
Report of the Deputy Chief Executive

Executive Board

Date: 8th October 2008

Subject: Progress Report on the PPP/PFI Programme in Leeds

Electoral wards affected:

All

Specific implications for:

Equality and Diversity

Community Cohesion

Narrowing the gap

Eligible for call In

Not eligible for call in
(details contained in the report)

Executive Summary

This is the seventh update report on Leeds City Councils PPP/PFI projects and programmes and provides:

- a progress report on the current portfolio of 16 projects
- highlights of the projects that have achieved financial and commercial close since the last update report;
- highlights of the projects programmed to achieve financial and commercial close within the next 6 months and the challenges this will pose for the council.
- approve the completion and entry into all necessary legal documentation in relation to the Design and Build contract for Crawshaw High School as outlined in the appended design and cost report (Appendix 2)

1.0 Background

1.1 Executive Board requested at its meeting on 9th March 2005 six monthly updates on:

- the progress of PPP/PFI projects and programmes
- the implementation of the governance framework.

This is the seventh update report.

2.0 Leeds City Council PPP/PFI Projects and Programmes

2.1 April 2008 – October 2008 has continued to provide a challenging environment for the delivery of Leeds City Council PPP/PFI schemes. In part this is due to the number of projects in development together with retention and recruitment challenges across the unit and affecting the Council.

2.2 The progress, scope and status of these schemes are outlined in Appendix 1.

3.0 Contracts Signed in 2008/09

3.1 The highlights of the schemes which have been signed since the last update report (16 April 2008) are listed below:

3.1.1 Independent Living PFI Project

This project has been in procurement since 2006. The final business case was approved by Executive Board in January 2008 and the contract was signed on 9th June 2008.

The addition of the facilities required by Children's Services is being dealt with through a major change and will be concluded in October 2008. A verbal update will be provided at the Executive Board meeting.

This project supports the Leeds Strategic Plan 2008 to 2011 strategic outcomes of:

- Health and Wellbeing - Improved quality of life through maximising the potential of vulnerable people by promoting independence, dignity and respect.
- Thriving Places - Improved quality of life through mixed neighbourhoods offering good housing options and better access to services and activities.
- Harmonious Communities - Improved community cohesion and integration through meaningful involvement and valuing equality and diversity.

3.1.2 New Leaf Leisure Centres Project

The Department of Culture, Media and Sport approved the Council's Expression of Interest in June 2007. Morley and Armley leisure centres have progressed as PFI projects under the Strategic Partnership Agreement (SPA) between the Council and Leeds LEP Ltd. The contract was signed on 6th August 2008, only 14 months after the Outline Business Case was approved. This represents the most efficient procurement undertaken by the unit to date, the financial implications of

which are reported further in paragraph 8.7 below.

This project supports the Leeds Strategic Plan 2008 to 2011 strategic outcomes of:

- Culture - Enhanced cultural opportunities through encouraging investment and development of high quality facilities of national and international significance.
- Health and Wellbeing - Reduced health inequalities through the promotion of healthy life choices and improved access to services.

3.1.3 *Building Schools for the Future Programme Phase 2 (A)*

Phase 2 of BSF includes Priesthorpe High School, Crawshaw High School, Farnley Park High School, all design and build schools, and Swallow Hill Community College (formerly known as West Leeds High School) a PFI school.

The Final Business Case for Swallow Hill (phase 2A) was approved by PFS in March 2008 and the project signed on 13th March 2008.

The new Swallow Hill County College is under construction with completion programmed for August 2009. The programmes of the remaining schools in Phase 2 are reported below.

This project supports the Leeds Strategic Plan 2008 to 2011 strategic outcomes of:

- Learning - An enhanced workforce that will meet future challenges through fulfilling individual and economic potential and investing in learning facilities.

The financial implications of the BSF programme are reported in section 8.2 below.

4.0 Schemes Programmed to be signed in 2008/09

4.1 The highlights of the schemes which are programmed to be signed by March 2009 are listed below:

4.1.1 *Building Schools for the Future Programme Phases 2 (B, C and D) and 3*

On 22nd August 2007 Members of Executive Board approved the Outline Business Case for Phases 2 and 3 of the Council's Wave 1 Building Schools for the Future (BSF) Programme.

Phase 2 of BSF includes Priesthorpe High School (B), Crawshaw High School (C), Farnley Park High School (D), all design and build schools, and Swallow Hill Community College (A) (formerly known as West Leeds High School) a PFI school.

This project supports the Leeds Strategic Plan 2008 to 2011 strategic outcomes of:

- Learning - An enhanced workforce that will meet future challenges through fulfilling individual and economic potential and investing in learning

facilities.

The Council are now in a position to achieve contract signature on two of the Phase 2 Design and Build schools, Crawshaw High School and Priesthorpe Specialist Sports College. It is anticipated that project signing will take place on Crawshaw and Priesthorpe in November and December 2008 respectively. Negotiations relating to design, scope and price through the LEP with Interserve (part of the Environments for Learning Consortium) are at an advanced stage. Both schemes remain within the original affordability envelopes set out in the 22 August 2007 Executive Board report and a Final Business Case has been submitted to Partnerships for Schools for approval. A Design and Cost report is attached at Appendix 2 for Crawshaw.

Priesthorpe design and cost report will be submitted for approval to a later Executive Board meeting.

Authority is now sought to complete and enter into all necessary legal documentation in relation to the design and build contract for Crawshaw High School.

Farnley Park is scheduled to be signed in late 2009.

4.1.2 *Joint Service Centres Phase 1*

A revised Stage 1 offer was received from Leeds LIFT Co on 3rd March 2008 and approved by Executive Board on 12th March 2008. The project is scheduled to be signed in February 2009 with Service Commencement at Harehills in April 2010 and at Chapeltown in July 2010.

Work on the identification of a suitable site in Kirkstall continues.

This project supports the Leeds Strategic Plan 2008 to 2011 strategic outcomes of:

- Health and Wellbeing - Reduced health inequalities through the promotion of healthy life choices and improved access to services.
- Thriving Places - Improved quality of life through mixed neighbourhoods offering good housing options and better access to services and activities.
- Harmonious Communities - More inclusive, varied and vibrant communities through empowering people to contribute to decision making and delivering local services.

5.0 Councils' Successes Since May 2008

5.1 Evidence of the Councils' successes since April 2008 can be shown through:

5.1.1 *Conferences*

Officers of the Unit have been invited to attend and speak at 3 conferences during the last six months including the Next Generation 4Ps Conference on 2nd June 2008 on the benefits of a dedicated delivery Unit, lessons learned in the PFI process and ensuring value for money.

5.1.2 *Awards*

The Independent Living Project received a 4Ps Excellence Award for Customer Services (PPPs which have provided services or facilities which have significantly improved customer service and satisfaction levels) in June 2008.

5.1.3 *Gateway Reviews*

Subject to competing priorities, the Council invites independent Gateway reviews led by the 4P's on all of its PFI projects. The 4Ps review reports provide the Council with a confidential position statement on the status of each project at each stage using the RAG (red, amber, green) 'traffic light' approach and the Council continues to seek to support this initiative by releasing trained staff, to assist the 4P's in progressing their National Gateway Review programme.

Residual Waste progressed to Gate 2 'Procurement Strategy' during September 2008.

BSF Phase 1 should progress to Gate 4 'Readiness for Service' in October 2008.

BSF Phase 2 (Priesthorpe and Crawshaw) will be subjected to a Gate 3 'Investment Decision' in October 2008.

5.1.4 *Independent Living Project*

See also paragraph 3.1.1 above. On 9th June 2008 the project was signed. The first phases of a 3 year construction programme are already on site with phase one to be in use by 23rd March 2009.

5.1.5 *Building Schools for the Future (Phases 1 & 2)*

The first three schools, Allerton High School, Pudsey Grangefield High School and Rodillian High School became operational in August 2008 as planned.

The Phase 2 Design and Builds at Crawshaw High School and Priesthorpe Specialist Sports College are being submitted for approval, as reported above.

5.1.6 *Little London and Beeston Hill & Holbeck Housing Joint Procurement Project*

The Council entered the intensive period of the Detailed Solution Stage in June 2008. The project, one of the largest in the country, remains on programme for contract signature next year.

5.1.7 *New Leaf Project*

See paragraph 3.1.2 above and 8.7 below. Work has already started on both sites, and construction is progressing according to programme with Morley to open 1st June 2010 and Armley 27th April 2010.

5.1.8 *Building Schools for the Future Programme Phases 3 and 4*

Education Leeds has recently reviewed the scope of Phase 3, which includes Mount St. Mary's High School, Corpus Christi Catholic College and Parklands Girls High School. Mount St Mary's and Corpus Christi are to be progressed as

originally planned as design and build schools. A range of options are currently being considered for the re-provision of Parklands; a report is on the agenda for the October Executive Board meeting. It is anticipated that contract signature will be achieved in November 2009 for the two VA schools. The programme for Parklands will follow once a decision on the re-provision has been made.

A new Phase 4 has been introduced to the BSF Programme to address the future of Intake High which will now involve the provision of a new build Academy. The expression of interest was approved by PfS in June 2008. The current programme indicates that the academy will be open in its existing building September 2009 with the new build academy being available September 2011.

6.0 New Schemes

6.1 *West Yorkshire Police*

The West Yorkshire Police have now applied to the Home Office for funding under the Private Finance Initiative, as a procurement option for their current capital building programme. The submission of the Expression of Interest was developed by officers of the PPPU, and this has now been approved by the Home Office.

As a result, the West Yorkshire Police are proposing to commission the PPPU to manage the preparation of an Outline Business Case and provide support through the procurement stages of the project. The PPPU propose to resource this from within existing capacity, however it is proposed that any firm proposal is brought before the Executive Board for a decision should discussions prove satisfactory.

This project will have significant and direct benefits for the City and region and supports the Leeds Strategic Plan 2008 to 2011 strategic outcomes of:

- Health and Wellbeing - Enhanced safety and support for vulnerable people through preventative and protective action to minimise risks and maximise wellbeing
- Thriving Places - Reduced crime through prevention, detection, offender management, victim support and changed behaviours.
- Harmonious Communities - More inclusive, varied and vibrant communities through empowering people to contribute to decision making and delivering local services.

6.2 *Round Six Housing*

In July the Government announced the launch of the sixth round of the Housing Private Finance Initiative. Councils have been invited to bid for a share of up to £1.87bn to build new homes, or refurbish existing estates. Officers, including staff from the PPPU are working together to assess the opportunities a bid could offer to the Council in line with the recently published Strategic Plan. Previous submissions to earlier rounds have secured funds for Swarcliffe, Little London and Beeston Hill and Holbeck, and, as with previous projects, Members support for any proposal will be sought at the earliest opportunity.

6.3 *Well Being Centre, Holt Park*

In May 2008 the EOI was submitted by the Council and Primary Care Trust to the Department of Health. A decision is now expected in October 2008. A verbal update will be provided at the Executive Board meeting, including reference to future Department of Health bidding opportunities.

7.0 Governance Implementation

7.1 In response to an independent 4Ps Gateway Review of the Council's Building Schools for the Future Programme, a Governance and Management Framework for City Council PPP/PFI projects and programmes was approved by Executive Board in March 2005.

7.2 This framework is currently under review to ensure that changes arising from the implementation of the Delivering Successful Change Programme and from the development of the Council's management arrangements are incorporated and that the governance arrangements are more firmly embedded in the Council's Constitution.

7.3 The Programme of work for 2008-2009 presents a number of significant challenges not least with regard to the continuing difficulties in recruiting and retaining specialist staff particularly in technical and project management disciplines. However, recruitment has been more successful with regards legal and financial disciplines after a number of unsuccessful recruitment exercises.

7.4 A further recruitment exercise is seeking to secure staff for the remaining unfilled specialist posts within the unit and all new vacancies created by the departure of colleagues to new opportunities. The impact of these vacancies on the current programme of work has been noted and is being closely monitored, with resources redirected to address priorities wherever possible.

7.5 Furthermore, the unit is undertaking a recruitment and retention project around the areas of Mission and Vision, Communication and Marketing, Job Descriptions, Valuing Staff and Recruitment Procedures

8.0 Financial Implications

8.1 There are no further financial implications arising from this report over and above those reported in August 2007, though the substantial investment through this funding initiative does result in some significant financial implications for the City Council. In particular the affect on the Councils Capital Programme, as it supports improvements to the public infrastructure and assets required to facilitate these programmes of change.

8.2 A capital scheme has been maintained in relation to BSF Phase 1. The original purpose of this scheme was to meet the costs of related highway works and of contract variations. However, there have been some additional calls on the scheme, including to meet the costs of unexpected asbestos removal and associated contract delay on the PFI contract, those costs being the Council's contractual responsibility. In addition, there are outstanding a number of contract claims for compensation events on the design and build contracts, for the costs of

remedying unforeseen latent defects in the buildings. These claims are currently being addressed with the Council's partners, but the cumulative effect of these and the other calls on the scheme is likely to put pressure on the amount of the overall provision. A further report on the outcome costs of these events will be presented in due course.

- 8.3 At the same time, the ability of the Council to progress these complex procurements in a timely and efficient manner has potentially generated a number of significant savings (when compared to other similar projects in the public sector) which have not been previously reported.
- 8.4 To demonstrate this, on BSF Wave 1 the impact of a dedicated PPPU on whole life procurement cost can be seen as the difference between the average total cost of BSF procurement, of £5.6 million over 41 months, and the Council's total costs of £3.2 million over 15 months an efficiency saving of £2.4m.
- 8.5 A more significant impact, albeit as a notional saving, arises from the time saved in procurement as when aligned to the impact of building cost inflation (or B.C.I.S. as published by PfS), the adverse impact of an extra 26 months at an average of 5% per annum on the cities allocation on a capital of £270m is over £25m.
- 8.6 Other, though less quantifiable savings also arise from a more efficient procurement as bidders resources, and costs, are optimised, however, it is considered appropriate to promote that an overall efficiency of some £30m has arisen as a consequence of the establishment and contribution of the PPPU to the procurement of BSF Wave 1.
- 8.7 Furthermore, the New Leaf Project has also generated a significant though smaller saving in the cost of procurement and the impact of construction cost inflation. The data available on other comparable projects identifies a procurement programme of 37 months, compared to 14 for New Leaf, and an average total cost of procurement (in a small programme) of £3m compared against the combined LEP and Council costs of £1.6m, a saving of £1.4m. The impact of building cost inflation (currently 4% per annum) on the capital cost equates to £2.8m, with a further funding efficiency of £30,000 per annum for 25 years arising from the long-term relationship with the LEP, and its funder SMB. This provides an estimated combined saving of £5m, on a project with a capital value of £30m.

9.0 Recommendations

- 9.1 Executive Board is recommended to:
1. note the current status of PPP/PFI projects and programmes.
 2. approve the completion and entry into all necessary legal documentation in relation to the Design and Build contract for Crawshaw High School

Background Information

PPP / PFI Six-Monthly Update Report (Executive Board – 16.04.2008)

Outline Business Case for Phases 2 and 3 of the Council's Wave 1 Building Schools for the Future (BSF) Programme. (Executive Board – 22.8.2007)