and this Development Agreement will be procured through one tendering process. Both agreements will be signed at the same time, and will effectively secure a partner or partners to deliver both the works and services to Council homes under the PFI contract and the new developments under the Development Agreement.

5.13.3 The PFI Contractor will be required to underwrite the PFI scheme for an agreed Guaranteed Minimum Price which it will guarantee to pay the Council for the development sites. The development sites will then be disposed of to the agreed developer/s under terms set out in the Development Agreement which will include overage arrangements for sharing any increase in value arising from a phased development programme. This arrangement has been used for the Swarcliffe PFI scheme.

5.14 Contractual Arrangements – Development Agreement 2

5.14.1 There will be a second Development Agreement for the Lovell Parks multi-storey flats, where a separate procurement to a specialist in refurbishment for sale is proposed, following market testing (see para 5.17 and 5.18). This approach was supported by Asset Management Group in February 2006.

5.14.2 This Development Agreement will set out the requirements and terms of the disposal of Lovell Park Court, Towers and Grange to a developer for refurbishment for housing for sale, to include affordable and low cost homes.

5.14.3 This complementary procurement will proceed in parallel with the procurement of the PFI contract and Development Agreement 1. It is expected that the preferred partner under this procurement will be identified by late 2006/7.

5.15 Output Specification

The Output Specification for the works covered by the Project Agreement has been developed with the Council's technical advisors, Gleeds, and follows the guidance contained in the Housing PFI Procurement Pack.

It sets out the quality standards that must be achieved for the refurbished and new homes to be classed as 'Available' under the terms of the Project Agreement. The Availability Standards will ensure that the refurbished homes are fully compliant with the Decent Homes Standard, and will require additional works over and above that standard, which are necessary to achieve a sustainable home and surrounding environment.

The Output Specification requires the improvement works to be carried out within 5 years and the new Council homes to be constructed within 5 years.

The Output Specification also contains requirements for each service which is included in the contract, including the scope of the service to be provided, the customer service standards and the performance measures.

5.16 Design quality and sustainability

The technical design quality and sustainability requirements have been developed with the Council's technical advisors, Gleeds, taking into account the relevant guidance

5.17 Market testing

As the Comprehensive Regeneration Option requires private sector interest to be deliverable, market soundings were taken in December 2005 and in January 2006. The views of the private sector have informed the refinement of the scheme scope and proposals for procuring elements of the scheme. The results are summarised below. The proposals in response to market views on procurement and contractual arrangements and the services issues referred to below are covered later in the report. The proposals on affordable housing are covered in the next paragraph.

- The scheme overall is attractive to the private sector and to appropriately experienced organisations, who would all consider submitting bids
- The inclusion of development opportunities adds to the attractiveness of the scheme
- All of the development opportunities are potentially attractive as part of one bidding opportunity, but the Lovell Parks may be better procured separately, to attract a specialist operator with more experience of the refurbishment for sale market.
- The balance between affordable housing and low cost home ownership through other initiatives such as equity sharing needs to be carefully considered to ensure the objectives are achieved
- The neighbourhood centre proposals, including not for profit elements such as the community centre, are, in principle, attractive
- The clarity on the service package in the PFI proposals would be acceptable

5.18 Affordable housing

- 5.18.1 Given the current predominance of Council homes in Little London, and the fluctuating demand for them, a conclusion of the option appraisal is that, to achieve long term sustainability, the supply of Council flats, where turnover is very high, should be reduced. The combination of demolition and disposals proposed provides opportunities for new homes to be built, and for existing flats to be refurbished for sale.
- 5.18.2 The development sites are of sufficient size that, following an appraisal of their development potential, the overall supply of housing in the area is expected to remain at least at the current levels, and may increase
- 5.18.3 The social profile of Little London is such that, for new housing provision to be accessible to local people, a high percentage of that provision must be classed as affordable or for low cost home ownership. In this area a two bed flat would, currently, be classed as affordable if its selling price was £70,000. This is subject to change over time to reflect movement in incomes and house prices.
- 5.18.4 It is therefore proposed that endeavours are made to ensure that a high proportion (up to 75-80%) of the new and refurbished homes for sale are affordable, or for low cost home ownership (eg under equity sharing arrangements). This is in addition to the 125 new Council homes.
- 5.18.5 The market view is that there is considerable potential to provide affordable housing in this area, but that realistically, if high levels of low price housing are to be provided, this is likely to be through a mix of low cost home ownership initiatives such as equity sharing and incentives for local purchasers and first time buyers.

- 5.18.6 The Comprehensive Regeneration Option includes a proposal to dispose of Lovell Park Court, Grange and Towers for refurbishment for sale. A high proportion of the refurbished flats are expected to be affordable, low cost homes, based on market responses. To increase the certainty of achieving this aspiration, it is proposed to dispose of the flats under a separate procurement to an experienced specialist provider of such accommodation.
- 5.18.7 Further work is now proposed to develop clear guidance and requirements regarding affordable and low cost housing provision under the Comprehensive Regeneration Option, bearing in mind market views, and drawing on the Council's experience of implementing such initiatives in other parts of the City.

5.19 Risk allocation and transfer

Before entering into a PFI contract, the Council must be satisfied that risks are allocated appropriately to the party best able to manage them. A risk assessment has been undertaken in accordance with the guidance in the Housing Procurement Pack, taking into account the risks identified in the risk log. The proposed risk allocation is consistent with guidance and is comparable to that on the Swarcliffe Housing PFI Pathfinder scheme.

5.20 Accounting treatment .

The Accounting Treatment for PFI Transactions is based upon Application Note F to FRS 5 – Reporting the substance of transactions: Private Finance Initiative and similar Contracts (the “Application Note”), as supplemented by Treasury Taskforce Technical Note Number 1 (Revised) – “How to Account for PFI Transactions” (the Technical Note.)

The Council has also taken advice from PricewaterhouseCoopers , who at this OBC stage of the Procurement, can only provide high level views based upon the expected structure of the proposed Project. PWC's initial advice to the Council on the Accounting Treatment is that the project is capable of compliance with the above guidance. FRS5 compliance was achieved for the Swarcliffe project, where the issues were similar.

The initial assessment of the Council's External Auditor (KPMG) is that they are not minded to challenge the assessment made by PWC and that the scheme is capable of achieving off balance sheet status.

5.21 Development sites and planning issues

Potential development opportunities have been identified within the area, a number of which will be created by the demolitions and disposals which are proposed within the scope of the scheme. These are identified on the plan at Appendix 1. The development sites are all in Council ownership, and the proposed uses are compatible with the Development Plan (UDP and UDP Review). There is a specific proposal in the UDP Review which identifies Little London as a priority regeneration area. The redevelopment of these sites is an integral part of the Comprehensive Regeneration Option and the overall Regeneration Plan for Little London.

- 5.21.1 Planning guidance regarding these sites will be developed through preparation of a Planning Framework, which it is proposed will be provided for bidders. Outline planning consent will be sought for the development sites prior to bid submission.

5.22 Programme

The programme for the procurement of the PFI scheme is:-

Milestone	Date
OBC approval	Sept 2006
Issue OJEU notice	Oct 06
Deadline for receipt of completed PQQs	Dec 06
Shortlist bidders	Jan 07
Invitation to Negotiate issue	Jun 07
Invitation to Negotiate return	Sept 07
Select preferred bidder	Apr 08
Negotiation to contract close	Oct 08
Service commencement	Dec/Jan 09

5.23 Procurement period governance and management arrangements

The project is covered by Governance arrangements approved by Executive Board in March and October 2005, a summary of which will be provided in the OBC.

There is an approved project Resource Plan, with a dedicated Procurement Team and a number of workstream teams. The Procurement team, including the Project Manager are all in post.

The project requires contributions to workstreams from a number of Council departments and from Leeds North West Homes. Where appropriate, Service Level Agreements are proposed and are in the process of being negotiated.

5.24 Employee issues

Discussions have taken place with LNWH as to the possible implications of a PFI contract including the transfer of staff under TUPE. Formal Workforce consultation processes exist which will be used to consult with staff and their representatives.

An initial assessment in relation to the services which it is proposed to include in the PFI contract indicates that this project will not result in a significant transfer of staff.

A summary of the Council's experience of transferring staff will be included in the OBC, along with its intention to undertake consultation in accordance with Two Tier Workforce guidelines and to implement the Code of Practice on Workforce Matters.

5.25 Other relevant information

5.25.1 Communications strategy and resident involvement

The following recommendation was made in the Gateway 1 review in relation to the ongoing involvement of tenants and residents in the regeneration of Little London:

"one of the most significant (*recommendations*) being the need now to embed in the project some regular, ongoing and significant input from the tenants and residents in order to overcome the current mistrust of the Council displayed by officers of the Tenants and Residents Association"

All partners involved in this project recognise a real need to ensure that effective and meaningful involvement is established and maintained with the tenants and residents of Little London throughout the duration of the regeneration programme. This is especially important given the history of distrust and ill-feeling towards the Council from tenants and residents in the area.

5.25.2 The Gate 1 Review report and Banks of the Wear's final report make a number of suggestions regarding provision of information to tenants and residents on OBC submission, as well as working jointly with residents to forward plan the next stages of consultation and involvement. These recommendations will be acted upon.

In direct response to the recommendations, work has been undertaken to develop a Communication Strategy for the area. This Strategy aims to:

- ensure residents' views of their area are communicated and heard,
- ensure that residents of Little London are fully informed of the regeneration options being considered by Leeds City Council,
- ensure that residents have adequate opportunity to ask questions and comment upon the options available and,
- ensure a structured, transparent and ongoing dialogue with residents takes place on the future of Little London and the proposed regeneration activity.

5.25.3 It is recommended that the Communication Strategy be finalised with tenants and residents through the Neighbourhood Management delivery structure as is outlined in Appendix 2. Suggested means of communication within the draft strategy include the appointment of an Independent Tenant Advisor as recommended in the Gateway1 Review. The proposal has been developed in partnership with LNWH.

5.25.4 A corporate action plan has been developed for implementing lessons learnt from the Swarcliffe project. These have been applied to the Little London project, an example being the preparation of an approved procurement period resource plan early in the process

6.0 Implications For Council Policy

6.1 Capital receipts policy

It is proposed to apply Capital Receipts from the disposal of development sites and the Lovell Parks multi-storey flats to the scheme as inclusion of development opportunities makes the scheme more attractive to the private sector, and ODPM's expectation is that the Council will contribute what resources it can to the project.

This may be regarded as an exception to the Capital Receipts policy approved by Executive Board in May 2005.

Asset Management Group considered this matter at a meeting on February 10th 2006 and supported the following recommendations for Executive Board approval:-

- That the identified development sites be included as part of a portfolio of opportunities within the Little London Housing PFI scheme
- That the three multi-storey blocks at Lovell Park Towers, Heights and Court be disposed of for refurbishment for sale via a separate procurement

- That the Capital Receipt arising from (i) and (ii) be used to support the Little London Housing PFI scheme

The elements of the scheme that will be more readily deliverable by applying Council assets effectively, including Capital Receipts, are the new and refurbished affordable and low cost housing and the 'not for profit' amenities in the neighbourhood centre, such as the community centre.

7.0 Legal And Resource Implications

- 7.1 The proposed contractual arrangements are summarised at para 5.12 to 5.14, along with the requirement for Consents under S27 of the Housing Act 1985.
- 7.2 The City Council has general powers to dispose of land held by it under Section 123 of the Local Government Act 1972 and Section 233 of the Town and Country Planning Act 1990
- 7.3 The Council has a duty to consult its tenants under the Housing Act 1985, and must consult Leaseholders under the terms of the Service Charges (Consultation Requirements) (England) Regulations 2003.
- 7.4 TUPE implications are outlined at para 5.24.
- 7.5 The procurement period budget is estimated to be approximately £3.0m. Provision has been made within the Housing Revenue Account to meet the costs to date. Budget provision of approximately £1.3m has been made for 2006/7.

8.0 Public interest

- 8.1 It is not considered in the public interest to disclose the information contained in Appendix 3, as the scheme will be subject to a competitive procurement process during the course of which the Council will seek to select a private sector partner. A key consideration will be achieving value for money, and this will be an evaluation criterion.
- 8.2 Indicative figures as to anticipated overall investment into the area have been issued as part of the public consultation process to date. As the scheme progresses through procurement, further public consultation will take place, and the public will continue to be updated. The overall estimated contract figure has not been disclosed so as not to prejudice the procurement process described above. Any further information that is disclosed will be consistent with a framework of national guidance for PFI contracts on provision of information on affordability for bidders.

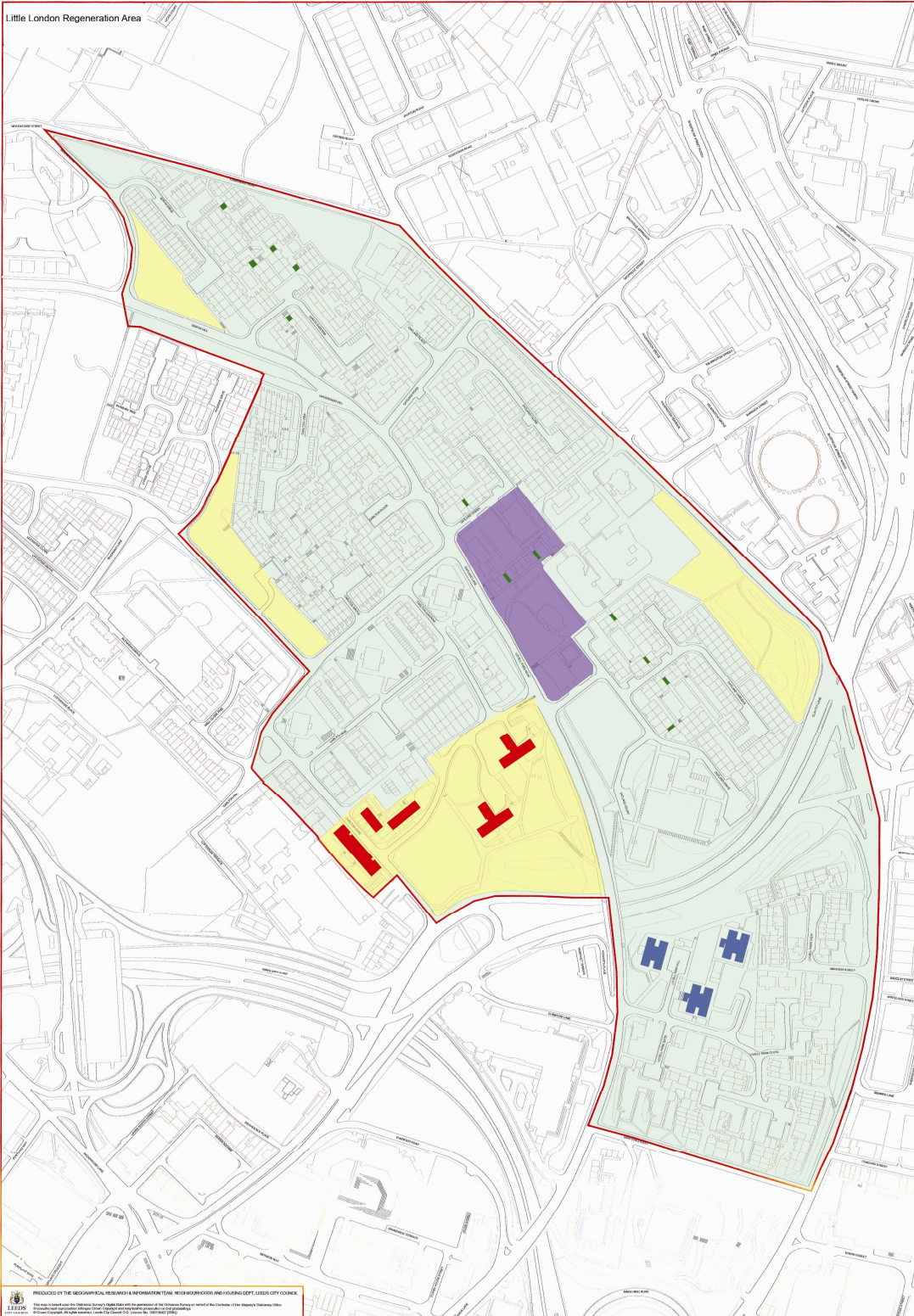
9.0 Recommendations

- 9.1 Members are requested to approve proceeding with the Comprehensive Regeneration Option, delivered through a Private Finance Initiative Contract and associated Development Agreements, as outlined in the report, as part of the Regeneration Plan for Little London.

- 9.2 Members are requested to approve the Outline Business Case for the comprehensive regeneration of Little London, the scope of which is described in the report, including the affordability envelope and Council contributions outlined at Appendix 3 and the application of Capital Receipts from the disposal of the development sites and from Lovell Park Grange, Court and Towers as identified at Appendix 1, to the scheme

Plan of Little London showing Regeneration Area

Appendix 1



KEY:

- To be sold primarily for low cost home ownership
- Buildings for demolition
- Areas to be redeveloped
- Potential remodelling to provide community facilities
- Bedsits for conversion or demolition
- Properties retained for refurbishment

Appendix 2 – Neighbourhood Management element of the Regeneration Plan

Work has already begun on developing neighbourhood management in Little London, through the work of the Little London Neighbourhood Board. This is being further developed as part of the regeneration plan and includes:-

- **Community Safety Policing** - dedicated policing and neighbourhood warden resources
- **Streetscene** - dedicated multi-skilled streetscene service and co-ordination of estate maintenance services
- **Intensive Family Support** - combined professional action with targeted families in Little London & Woodhouse, including social work, education welfare, youth work, and anti-social behaviour.
- **Health action** – healthy living activities, drugs outreach, specific work with young men and young parents.
- **Co-ordinated service delivery** – bringing together City Council services, ALMO, other service providers and the community to improve service delivery. Little London & Woodhouse will be the focus of intensive neighbourhood management, but it will also be the catalyst to streetscene and community safety improvements across other areas of north west Leeds, most of which are in an arc from Little London across to Kirkstall.