



Report of the Director of Environment and Neighbourhoods

Executive Board

Date: 22nd June 2011

Subject: Little London and Beeston Hill & Holbeck PFI Housing Project –
Value for Money (VFM) review and Final Business Case update

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 report)

EXECUTIVE SUMMARY

1. At its meeting on 9th March 2011, Executive Board noted progress with the Little London, Beeston Hill & Holbeck Housing PFI Project. Members were made aware that the entire housing PFI programme was subject to a value for money (VFM) assessment required by the Minister of the Communities and Local Government Department (CLG).
2. The procurement of the project is at a very advanced state, having completed dialogue on detailed proposals, evaluated final tenders and submitted its pre-preferred bidder final business case (PPB FBC) for approval by Government at the end of October 2010. The PPB FBC has been passed by for CLG consideration in mid-January 2011, when the VFM review was announced.
3. The project, once approved, secures significant investment in two inner city estates which are part of wider regeneration priority areas within the City. 1,248 existing homes will receive significant whole house improvements and 388 new homes will be built to very high sustainability standards across both areas to address priority housing needs. Investment in the wider public realm to address community safety and amenity will also be delivered, although this is likely to be to a lower level than previously proposed as the VFM review has queried the proportion and level of spend on non-housing works. The investment period has also been reduced from five years to three and a half which speeds up the delivery of the project from the originally proposed five year period. The quality of homes and estate environment will then be maintained within the overall 20 year contract period. The works will support the wider

regeneration plans for each area and provide training and employment opportunities within each area.

4. Successful partnerships have been developed with tenants and residents in both areas, with the Community Advisory Groups (CAG) playing an active role in the procurement process. Local Members and other key stakeholders have also been involved in and briefed about the project proposals as these have developed. Both areas have been subject to intensive preparation, including re-housing nearly 500 households and major advance demolition works (7 tower blocks and 2 maisonette blocks).
5. The VFM process has taken time to be finalised. However, the Chief Executive has now received a letter from HCA advising that the project has passed the VFM test, subject to some amendments. This approval enables the project to move forward to seek approval for a pre-Preferred Bidder Final Business Case (PPB FBC), which can be submitted under delegated authority by the Director of Environment & Neighbourhoods.
6. Executive Board agreed, at its meeting on 9th March, further delegations to enable the Director to make any necessary amendments to a Pre-Financial Close Final Business Case (PFC FBC) which requires government approval prior to contractual and financial close. Further detail, reflecting the outcome of the VFM review, will be provided in an update report at its meeting planned for 27th July 2011. Subsequent Government approval of the PFC FBC will enable the City Council to move towards completing contract documentation with a view to achieving financial close in the Autumn of 2011.

1. PURPOSE OF REPORT

- 1.1. The purpose of the report is to inform Executive Board approval of progress with the project prior to final consideration of the contract terms and affordability position in July 2011 and update Executive Board about the project status in relation to CLG's value for money assessment of the housing PFI programme, and the remaining approval processes and likely timetable.

2. BACKGROUND

- 2.1. As part of the Comprehensive Spending Review announcements in November 2010, the City Council was informed that the project would be subject to Final Business Case approval and value for money (VFM) assessment. The City Council was aware that 12 projects in total were subject to the review. Assurances had been given by CLG that projects would be approved on an individual basis. At this stage the Council had already completed dialogue with the two remaining bidders and had submitted its pre-preferred bidder final business case to Government. At such a late stage in procurement, it is difficult to unpick significantly the scope of the project without potentially needing to go back a stage in the procurement and therefore legal advice was also taken about the impact on the procurement process of any changes being proposed.
- 2.2. Initial data was provided to CLG in December 2010 but the detailed requirements for the VFM assessment were not received by the Council until the end of March 2011. The VFM process has required the City Council to provide potential cost savings and acceptable VFM against CLG cost benchmarks for a series of bid and contract cost elements. The City Council made a series of initial responses at the end of April 2011. The details were signed off by the HCA in early May 2011 and have now received CLG ministerial approval.
- 2.3. This approval represents a significant step forward for the project, as it would enable the City Council to update the local community and other stakeholders, to begin preparations to re-engage properly with the proposed Preferred Bidder and to clarify the programme

implications to financial close on a confident and robust basis. A number of government approvals are still required including a two stage Final Business Case approval process, which will now involve additional scrutiny by Treasury.

- 2.4 Given the VFM review, the project timetable has unfortunately slipped. The anticipated financial close date had been April 2011, but it is now more likely to be October 2011.

3. PROJECT SCOPE AND VFM IMPACTS

- 3.1. The previous Executive Board report clarified the changes to the scope of the project which had come about as a result of market change, which had made the realisation of capital receipts through the sale of land and development of new housing no longer viable.
- 3.2. CLG's VFM assessment identified a number of areas where the City Council's project costs were higher than benchmark figures or where historically, CLG had previously raised concerns about the use of PFI credits to fund wider infrastructure works or non-housing outputs and confirmed this in relation to the overall level of infrastructure costs relative to total scheme costs and the high costs associated with the community hub redevelopment works in Little London within the VFM discussions.
- 3.3. Overall the City Council has been able to demonstrate that the project offered a 'very good' or 'good' level of value for money comparability across all the areas of the refurbishment and life cycle works and for contract operational costs. However the following areas were specifically highlighted by CLG as requiring reconsideration by the City Council:-
- new house building standards above Government requirements for energy efficiency and space requirements;
 - credit support towards non-housing outputs such as the community hub proposal in Little London, environmental improvements; and
 - leaseholder cost recovery proposals; and
 - level of demolition of some non-decent housing in Beeston for future development of the sites outside of the PFI contract.
- 3.4. Details of the City Council's proposed changes in response to the VFM review will be brought to Executive Board in July following consultation with local stakeholders. The overall impact of the VFM review is to so far take c.£9m of PFI credits from the project, reducing the credit level from £190m to £181.5m which will need to be found through a mixture of efficiencies, increased Council contribution within the affordability contribution and removal of some elements. The letter from the HCA (attached as an Appendix) also makes reference to "the potential for reducing the still high scope / costs of common infrastructure and to make a greater financial contribution towards the cost of the scheme." Further clarification is being sought from CLG and the HCA about the implication of this message. Executive Board will be advised at the earliest opportunity.

4. PROGRAMME AND PROCESS MOVING FORWARD

- 4.1 The detailed programme was set out in the report considered by Members in March 2011. The impact of delays caused by the VFM assessment and decision making process, together with the additional requirements introduced by Treasury have delayed the project by approximately 6 months. The programme is still subject to approval but the key milestones anticipated are set out below

Milestone	Target date
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Milestone	Target date
HCA/CLG approves revised PPB FBC	01/07/2011
IUK/Treasury review of PPB FBC	29/07/2011
Alcatel period	12/08/2011
Appointment of Preferred Bidder	15/08/2011
LCC submits revised PFC FBC and section 27 consent draft	15/08/2011
HCA/CLG approves revised PFC FBC (6 weeks)	23/09/2011
Finalisation of contract documentation (8 weeks)	07/10/2011
HCA/CLG issues section 27 consent and promissory note	21/10/2011
Financial model confirmed and SWAP dry runs	27/10/2011
Financial close	28/10/2011

- 4.2 Members were previously advised that the final tender was subject to a bid validity period which ended in mid-June 2011. After this point, the tender price would be subject to uplift based on industry published indices.
- 4.3 The proposed preferred bidder has confirmed that it remains in a position to finalise remaining documentation and progress to financial close within 8 weeks of formal appointment as preferred bidder. This is the minimum period required to ensure the completion outstanding details and secure engagement and approval from funders and sub-contractors to the main consortium.

5.0 CONSULTATION

- 5.1 Following the announcement of the outcome of the VFM assessment, the City Council will now undertake wider discussion of the implications for the local community, members, the proposed preferred bidder and other key stakeholders as soon as possible.

6.0 LEGAL, COMMERCIAL AND RESOURCE IMPLICATIONS

- 6.1 The previous report set out in detail, the contractual, commercial and risk positions agreed with the proposed preferred bidder as part of their final tender submission. The City Council has taken legal and procurement advice and is satisfied that any potential risks arising from the implementation of the VFM review have been mitigated and can be managed effectively.
- 6.2 The affordability implications of the project were previously reported in March 2011 and will be updated in July 2011, once the programme to financial close has been confirmed. Members were advised that a small buffer existed on assumed funding rates within the proposed Preferred Bidder's final tender at that time. This should enable the City Council to agree contractual close within the affordability threshold approved by Executive Board, based on market terms at that point.
- 6.3 The proposed Preferred Bidder secured final planning approval for their proposals at Plans Panel East on 17th February 2011 for Beeston Hill & Holbeck and by Plans Panel West on 3rd March 2011 for Little London. The period for judicial review of these decisions has passed without an application for challenge being raised.

7.0 RECOMMENDATIONS

- 7.1 Members of Executive Board is recommended to note this report and to note:-
- i. the positive outcome for the project with regard to CLG's VFM review;
 - ii. the impact of delays and the likely programme to financial close; and

- iii. that a further more detailed report will be submitted on 27th July 2011 to confirm the final proposed scope and affordability of the project for further approval by the Government.

BACKGROUND PAPERS

- **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
- **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**
 - Final Business Case and Contract Award
- **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 Final Business Case**
 - provided as an exempt document in the Member's Library