

Report of Director of Environment and Neighbourhoods

Report to Executive Board

Date: 7th March 2012

Subject: Little London, Beeston Hill & Holbeck – Pre Financial Close Final Business Case and Section 27 Delegation Request.

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): Beeston & Holbeck, City & Hunslet and Hyde Park & Woodhouse.	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Access to Information Procedure Rule 10.4(3). Appendix number: B (Finance and Affordability Update)	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

1. The procurement of the Little London, Beeston Hill and Holbeck Private Finance Initiative Project is close to conclusion with financial close programmed for later this month.
2. Government approval for the Preferred Bidder Final Business Case (PPB FBC) was received on 18th October 2011 following scrutiny of the document by the Homes and Community Agency, the Department of Communities and Local Government and Treasury.
3. The Director of Environment and Neighbourhoods approved the submission of a revised Pre Financial Close Final Business Case and Section 27 Application (Authority to delegate housing management functions) on 3rd February 2012, to seek the final government approvals and PFI credit promissory note to permit the Council to proceed with the letting of the contract.

Recommendations

4. This report requests that Members note the progress made and the outcomes being sought to contribute to the regeneration of three inner areas of the City.

1 Purpose of this report

- 1.1 This report confirms outcomes being sought for the for the Little London, Beeston Hill and Holbeck Private Finance Initiative Project (Project).
- 1.2 The Project remains within the final scope confirmed by Executive Board on 27th July 2011 and within the maximum limits on affordability re-affirmed by the Board at its meeting on 9th March 2011 (The Budget limits were set originally as part of the Outline Business Cases by Executive Board in February 2008).
- 1.3 The Executive Board resolutions on 9th March 2011 confirmed authority for the Project to proceed to financial close, and this report is not intended to affect that authority, or resolutions made.

2 Background information

- 2.1 The Pre Preferred Bidder Final Business Case for the Project was approved by Government on 18th October 2011. The PPB FBC included changes that had to be incorporated into the Project following a review of the Project costs and deliverables as part of the Governments 'value for money' review of housing PFI Projects. The scope of the amended PPB FBC was confirmed by Executive Board at their meeting on 27th July 2011.
- 2.2 The next stage of the procurement process subsequent to Government approval of the PPB FBC was to appoint the selected consortium as Preferred Bidder to allow them to finalise all contract approvals and proceed to financial close of the Project.
- 2.3 The consortium, Sustainable Communities for Leeds (Sc4L) was confirmed as Preferred Bidder for the Project on 27th January 2012. The consortium members are Cyrill Sweet Investments, Keepmoat Investments and the Bank of Scotland.
- 2.4 As part of the confirmation of the Preferred Bidder and a consequence of the delays to the Project, a number of changes had to be made. Frank Haslam Milan, part of the Keepmoat Group will now oversee all the operational services alongside undertaking the works and lifecycle programme, as part of the confirmed sub-contracting arrangements for the Project.
- 2.5 The continuing finance market difficulties experienced towards the latter part of 2011 led to changes in the ability and willingness of funders to lend money on the long term basis necessary to support PFI Projects. As a result the club of banks funding the Project changed and their funding terms have changed, as explained later in the report.
- 2.6 The overall delay in the final stages of the procurement following final tender receipt, principally around the implementation of a 'value for money' review by Government,

the approval of the Pre Preferred Bidder Final Business Case and latterly in the confirmation of the Preferred Bidder has resulted in a net increase in costs.

- 2.7 This net increase in overall costs to the City Council is principally through the impact of construction inflation, increased funding terms and increased consortium costs. The Project however remains within the affordability limits set by Executive Board and has retained the saving of £9m in PFI credits identified for Government as part of their 'value for money review (as reported to Executive Board on 27th July 2011).
- 2.8 The final scope of the Project has not changed since it was ratified by Executive Board on 27th July 2011, with the detailed outcomes noted below.

3 Main issues

- 3.1 The original Pre Financial Close Final Business Case was submitted to Executive Board on 9th March 2011, with a follow up report to the Board on 27th July 2011 confirming the Project changes following the Government 'value for money' review.
- 3.2 The revised Pre Preferred Bidder Final Business Case was scrutinised by the Homes and Communities Agency, the Department of Communities and local Government and Treasury, with overall Government approval confirmed on 18th October 2011.
- 3.3 The Preferred Bidder for the Project was not able to be confirmed straight away as had been planned, as market changes had an impact on the proposed sub-contract arrangements and the banking arrangements to provide loan funding support for the Project. The Preferred Bidder was able to finally be confirmed on 27th January 2012 with all parties approving the arrangements to move forward to financial close (the letting of the contract).
- 3.4 The Preferred Bidder consortium will be funded by a club of banks: Nationwide Building Society, Norddeutsche Landesbank Girozentrale (Nord) Bank and the Co-operative Bank, all of whom have extensive experience of housing and private finance investment programmes.
- 3.5 The works programme and operational services will be sub-contracted to Frank Haslam Milan (FHM), part of the Keepmoat Group. FHM have a long history of supporting successful renovation and social housing development in the City. The contract operations, covering repairs and maintenance, grounds maintenance, caretaking and cleaning will be undertaken by Milnerbuild Ltd (part of FHM and the Keepmoat Group) who are experienced contractors within the City, with future life cycle works undertaken direct by FHM.
- 3.6 The local Arms Length Management Organisations will continue to provide the tenancy management services to the homes: Aire Valley Homes for Holbeck and Beeston Hill and West North West Homes for Little London.
- 3.7 Subject to final approvals from Government and confirmation of the required funding support for the Project it is intended that the contract will be let by the end of March 2012, for the contract to commence from 1st July 2012 (after a 3 month contract mobilisation period).

- 3.8 The main programme of works include refurbishment of the existing 1245 Council homes, construction of 388 new Council homes to rent (to replace 222 obsolete and unsustainable existing homes) with follow up environmental improvements to the estate environments. Works undertaken to the structure and communal facilities of blocks of flats will benefit all tenants in the blocks together with 51 leaseholders. The programme will commence in 2012, with an initial focus on the refurbishment of the existing homes, and be completed overall by early 2016.
- 3.9 The consortium will be required to maintain the homes and the estate environment for the whole period of the 20 year contract, sustaining the required housing and operational standards throughout the contract length.
- 3.10 The main outcomes sought from the Project are outlined below

Little London :

- § 848 homes to be refurbished (includes removal of 16 bed-sit flats)
- § 113 new homes built (Carlton Gate site)
- § Renovation and improvement of the estate environment

Holbeck :

- § 373 homes to be refurbished, plus conversion of Ingram Court to 23 self contained units and the Ingram Gardens sheltered housing community facility.
- § 108 new homes built (Holbeck Towers site)
- § Renovation and improvement of the estate environment

Beeston Hill :

- § 167 new homes built (on 8 in fill sites)

- 3.11 Additionally two aspects, formerly part of the original proposals, but now separate from the PFI Project, are to be pursued to support the overall regeneration action.

- § Little London Community Hub – options currently are under consideration for the redevelopment of the existing site, covering a parade of estate shops, neighbourhood housing office and community centre, to enhance the facilities for the future.
- § Future Redevelopment sites - following clearance action in both Little London (part of the Carlton Gate clearance site) and Holbeck (part of Holbeck Towers clearance site) for the PFI Project there will be opportunities for additional development in both areas on land not required for the PFI proposals, to further invest in the communities.

- 3.12 Additional benefits sought from the programme include :

Energy Efficiency and Sustainability

- § All new homes to be built to Sustainable Homes Code 4 standards;
- § All existing homes to fully meet the Decent Homes standard with minimum improved energy efficient standards; and
- § The energy efficiency targets of the homes support a reduction in fuel poverty.

Safer and secure environments

- § Neighbourhoods to meet the Secured by Design and Design for Life environmental standards, helping transform the homes and environment in these areas.

Wider Community Benefits

- § sc4L's opportunities and learning strategy, in conjunction with Employment Leeds, will aim to achieve the following opportunities for employment and training throughout the life of the Project:
 - 99 apprenticeship/traineeships in Construction and Grounds Maintenance;
 - safeguard up to 174 jobs for existing sc4L and supply chain staff currently working in Leeds;
 - create an additional 260 employment opportunities for local skilled people;
 - provide a minimum of 48 construction work experience placements plus additional work experience opportunities through the development of an Education Liaison Strategy; and
 - create a number of social enterprise opportunities linked to the Project.

Community Involvement

- § The consortium, with the City Council and the local Arms Length Management Organisations will work with the local communities (tenants and residents) to maximise the local benefits from this regeneration project and ensure that it links to other complementary action.

3.13 The final stages of the procurement process are in progress, to be completed to allow the contract to be let.

- § Approval (by HCA) of the Pre Financial Close Final Business Case and confirmation of the allocation of PFI credits (by DCLG) to financially support the Project;
- § Approval (by DCLG) of the delegation of the range of housing management functions to be delegated to the contract as required by Section 27 of the Housing Act 1985;
- § Approval of the bank funding through the credit committees for the 3 banks supporting the Project; and

§ Finalisation of the relevant contract documents including contractors proposals, payment mechanism, funding agreements and sub-contracting arrangements for the Project.

3.14 Prior to proceeding with the letting of the contract (financial close) the Director of Environment and Neighbourhoods will be required to give authority to the contract final terms, in accordance with the process approved by Executive Board at their meeting in March 2011 (see Appendix A for details of this).

3.15 The submission of the Section 27 application will seek to amend the current delegation authority covering those housing management functions delegated to Aire Valley Homes and West North West Homes in respect of the properties within the Project. This will allow the required delegation of functions to Sc4L and the sub-delegation of sub-contracted functions to FHM for the Project

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 Consultation has been undertaken throughout the Project development and the procurement process, varying in intensity according to the stage reached

4.1.2 The key lines of consultation and involvement over the Final Business Case stages have been :

§ Environment and Neighbourhoods Housing PFI Project Board – for procurement governance;

§ Strategic Investment Board – for corporate oversight;

§ Executive Member – overall over sight and progress reporting;

§ Local Members – progress reporting ;

§ Internal Stakeholders – progress reporting and preparation for contract mobilisation;

§ Community Advisory Group – informal role giving local input into preparation for tenant and resident consultation including presentation of tenant choices; and

§ Resident Groups and Individual Enquiries – enquiry responses.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 The Project has been subject to an Equalities Impact Assessment, which was completed in January 2010 and reviewed in June 2011. The outcomes of the assessment are:

- § the Project has identified actions to ensure all services will be accessible to a wide range of users based on age, ability and ethnicity/language;
- § consultation and engagement will be designed to be inclusive of tenants, residents and other stakeholders in the Project areas;
- § 'Plain English' will be used in all publications; and
- § all works and services are to meet the requirements of the Disability Discrimination Act 2004 and Equality Act 2010.

4.3 Council Policies and City Priorities

4.3.1 The PFI scheme also contributes to the City Priority Plan, by making this part of the City a 'better place to live', contribute to the improvement of 'health and welfare' and contribute to improving local communities. In particular, it will address key issues to:

- § Increase the number of affordable and decent homes;
- § Improve energy efficiency of those homes and reduce the number of people who are not able to adequately heat their homes;
- § Improve the quality and sustainability of the built and natural environment;
- § Address neighbourhood problem sites; improve cleanliness and improve access to and the quality of green spaces;
- § Provide opportunity for community engagement in the regeneration of their community;
- § Offer options for training and employment linked to the regeneration programme, and
- § Create safer environments and aid the tackling of crime.

4.4 Resources and Value for Money

4.4.1 The proposed costs for the Project are detailed in confidential Appendix B to this report.

4.4.2 There have been changes to the overall costs as a result of the change in financial market terms and as a result of the delay to the Project timescales

4.4.3 The new funding arrangements are considered to be reflective of the current financial market, and are therefore different to those anticipated during the preparation of the PPB FBC or those known at final tender stage. Generally the cost of loans, in terms of fees and charges has increased. However this is balanced to an extent by the fact that the general market borrowing rates, SWAP rates, have reduced mitigating some of the increase in loan terms.

- 4.4.4 The delayed timescales have had two impacts. Additional construction inflation has been incurred to increase the fixed price for the capital works programme. Further the additional timescales have led to an increase in the overall costs for the consortium to conclude the contract proposals for the letting of the contract.
- 4.4.5 The net result of all the cost changes is confirmed in Appendix B, with the Project remaining within the affordability limits previously set by Executive Board. The costs also include a buffer against the risk of market interest rates being higher at financial close than current rates.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 Proceeding with the letting of the contract for the Little London, Beeston Hill and Holbeck PFI Project is subject to final Government approvals of the Pre Financial Close Final Business Case and the application to delegate the required housing management functions to the Project under Section 27 of the Housing Act 1985.
- 4.5.2 A final report to the Director of Environment and Neighbourhoods on the contract terms and costs will be required to confirm that the contract terms are capable of being signed by the City Council and enforceable, and confirm the proposed costs for the contract as noted in Appendix B.
- 4.5.3 Appendix B to this report contains exempt information under Access to Information Rules 10.4 (3) as it contains commercially sensitive information on the Council's approach to procurement issues (including Project affordability position) and commercially sensitive information in relation to the Preferred Bidder, where the benefit of keeping the information confidential is considered greater than that of allowing public access to the information.

4.6 Risk Management

- 4.6.1 An updated risk management position was provided to the Homes and Communities Agency alongside the PFC FBC submission to confirm that the City Council is appropriately managing the risks for the Project.
- 4.6.2 The Housing PFI Project Board is provided with monthly updates on risk management, with details provided on increasing risks and all high or very high risks.
- 4.6.3 The principal risk to the Project relates to the risk that market funding interest rates may increase resulting in the Project becoming unaffordable. This risk is currently set at 'very high' status, with the market being volatile at the current time. As noted above, a limited financial buffer has been included into the costs to seek to mitigate against the risk that the Project becomes unaffordable at financial close.

5 Conclusions

- 5.1 The Little London, Beeston Hill and Holbeck PFI Project is nearing the conclusion of a long development and procurement process. Subject to the final stages being completed successfully, the contract is due to be let by the end of March 2012, with a start on site in July 2012.

- 5.2 The Project will bring much needed benefits to three local inner city communities, with the renovation and improved energy efficiency of the retained Council housing stock, replacement of unsustainable homes with new higher standard energy efficient new homes, improvement of the local environment and opportunities for training, employment and involvement for the local residents.
- 5.3 Despite all the delays and review processes the Project will be able to deliver the necessary improvements and redevelopment sought of the proposals and remains affordable at this time despite facing higher than anticipated inflation and funding reductions.

6 Recommendations

6.1 Members are asked to:

- i. note the progress made and the intention to let the contract by the end of March 2012 to allow a start on site by July 2012 ;
- ii. note the actions required to be taken to secure all required approvals and seek final authorisation to let the contract, and in particular note and endorse the action taken by the Director of Environment and Neighbourhoods to seek revised section 27 Housing Act 1985 consents in support of the Project;
- iii. note the financial implications and affordability position outlined in the exempt appendix B.

Appendix A – Final Report and Authorisation for Financial Close

Appendix B (Confidential) - Updated Affordability

7 Background documents¹

Other Background documents :

- Little London Outline Business Case
- Beeston Hill & Holbeck Outline Business Case
- Executive Board Report Aug 2002
- Approval to submit Little London OBC
- Executive Board Report April 2006
- Approval to submit Beeston Hill & Holbeck EOI
- Executive Board Report May 2006
- Approval of Little London Project Scope and OBC
- Executive Board Report Nov 2006
- Little London OBC Progress

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.

- Executive Board Report March 2007
 - Preparation of Beeston Hill & Holbeck OBC
- Executive Board Report Nov 2007
 - Submission of Beeston Hill & Holbeck OBC and approval of joint procurement with Little London
- Executive Board Report Feb 2008
 - Land Assembly, Scope Update and Revised Affordability Position
- Executive Board Report Feb 2009
 - Project Rescope and Procurement Update
- Executive Board Report Dec 2009
 - Demolition of Holbeck Towers and Carlton Gate
- Executive Board Report March 2011
 - Little London and Beeston Hill & Holbeck PFI Housing Project – Final Business Case and Contract Award
- § Delegated Decision of Director of Environment and Neighbourhoods 24th June 2011
 - Little London and Beeston Hill & Holbeck PFI Housing Project – Revision of Pre Preferred Bidder Final Business Case
- Executive Board Report July 2011
 - Little London and Beeston Hill & Holbeck PFI Housing Project – Confirmation of Pre Preferred Bidder Final Business Case and VFM Outcome
- § Delegated Decision of Director of Environment and Neighbourhoods 3rd February 2012
 - Little London and Beeston Hill & Holbeck PFI Housing Project – Revised Pre Financial Close Final Business Case
- Little London Development Framework
- Beeston Hill & Holbeck Land Use Framework
- Beeston Hill and West Hunslet Regeneration Plan
- Holbeck Regeneration Plan
- Little London and Beeston Hill & Holbeck Equality Impact Assessment
- Little London and Beeston Hill & Holbeck Pre-Preferred Bidder Final Business Case – provided as an Exempt Document in the Member’s Library

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