

Report of Director of Environment & Housing

Report to Executive Board

Date: 17th July 2013

Subject: Little London, Beeston Hill & Holbeck – Housing PFI – confirmation of contract close and final affordability position

Are specific electoral Wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, name(s) of Ward(s): Beeston & Holbeck, City & Hunslet and Hyde Park & Woodhouse.		
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?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, Access to Information Procedure Rule number: 10.4(3).		
<p>Appendix A 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 Contractor, where the benefit of keeping the information confidential is considered greater than that of allowing public access to the information.</p>		

1. SUMMARY OF MAIN ISSUES

The Little London, Beeston Hill and Holbeck Private Finance Initiative Project has now reached contract close, and following a 3 month mobilisation period will become operational as the largest single area regeneration investment in Leeds for many years and one of the largest housing PFI projects in the country.

The project will deliver significant capital improvements to 1245 existing Council homes (plus external improvements to 51 leaseholder properties), and see the construction of 388 new council homes over the next 4 years to be let at social rents. Improvements to estate areas will also be undertaken as part of an ongoing service contract to maintain building and environmental standards over a 20 year period until 2033.

- Despite a series of significant challenges the project remains within the affordability limits originally approved by Executive Board in 2008. The procurement phase of the project commenced in July 2007 and was completed in October 2010. At that time, the Council anticipated that financial close could be completed by April 2011, but a series of delays including government efficiency review, wider banking crisis and Treasury requiring a review of funding terms which resulted in a switch from bank to bond market finance have delayed the project significantly at its final stage.

- However a contract was finally signed on 5th July 2013 with financial close programmed for 11 July 2013 and this enables the Council to move forward to the delivery stage, bringing significant physical, social and economic benefits to local communities and the city. This report confirms the final terms achieved and sets out the immediate next steps for the project.
- The Council has taken a number of steps to secure improvements and address other regeneration issues within the project areas in advance of the project during the period of the delays and a further update is provided to members about progress with these initiatives also.

2. RECOMMENDATIONS

Members are recommended to note:

- i. that the contract was eventually completed on 5th July 2013 with financial close programmed for 11 July and that the planned date of service commencement (including start on site) will be 30th September 2013 with mobilisation and preliminaries currently underway;
- ii. the final affordability position achieved at close and set out in detail at exempt **Appendix A** and;
- iii. progress made on other regeneration activities in the PFI project areas.

3. PURPOSE OF THIS REPORT

- 3.1 This report confirms the outcomes that will be delivered by the Little London, Beeston Hill and Holbeck Private Finance Initiative Project and confirms the final affordability position achieved at Financial Close.
- 3.2 The project remained within the final scope confirmed by Executive Board on 18th July 2012 and within the overall affordability limits approved by Executive Board.
- 3.3 The Council's commitment to Little London, Beeston Hill and Holbeck extends beyond the PFI investment and the report provides a further update on the complementary regeneration activities that are underway or being planned in the project areas through new build and refurbishment and for improvements to the Little London local centre ('community hub').

4. BACKGROUND INFORMATION

Government approvals

- 4.1 The Pre Preferred Bidder Final Business Case (PPB FBC) for the project was originally approved by Executive Board on 27th July 2011 and by Government on 18th October 2011. Further iterations of the Final Business Case (FBC) have been required to take account of changes to the funding of the project.
- 4.2 Executive Board approved a capital contribution to support the funding of the project in July 2012 following the withdrawal of one of the bank funders. The contribution required the City Council to re-profile the affordability contributions it makes over the first 4 years of the contract in line with the anticipated construction

programme. This will be achieved without impacting on other HRA programme priorities.

- 4.3 The Council anticipated moving to financial close in early 2013, but in late January 2013 Treasury advised that it would not allow the project to proceed on the then current funding terms.
- 4.4 The commercial terms on which bond market investors were prepared to fund projects were the subject of negotiation over the following five months. The final amendments to standard contract form were submitted to and approved by Treasury in mid June 2013.
- 4.5 As a result of the improved funding terms available, the sponsoring department Communities and Local Government (CLG) and Treasury decided to undertake a further review of the Council's Pre-Financial Close Final Business Case (PFC FBC) and determined that the financial benefits secured by the application of the Council's capital contribution together with the improved funding terms offered by the bond market should all be recouped by Central Government. The final version of the PFC FBC was approved by CLG and Treasury on 12th June 2013.
- 4.6 The Council has made representations that some of the savings should have been applied for the benefit of Leeds, particularly given that the vast majority of delays over the last 3 years have been outside the Council's control and it has in the meantime incurred significant additional costs in terms of procurement, repairs to properties and in site security costs.
- 4.7 The final financial position does however remain affordable within the original parameters approved by Executive Board. A more detailed financial report on the final position is provided at confidential **Appendix A** for information.

Project history and Council approvals

- 4.8 Executive Board has already considered a detailed report setting out the history of the project and the reason for delays on 15th February 2013.

5. MAIN ISSUES

Investment and property outputs

- 5.1 The project represents a major investment in the regeneration of three of Leeds' most deprived neighbourhoods and will have a major, positive and sustained impact on the lives of tenants, residents and businesses in these areas.
- 5.2 The main programme of works includes refurbishment of the 1245 Council homes, construction of 388 new Council homes to rent and environmental improvements to the estate. In addition 51 leaseholders will also benefit from external works improvements where works are being carried out on shared or multi-storey flats across the project areas. The programme will commence in late September 2013, with works to existing homes and the construction of new homes to be completed overall by 2017.
- 5.3 The main housing outputs to be delivered through the project will be:

Little London :

- 848 homes to be refurbished (includes removal of 16 bed-sit flats);
- 113 new homes built (Carlton Gate site where 145 outdated flats were demolished in 2010);
- renovation and improvement of the estate environment.

Holbeck :

- 374 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 (on the Holbeck Towers site where 300 outdated flats were demolished in 2010);
- renovation and improvement of the estate environment

Beeston Hill :

- 167 new homes built (across 8 sites where 222 outdated maisonette flats have been emptied in anticipation of the project).

5.4 The 388 new build Council homes will make a significant contribution to the overall delivery of the city's Core Strategy housing targets to 2028, through the effective use of Council owned brownfield land in areas of housing need.

Construction programme and standards

5.5 The anticipated refurbishment and new build construction programmes over the next four years will be as follows:

Beeston Hill and Holbeck	Refurbishment	
	Start on site	Finish on site
Meynell Heights	Sep-13	Feb-15
Ingram Court	Apr-14	Jan-15
Holbeck back to backs	Jan-15	Jul-15
East Holbeck Low (Meynells & Ninevehs)	Jan-15	Aug-15
West Holbeck Low (Ingrams)	Jul-15	Apr-16
West Holbeck Low (Balms)	Sep-15	Feb-16

Little London	Refurbishment	
	Start on site	Finish on site
Carlton Low Rise	Sep-13	Nov-14
Carlton High Rise	Sep-13	Feb-15
Oatland High Rise	Apr-14	Jul-16

Oatland Low Rise	Aug-15	Apr-16
Servias	Jan-15	Aug-15
Lovell Low Rise	Feb-16	Sep-16

Beeston Hill and Holbeck	Demolition		New build construction	
	Start on site	Finish on site	Start on site	Finish on site
Folly Lane	n/a		Feb-14	Nov-14
Coupland Place	Nov-13	Jan-14	Feb-14	Oct-14
Malvern Road	Nov-13	Feb-14	Feb-14	Jan-15
Coupland Road	Nov-13	Jan-14	Jun-14	Mar-15
Holbeck Twrs & Gaitskells	Nov-13	Jan-14	Jun-14	Dec-15
St Lukes Green	Dec-13	Feb-14	Aug-14	Jun-15
Fairfax Road	Dec-13	Feb-14	Aug-14	Jul-16
Bismark Street	Feb-14	Apr-14	Jul-15	Apr-16
Bismarck Drive	Feb-14	Apr-14	Aug-14	Mar-17

Little London	Demolition		New build construction	
	Start on site	Finish on site	Start on site	Finish on site
Carlton Gate	Jan-14	Feb-14	Mar-14	Jan-16

5.6 The project will also deliver benefits in the form of **enhanced environmental standards and improved community safety** to the housing and estate areas by ensuring:

- all new homes to be built to Code for Sustainable Homes Code 4 standards;
- all existing homes to fully meet the Decent Homes standard with minimum improved energy efficient standards;
- the energy efficiency targets of the homes will support a reduction in fuel poverty; and
- Neighbourhoods meet the Secured by Design and Design for Life environmental standards, helping transform the homes and environment in these areas.

Training and employment opportunities

5.7 The project will also ensure that the benefits of investment are secured for the local economy in the form of **employment and training opportunities**. The PFI contractor will work closely with the Council and the network of training providers in the city to

- deliver 99 apprenticeship/traineeships in Construction and Grounds Maintenance;
- safeguard up to 160 jobs for existing sc4L and supply chain staff currently working in Leeds;
- create up to an additional 250 employment opportunities for skilled people in Leeds;
- 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.

Contract delivery and management

- 5.8 Sustainable Communities for Leeds (Sc4L) was confirmed as Preferred Bidder for the project on 27th January 2012. The consortium members at that time were Cyril Sweet Investments, Keepmoat Investments and Lloyds Bank/Bank of Scotland. Cyril Sweett have subsequently been replaced as an equity sponsor by Equitix. Sc4L were formally appointed as contractor at close.
- 5.9 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 Keepmoat Property Services (previously Milnerbuild, also part of the Keepmoat Group) who are experienced contractors within the City, with future life cycle works undertaken direct by FHM.
- 5.10 The Council will work closely with the contractor and sub-contractors to identify and promote opportunities for other local and regional companies to compete to provide other sub-contracted elements of the work.
- 5.11 The local Arm's Length Management Organisations will continue to provide the tenancy management services to the homes within the project area, until new arrangements for Council housing management are agreed: Aire Valley Homes for Holbeck and Beeston Hill and West North West Homes for Little London.
- 5.12 Environment & Neighbourhoods contract monitoring team will be responsible for contract management, with continued support from the Public Private Partnerships Unit (PPPU) over the first year to ensure that the project is mobilised effectively and that operational processes are embedded effectively. PPPU will also provide on-going technical and commercial support including a construction monitoring role on site for the new build homes and technical review of works, design and specification matters during the refurbishment and construction period.

Other Regeneration Activity

- 5.13 There is also a commitment on the Council's part to ensure regeneration of these areas is delivered through means other than just PFI and as a complement to this investment. Separate measures that are being progressed to deliver improvements in and around the project areas are set out in the sections below.

Little London Community Hub

- 5.14 The report to Executive Board in February 2013 set out a revised approach to redevelopment of the Little London Community Hub site following its removal from scope of the PFI project.
- 5.15 This involves the expansion of Little London Primary School from 1 to 3 forms of entry, relocation of the Neighbourhood Housing Office (NHO) within the site, rebuilding of the community centre and securing investment from a private retail concern to provide a new local convenience store.
- 5.16 Disposal of the existing NHO site to a retail developer has now been agreed, with a national operator due to open a main unit of 233 sq m for a new local groceries and convenience store. Two smaller units of 100 sq m will also be provided and are likely to be a chemist and charity shop. A planning application was submitted in May and subject to approval of this the site will be sold to enable a start on site by the end of 2013.
- 5.17 To enable the retail development to proceed the Council has provided a temporary NHO facility adjoining the existing community centre. Planning permission for this was obtained in March 2013 and is expected to be operational by October, allowing the retail development to commence and be open for business in spring 2014. The existing shops at the Community Hub will have the facility to remain trading until this point.
- 5.18 Feasibility work has been completed establishing the outline specification of a new community centre, to be built on the site of the existing building. This will be a combined facility with a new NHO, providing bookable rooms, a main hall and frontline tenancy management services for the locality. Detailed design work is now progressing on this aspect of the scheme, in consultation with local residents and Ward Members. The new community building will be funded through the Housing Revenue Account and via the capital receipt from the sale of the existing NHO site.

Refurbishment of Homes in Beeston Hill

- 5.19 Plans have progressed for the refurbishment of 87 homes on two sites in Beeston Hill - Waverley Garth and Malvern Rise - that were originally intended for demolition through the PFI project.
- 5.20 Planning applications have been submitted for the work, subject to which a start on site is expected in September, with completion anticipated by December 2014. Work will involve internal refurbishment to Decent Homes standards together with substantial external envelope improvements.

Refurbishment of Homes in West Hunslet

- 5.21 Work is underway with Aire Valley Homes and Leeds Federated Housing Association to refurbish and bring back into use 21 back-to-back properties in the Garnets area of West Hunslet.
- 5.22 Seven properties managed by the ALMO and five by the Housing Association have been brought back into use following refurbishment to Decent Homes standard. The ALMO will start work on the remaining 9 properties in June.

New Homes in Holbeck & West Hunslet

- 5.23 Following Executive Board approval in March, the Council has agreed a disposal of cleared land on the site at Brown Lane East, Holbeck to Unity Housing Association to deliver 41 new affordable houses and flats for both affordable rent (25) and on a shared ownership basis (16). The scheme will comprise 18no. 2 bed flats, 17no. 3 bed houses and 6no. 4 bed houses.
- 5.24 A planning application was submitted in April and subject to approval of this the site will be sold to enable a start on site by September 2013. It is anticipated that the scheme will be completed within 12 months of start, with homes being made available for occupation in phases.
- 5.25 Options for redevelopment of the Garnets site in West Hunslet are being refined, where 78 back-to-back properties were demolished in between 2010-12. There is potential for the construction of up to 42 new affordable or social rented homes on this site to meet needs for local older people's accommodation and downsizing requirements arising to meet the impact of welfare reform.

Targeting Derelict and Nuisance Sites

- 5.26 The Council's Derelict and Nuisance Sites programme has targeted two sites in the Beeston and Holbeck areas where the PFI investment is to be made, to secure improvements to local amenity. Following the owner's failure to act on enforcement notices to repair and make safe the former Spotted Cow public house in Holbeck, the Council will undertake works to demolish the property and make safe the site over the summer, with costs to be recovered from the owner or via a charge on the land.
- 5.27 The former Malvern public house in Beeston has been vacant for over 4 years. The Council owns the freehold of the site with the leasehold owned privately and discussions between the parties are ongoing to agree terms for a proposed re-use of the property.

6. CORPORATE CONSIDERATIONS

6.1 Consultation and Engagement

- 6.1.1 Consultation has been undertaken throughout the project development and the procurement process, varying in intensity according to the stage reached.
- 6.1.2 The key lines of consultation and involvement over the Final Business Case stages have been:
- Executive Member – overall oversight and progress reporting;
 - Ward Members and MP – progress reports as appropriate;
 - 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 – enquiry responses.

6.2 Equality and Diversity / Cohesion and Integration

6.2.1 The project has been informed by an Equalities Impact Assessment, which has been subject to regular review throughout the procurement period. The Assessment has focused on both the impact of benefits to be realised as a result of the project outputs, along with that of the ongoing consultation and engagement with stakeholders, including local communities. The Impact Assessment highlights actions and issues such as:-

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

6.2.2 No new equality issues identified at this final stage, nor have the impact levels of existing issues changed. The project EIA has been attached at **Appendix B**.

6.3 Council Policies and City Priorities

6.3.1 The PFI scheme also contributes to the City Priority Plan, by making this part of the City a 'better place to live', contributing to the improvement of 'health and welfare' and contributing 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.

6.4 Resources and Value for Money

6.4.1 A detailed organisation structure is in place to deliver the mobilisation and contract management phase of the project. The proposed resource for 2013/14 has been

noted by the Environment & Neighbourhoods Housing PFI Project Board, following discussion with the client department.

6.4.2 The re-profiling of the Council's affordability contribution will be funded directly from the Housing Revenue Account (HRA) which has sufficient reserves to meet the projected payment profile without any impact on other known or planned commitments.

6.4.3 The change in approach to funding the project was approved as a key decision following consultation with the Executive Member for Neighbourhoods, Housing and Support Services and other Executive Board members.

6.5 Legal Implications, Access to Information and Call In

6.5.1 **Appendix A** 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 Contractor, where the benefit of keeping the information confidential is considered greater than that of allowing public access to the information.

6.5.2 As previously reported to Executive Board, a final report and DDN was submitted to the Director of Environment and Housing prior to close to authorise the process for close and the final terms of documentation. This was supported by a final due diligence report prepared by the City Council's external legal advisers.

6.5.3 The report is subject to call in, although no formal decision is to be taken by Executive Board. The decision has been taken by the Director of Environment and Housing after prior review by Strategic Investment Board and Project Board.

6.6 Risk Management

6.6.1 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.

6.6.2 The Housing PFI Project Board continued to monitor risks up until financial close, with details provided on increasing risks and all high or very high risks. An operational risk register is now established and it is planned to transfer the governance for the project to the Housing Contracts Board, chaired by the Chief Officer PPPU and Procurement Unit (as is the case with the Swarcliffe PFI project) in the near future.

7. CONCLUSION

7.1 The procurement of the Little London, Beeston Hill and Holbeck PFI Project has now concluded following a long development and procurement process. The contract reached contract close on 5 July 2013 and service commencement (including a start on site) is planned for Monday 30th September 2013, with mobilisation and preliminaries now underway.

7.2 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.

- 7.3 Despite all the delays and reviews the project will still deliver significant improvements to these priority regeneration areas and remains affordable to the Council.

8. RECOMMENDATIONS

Members are recommended to welcome:

- i. that the contract was eventually completed on 5th July 2013 with financial close programmed for 11 July and that the planned date of service commencement (including start on site) will be 30th September 2013 with mobilisation and preliminaries currently underway;
- ii. the final affordability position achieved at close and set out in detail at exempt **Appendix A** and;
- iii. the progress made on other regeneration activities in the PFI project areas.

9. Appendices

Appendix A - Exempt (Confidential) - updated affordability position

Appendix B – Little London and Beeston Hill & Holbeck, Equality Impact Assessment

Background Documents ¹

None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.