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Report of the Director of Environment and Neighbourhoods

Executive Board

Date: 4th March 2009

Subject: Little London and Beeston Hill & Holbeck Round 5 PFI Housing Project –
Impact of Wider Economic Changes on Project Scope

Electoral Wards Affected:

Hyde Park & Woodhouse
Beeston Hill & Holbeck
City & Hunslet

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the)

EXECUTIVE SUMMARY

Following approval of outline business cases by Executive Board and by Government for PFI Housing projects at Little London and Beeston Hill & Holbeck, procurement activity has proceeded over the course of 2008, with bids for the 'detailed solutions' stage submitted in October 2008. Bids received showed that the wider economic and housing market changes have had significant impact on non-PFI funded elements of the proposed scheme. The disposal of Council land for the construction of new private housing to be integrated with new PFI social rented Council homes and the recovery of land value to fund other non-residential aspects of regeneration have proved undeliverable within this project at the current time without substantial further financial support.

As a result, there is a need to change the project scope, to remove the private development aspects of the scheme, redefine where in each project area the PFI property outputs will be delivered and to ensure delivery of the Little London community hub as part of the overall regeneration of the area.

Following evaluation of detailed solutions received by the three bidders and legal advice in relation to the procurement process, Project Board has shortlisted two consortia to proceed to the 'refined solutions'. Executive Board approval is required to the proposed scope changes, which are set out in the report.

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to:

- update Executive Board on the procurement of the Housing PFI project covering Little London and Beeston Hill & Holbeck;
- report on issues arising from bids received at the 'detailed solutions' stage of the procurement exercise, particularly in relation to wider economic and housing market changes and the impact of these on some aspects of the project;
- set out proposed changes to the scope of the project to protect the affordability and deliverability of the core PFI and regeneration elements.

1.2 Confidential Appendix 1 provides details of the financial offers made for the development land included in the scheme, and the Council's approach to risks arising from the re-scope. This remains confidential under Access to Information Rule 10.4.3 on the grounds that it contains commercially sensitive information about the respective financial and business affairs and commercial positions of the Council and Bidders, and in the circumstances the public interest in maintaining confidentiality outweighs the public interest in disclosing the information.

2.0 BACKGROUND

- 2.1 The Little London PFI scheme Outline Business Case (OBC) was agreed by Executive Board in May 2006, with approval from the Department of Communities and Local Government (CLG) following in December 2006. The OBC approval of PFI Credits provides for refurbishment of 884 existing Council properties, development of 125 new units of Council housing and environmental improvements. In addition, the scheme included opportunities to develop some private and affordable housing.
- 2.2 The Beeston Hill & Holbeck OBC was agreed by Executive Board in November 2007, with approval from the Department of Communities and Local Government (CLG) following in March 2008. The OBC approval of PFI Credits provides for refurbishment/conversion of 321 existing Council properties, development of 350 units of Council housing and environmental improvements. In addition the scheme included the opportunity to develop further private and affordable housing.
- 2.3 The two projects were advertised together in the Official Journal of the European Union (OJEU) in order to allow for them being procured jointly to achieve greater project efficiencies. The procurement of each project has now been combined and is taking the form of ongoing 'competitive dialogue'.
- 2.4 The OJEU process resulted in four strong bidders progressing through the Pre-qualification Questionnaire (PQQ) stage to Invitation to Submit Outline Solutions (ISOS). Following evaluation of these in July 2008, three consortia progressed to 'Invitation to Submit Detailed Solutions' (ISDS), with these bids received on 10th October 2008. Evaluation of these took place up to January 2009.
- 2.5 Under existing Executive Board delegations relating to PFI governance, the PFI Housing Project Board has authority to approve de-selection of bidding consortia as part of the competitive dialogue process. Under this authority, two bidders have been short-listed to progress to the Invitation to Submit Refinement of Solutions (ISRS) stage of procurement, which will commence formally on 16th March 2009.

3.0 ORIGINAL PROJECT SCOPE

- 3.1 In February 2008 Executive Board approved the inclusion in the project of 15 sites in Beeston Hill and Holbeck and 4 sites in Little London. These were to be made available for the new PFI housing in each of the project areas, but also offered additional scope for new private residential development, through the sale of land for private housing. The procurement therefore included these opportunities and bidders were instructed to design, specify and cost a mixed, 'tenure-blind' scheme that integrated PFI and private new build housing within and across the development sites.
- 3.2 The bidders were also instructed to include new retail provision, a new community centre and a new housing office within the 'community hub' in Little London, to be funded through a land value return arising from sale of development sites. In light of previous reports to Executive Board, supported by land valuations set out in Confidential Appendices, the bid instructions were developed on the basis of a contribution to the PFI financial model arising from land disposals. Further details of these are set out in Confidential Appendix 1.
- 3.3 To enable this development approach the Council included in its procurement package a draft development agreement for the disposal and subsequent development of land for market housing together with a draft project agreement to control the development of new social housing and other PFI funded improvements on the Council's retained land.
- 3.4 The agreements commit the Council to achieving vacant possession of each prior to its sale and vacation of all dwellings prior to commencement of PFI demolition, in order to provide development and contractual certainty for both it and the appointed bidding consortium. Executive Board has previously approved the means by which this could be achieved, through rehousing of tenants, negotiation to purchase leasehold interests and if required use of CPO, powers for which were delegated to the Directors of Environment & Neighbourhoods and City Development.
- 3.5 Substantial progress has been made on this with all leaseholders affected in discussion with the Council. Virtually all tenants have now been re-housed in Little London and progress in Beeston Hill and Holbeck is ahead of schedule. Once all interests have been acquired and all occupiers rehoused, each site can be cleared of buildings through the PFI funding, in preparation for development.
- 3.6 Other works proposed under the PFI funding – refurbishment of properties, environmental improvements and a 20 year agreement for services – are all focused on land or assets already in the ownership of the Council and are not therefore dependent on land assembly.
- 3.7 Bidders submitted their detailed solutions on the basis described above.

4.0 IMPACTS OF ECONOMIC & HOUSING MARKET DOWNTURN

- 4.1 Access to PFI credits is not directly affected by the current economic conditions. The Council is still able to proceed with the procurement of those aspects of the project which would be funded through PFI – construction of new and refurbishment of existing Council homes, environmental improvements in the project refurbishment areas and the 20 year package of maintenance and services.

- 4.2 However, the housing market has suffered a dramatic and rapid decline in the second part of 2008, resulting in major cut backs across the sector and a significant slow down in house building.
- 4.3 Following submission and evaluation of Detailed Solutions for the PFI scheme, it is clear that the bidding consortia have not been immune to the wider downturn in the national economy or the impact of the 'credit crunch', which has been reflected in the pricing of the proposals relating to the Development Agreement, which were based on the sale of land for private residential development. The Council has been prudent in undertaking its own independent land valuations over the course of procurement to assess deliverability and affordability of the project. At the time of each of the OBC submissions this information was reported to Executive Board as exempt. Those valuations have assisted in verifying and evaluating bidder submissions.
- 4.4 The land within the project is not currently set out in separate sites or parcels relating to private and PFI development. Bids have been received based on integration of PFI and private new build, such that development land for disposal is in clusters within each of the development sites.
- 4.5 Through the competitive dialogue process each bidder has worked with the Council to specifically design site proposals through a 'whole site' approach, for joint delivery through each legal agreement in the project, once in contract. Project costs have also been predicated on the economies that might be gained through combined programming, site preparation and infrastructure provision. There is also a fixed timescale within which PFI new build must be undertaken once financial close is achieved, which prevents any potential to delay the related private development in anticipation of market change.
- 4.6 In relation to the development sites, in light of the bids received, having regard to the Council's assumptions on land values (see Confidential Appendix 1), the market downturn has had the effect that the submissions by bidders do not meet the Council's needs and requirements and there is no prospect they will in moving forward. The City Council will not achieve value for money for the development sites in the short or medium term and the project as a whole could be unaffordable without significant additional Council financial support.
- 4.7 Given these issues, the short to medium term market prognosis and the need to create certainty for the Council in moving forward with a deliverable project, it is necessary to consider changes to the project scope that address the current position as put forward in project bids.

5.0 PROPOSED CHANGES TO PROJECT SCOPE

- 5.1 Proposed changes to the project scope are based on the principle that the PFI-funded elements of the project should be held paramount to ensure these are affordable and deliverable and that PFI Credits can be fully drawn down. It is important to ensure that there is no or minimal impact on the PFI property outputs to the scheme as a result of re-scoping and that parity is achieved (or as near as possible) with the overall property outputs demonstrated in the OBCs in terms of total number of units built and refurbished.

- 5.2 It would not be prudent at this stage to proceed with the Development Agreement for disposal of Council land, when the residential market and land values are low and the current mixed-tenure scope within the PFI project cannot be delivered by doing so.
- 5.3 Across both project areas, the principle impact of this would be the loss of integrated, mixed tenure on development sites, with the PFI scheme directly delivering only new social rented council-owned accommodation, together with some mixed use aspects of the project previously to be funded through land values following disposal.
- 5.4 The table at Appendix 2 shows the original project scope and proposed changes.

Little London

- 5.5 In Little London mixed-use elements of the Community Hub, comprising new retail units, a new community centre and a new Neighbourhood Housing Office, were intended to be funded through land value returned to the Council through the sale of residential land. Without the land sales to fund this, scope change requires these key drivers of regeneration in the area to be moved into the Project Agreement for development through PFI credits.
- 5.6 Removal of private development from the scheme will reduce the overall land requirement for new build in Little London. It is proposed therefore to remove two sites, Cambridge Road and Leicester Place, for development purposes, which as existing open spaces, could be subject to environmental improvements within the scheme, and part of Carlton Gate.
- 5.7 The remainder of the project in Little London would remain the same as that set out in the approved Outline Business Case, with the development of 125 new build social rented homes, refurbishment of existing homes accompanied by substantial environmental improvements and 20 years of maintenance and services, all funded through PFI Credits.
- 5.8 The table at Appendix 2 shows that there is no net impact of these scope changes on property outputs for Little London.
- 5.9 Development of the 125 new build PFI homes would take place across Carlton Gate and the community hub sites, which are the most prominent in the area and most important in terms of regeneration impact and outcomes. The capacity of these sites is still likely to exceed 125 homes with a resultant further development opportunity available for delivery through other means, which may be less dependent upon market housing at this time. An initial approach has been made to the Homes and Communities Agency in relation to this, though it is likely the Council's Strategic Affordable Housing Partnership could also have a role in this. The Little London Development Framework would continue to provide planning and urban design guidance for this residential development land.
- 5.10 In summary, the proposed scope change in Little London would be:
- a) removal of development of private homes for sale
 - b) delivery of the community hub through the PFI agreement
 - c) removal of the whole of the Cambridge Road and Leicester Place development sites and part of the Carlton Gate development site as the preferred approach
 - d) identification of some land at Carlton Gate and the community hub for alternative residential development through discussion with HCA

Beeston Hill & Holbeck

- 5.11 The current scope of 350 new build council homes was to be met through a mixed tenure approach to development of 15 sites of varying size, identified to accommodate both PFI and private homes, with the Council gaining economies of scale and reduced costs through joint development.
- 5.12 In removing the Development Agreement and private house building from the scheme in Beeston Hill & Holbeck, scope change centres on the need to ensure efficiency in the use of land across these sites, such that PFI development costs are not increased through spreading development at a low density across too many sites with the project becoming unaffordable as a result.

Meynell Heights

- 5.13 The original value for money and purpose of demolishing the Meynell Heights tower block (containing 99 flats) in order to create a new development site has had to be revisited. Costs associated with refurbishing this type of tower block have been obtained for similar structures in Little London and these have proved to be lower than the original estimates used by the Council in its option appraisal for treatment of the site.
- 5.14 The housing outputs through redevelopment, and the costs associated with them, have been reviewed and this approach might only result in replacement homes being 25% of the number currently on site. This would create a significant net reduction in housing on site, requiring other land within the project to be developed to address this shortfall. There would also be a substantial cost in implementing the rehousing and undertaking demolition to create the new build land platform required.
- 5.15 Subject to further ongoing dialogue in the current procurement, a refurbishment approach could offer significant value for money savings over a redevelopment of the site. Refurbishment of the existing building also supports the strategy of reducing the spread of low density housing on multiple sites in order to maintain efficiencies for new build within the project.
- 5.16 It is therefore proposed that Meynell Heights should now be retained within the project and refurbished to provide 99 units.

Reduction in New Build

- 5.17 To allow for the injection of the Meynell Heights block into the scheme there would be a need to reduce the number of properties included elsewhere in the project, in order to match the overall OBC approved outputs.
- 5.18 A commensurate reduction of 99 new build properties to account for the retention and refurbishment of Meynell Heights and retain the same number of overall property outputs would reduce the number to be constructed through the scheme from 350 to 251, with a consequent impact on the amount of development land required. However feasibility work undertaken to assess affordability and site capacities has demonstrated that this reduction in new build could be lower, with the proposed new build figure increased to 275. This is because the cost of building a new home is greater than the cost of refurbishing.

- 5.19 It is proposed to remove the Cambrian Street site from the scheme as this is 'greenfield' with some public open space. This would remove development pressure on this site where there are other opportunities nearby for brownfield development through the project. With no demolition requirement this site would receive no further investment or intervention through the PFI project.
- 5.20 Two further sites currently occupied by housing, at Malvern Rise/Grove and Waverley Garth, would be removed from the scheme for development purposes. Re-housing from these sites would continue as option appraisals have shown the inability to economically refurbish the properties to meet decency standards and to provide sustainable homes into the future. Current activities to achieve vacant possession would therefore continue and the sites would be demolished through the PFI scheme, and may be developed through an alternative route to a similar timetable to that originally planned in the PFI project.
- 5.21 The final scope change would be a reduction in land developed at Holbeck Towers following demolition of the site. This is the least marginal site in the project with most potential regeneration impact and removal of some land from the scheme here offers potential for development through alternative routes for intermediate or affordable tenures as a complement to the social housing built under the PFI.
- 5.22 The table at Appendix 2 shows the net impact of the potential scope changes on property outputs for Beeston Hill & Holbeck. There is a net gain of 24 units on the OBC position for the area through the proposed changes.

Strategy for Land Removed from PFI

- 5.23 For the development land removed from the scheme at Holbeck Towers, Waverley Garth and Malvern Rise/Malvern Grove the Council would seek to realise residential development opportunities through other means, which may be less dependent upon market housing. As with Little London, initial approaches have been made to the HCA about this and there would be a role for the Council's Strategic Affordable Housing Partnership. The Beeston Hill & Holbeck Land Use Framework and emerging Beeston Hill & West Hunslet Regeneration Plan would continue to provide planning and urban design guidance for this.
- 5.24 In summary, the proposed scope change in Beeston Hill & Holbeck would be:
- a) removal of development opportunity for private homes for sale
 - b) retention of Meynell Heights for refurbishment
 - c) removal of Waverley Garth, Malvern Rise/Grove and Cambrian Street development sites, together with part of the Holbeck Towers site and reduction in new build development from 350 to 275;
 - d) land removed from the scheme is considered for alternative residential development through discussion with HCA

6.0 CORPORATE PRIORITIES

- 6.1 The PFI programme has at its core the Council's Mission, as set out in the Business Plan 2008-11, 'to bring the benefits of a prosperous, vibrant and attractive city to all the people of Leeds'. The new housing development will bring former housing land in deprived areas back into productive use and replace unsustainable stock. Improvements to existing homes with associated environmental improvements will significantly enhance the sustainability of these neighbourhoods.
- 6.2 The proposed changes to the project scope reflect the Council's business outcome to clearly prioritise resources to provide excellent services and value for money by protecting the affordability and deliverability of a major regeneration project and maximising the opportunity for external investment through PFI.
- 6.3 The PFI scheme also relates strongly to the Thriving Places theme of the Leeds Strategic Plan 2008-11, through the strategic outcome to improve quality of life through mixed neighbourhoods offering good housing options and better access to services and activities. In particular it will address improvement priorities to:
- Increase the number of decent homes
 - Reduce the number of people who are not able to adequately heat their homes
 - Create safer environments by tackling crime
- 6.4 The programme also strongly connects with the Vision for Leeds objective of 'narrowing the gap between the most disadvantaged people and communities and the rest of the city'. The development of these sites forms a central part of Regeneration Plans for Beeston and Holbeck and the Little London Development Framework.

7.0 FINANCIAL & RESOURCE IMPLICATIONS

- 7.1 The need for officers to assess the impact of the wider economic changes on bids and project scope, resulting in the proposed changes, has caused some delay to the original procurement programme.
- 7.2 The ISRS stage will continue through 2009, following which the Council will assess readiness to close the competitive dialogue process and through Project Board, call for Final Tenders from the two remaining bidders. After evaluation and consideration of Final Tenders by Project Board under existing delegations, officers will prepare a Final Business Case for approval by Executive Board and subsequent submission to HCA in order to enable draw down of the PFI Credits allocated to the scheme. The procurement is programmed to select a successful bid and reach Financial Close by April 2010.
- 7.3 Changes to the project scope will entail alterations within the procurement process and work with bidders at the ISRS stage that can largely be accommodated from within existing staff resources and through external technical, financial and legal advisors already appointed to the scheme.. Provision has been made within the Housing Revenue Account to meet the procurement costs up to the end of 2009/10.
- 7.4 Whilst the majority of procurement costs and activity will be completed by the end of 2009/10, further HRA provision will be identified to cover the final resource requirements for a three month period in 2010/11.

- 7.5 The Council's external financial advisors are developing a revised shadow financial model to take into account the proposed scope changes together with the extension of procurement that results in financial close taking place in financial year 2010/11 rather than 2009/10 as originally programmed. The resulting Annualised City Council Contribution is anticipated to remain affordable within the amount agreed by Executive Board, as set out in the Confidential Appendix to the in February 2008 report. Final details of this affordability work will be reported verbally to Executive Board.
- 7.6 It is however important to note that affordability will only be fully tested and understood through bids to be received against this new scope at completion of the ISRS stage of procurement.

8.0 CONSULTATION

- 8.1 Movement of the mixed use elements of the Little London community hub into the project agreement, for funding through PFI Credits, and changes to the profile of property outputs as set out in Appendix 2, requires specific approval from the Homes and Communities Agency.
- 8.2 Initial discussions have been held with the HCA regarding the impact of the wider economic changes on the project, the principles that would apply to scope changes as a result and the Council's initial revised affordability position. There was support from the agency for the Council's position and approach; a formal approval to the scope change would be sought subject to Executive Board approval of matters in this report.
- 8.3 Ward Members in both project areas have received regular briefings on the project over the course of procurement and have been advised of the potential for changes to the project arising from wider economic changes.
- 8.4 The boards of Aire Valley Homes Ltd and West North West Homes Ltd have received reports regarding the principles behind the need to change the scope of the project and are supportive.
- 8.5 The Council has also established dedicated 'Community Advisory Groups' (CAG) for each project area, which are made up of local residents. Each CAG has received training and guidance on the PFI project and has been involved as far as possible to date in project development and procurement, whilst protecting commercial confidence. The involvement of CAG and Ward Members will increase at the ISRS stage of procurement, through direct liaison with the two remaining bidding consortia. Officers have raised the potential for scope changes with the CAGs.
- 8.6 Wider community consultation has taken place on the principles of new development in both project areas as part of the Council's Outline Planning applications for all development sites, which have now been approved.
- 8.7 Further formal consultation is required regarding the retention of Meynel Heights for refurbishment with the four leaseholders who have acquired properties under the 'right to buy'. All residents had already been formally consulted as part of the original option appraisal and subsequently informed of the Council's decision to rehouse residents and demolish the block.
- 8.8 During the ISRS stage of procurement, the Council will work with the PFI bidders to engage more widely with residents and stakeholders in the project areas and as part of project development and for planning applications to be made for development and environmental works.

9.0 LEGAL IMPLICATIONS

Meynell Heights

- 9.1 The Council must consult Leaseholders in the block under the terms of the Service Charges (Consultation Requirements) (England) Regulations 2003.

TUPE

- 9.2 The potential for any TUPE implications arising from the inclusion of the Little London Housing Office and Community Centre in the PFI scheme are being assessed. Where TUPE is expected to arise these matters will be dealt with in common with existing arrangements for caretaking and cleaning staff for tower block and communal areas included for PFI refurbishment and service provision.

Compulsory Purchase

- 9.3 With the exception of Meynell Heights, the Council would still require vacant possession of all sites in the original project scope prior to commencement of PFI demolition and/or development works. Executive Board previously approved the means by which this could be achieved, through rehousing of tenants, negotiation to purchase leasehold interests and if required use of CPO, powers for which were delegated to the Director of Environment and Neighbourhoods.
- 9.4 Substantial progress has been made on this with all leaseholders affected in discussion with the Council, virtually all tenants have now been re-housed in Little London and progress in Beeston Hill and Holbeck is ahead of schedule.
- 9.5 In Beeston Hill & Holbeck 14 leaseholders remain to be acquired, 1 of which is on a site proposed for clearance but not development under the re-scope. In Little London 7 leases remain to be acquired at Carlton Gate, although only two of these have yet to reach agreement with the Council.
- 9.6 Under the proposed project rescope the emphasis on Carlton Gate to achieve new build requirements in Little London will continue to provide justification for CPO of the remaining leases, should this be required. However, at Waverley Garth where there would not be a current development proposal, the use of Executive Board approved powers under Section 226(1)(a) of the Town and Country Planning Act 1990 (as amended) may no longer be appropriate.
- 9.7 This section states that a local authority shall, on being authorised by the Secretary of State, have power to acquire compulsorily any land in its area if the local authority thinks that the acquisition will facilitate the carrying out of development/redevelopment or improvement on or in relation to the land.
- 9.8 As there is there would not be an immediate proposal for development of these two sites through the PFI scheme (albeit there is still an intention to achieve the regeneration of the area), further legal advice is being sought as to which, if any, CPO powers would be appropriate should acquisition not be reached through agreement.
- 9.9 Vacant possession of this site is not currently programmed until the second half of 2012. There is therefore a period of over 3 years before these leases would need to be acquired, during which time a clear position on future use of the sites can be reached and any required basis and powers for CPO established. Further reports would be brought to

Executive Board as appropriate.

10.0 RISK ASSESSMENT

10.1 Confidential Appendix 1 contains a summary of key procurement risks associated with progressing to ISRS with a revised scope.

11.0 CONCLUSION

11.1 The proposed scope changes represent a response to wider economic changes and their impact on the deliverability of the project in its current form. Removal of the Development Agreement for purposes of disposing of land for private housing results in alterations to the amount of land included in the project for PFI new build, including the retention of Meynell Heights for refurbishment through the PFI agreement. Non-residential elements of the scheme at the Little London community hub would also be transferred into the PFI agreement.

11.2 A revised shadow financial model has been run and the scope changes are anticipated to be affordable within the amount previously agreed by Executive Board for annual Council contributions. Procurement risks have been assessed alongside the proposed scope changes and have been considered by the Project Board, which has approved the progression of procurement to the ISRS stage with two bidders to continue competitive dialogue with the Council, with a view to reaching financial close by April 2010.

12.0 RECOMMENDATIONS

12.1 Executive Board is recommended to:

- (a) Approve the changes to the PFI project scope as set out in the report and in Appendices 2 & 3, (and authorise that they be referred to HCA for approval), summarised as:
 - removal of the Development Agreement including the removal of disposal of land for construction of private homes for sale
 - retention of Meynell Heights for refurbishment
 - removal of three development sites in Beeston Hill and Holbeck (Waverley Garth, Malvern Rise/Grove, Cambrian Street) and two sites in Little London (Leicester Place and Cambridge Road)
 - removal of parts of the Holbeck Towers and Carlton Gate sites
 - reduction in PFI new build development in Beeston Hill & Holbeck from 350 to 275 units
- (b) Note the opportunity to consider land removed from the PFI project scope at this stage for alternative residential development
- (c) Note the revised timetable for the ISRS and Final Tender stages of procurement

BACKGROUND PAPERS

- February 2008 Executive Board Report 'Little London and Beeston Hill & Holbeck PFI Projects'
- Little London Development Framework
- Beeston Hill & Holbeck Land Use Framework
- Beeston Hill and West Hunslet Regeneration Plan