



**APPENDIX NOT FOR PUBLICATION:  
Exempt under Rule 10.4 (3)**

The Appendices to this report contain exempt information under Access to Information Rule 10.4 (3).

## Report of the Director of Environment and Neighbourhoods

### Executive Board

**Date:** 27<sup>th</sup> July 2011

**Subject:** Little London and Beeston Hill & Holbeck PFI Housing Project – Confirmation of amended project scope and affordability

#### 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. The Little London, Beeston Hill & Holbeck Private Finance Initiative project has been subject to a Government Value for Money review as a consequence of the Comprehensive Spending Review 2010. The outcome of that review has required a number of changes to the project to allow the procurement process to proceed. These changes have required the resubmission of the Pre Preferred Bidder Final Business Case that had previously been submitted for the project.
2. The changes required to the project have included amendment to the project scope and revised costs for the Council to meet. The revised project affordability details are noted in exempt appendices to this report.
3. The Director of Environment and Neighbourhoods has approved submission of an amended Pre Preferred Bidder Final Business Case, to seek government approval to proceed to the appointment of a Preferred Bidder selected following submission of final tenders in October 2010.

## **1.0 PURPOSE OF REPORT**

1.1 The purpose of the report is to update Executive Board about:-

- the outcome of the Government Value for Money Review of the national housing PFI programme and its impact on the Little London, Beeston Hill and Holbeck PFI project;
- the resultant changes required to the project scope;
- the affordability of the project following the changes; and
- the Key Decision taken by the Director of Environment & Neighbourhoods to approve changes to project scope and affordability and to re-submit a Pre-Preferred Bidder Final Business Case for the project to the Homes and Communities Agency.

1.2 The appendices to this report contain exempt information under Access to Information Rule 10.4 (3) as they contain commercially sensitive information on the City Council's approach to procurement issues, and commercially sensitive pricing and information about the commercial risk position of the City Council's proposed Preferred Bidder, where the benefit of keeping the information confidential is considered greater than that of allowing public access to the information.

## **2.0 BACKGROUND**

- 2.1 At its meeting of 9<sup>th</sup> March 2011 Executive Board received a report on the Little London, Beeston Hill & Holbeck Housing PFI Project. It was noted that a 'Pre-Preferred Business Case' (PPB FBC) had been submitted government for approval in October 2010 and that a response was awaited on this. Executive Board confirmed the project scope and approved the submission of a 'Pre Financial Close Final Business Case' (PFC FBC) to the Homes and Communities Agency (HCA), in anticipation of government approval to proceed.
- 2.2 Executive Board delegated authority to the Director of Environment & Neighbourhoods to approve any necessary amendments to the PFC FBC that may arise and further authorised him to make amendments to the scope and affordability should this become necessary at any time, subject to consultation with Executive Members and reporting back to the Board for information.
- 2.3 Executive Board was also informed about a value for money (VFM) review of the national PFI housing programme that was being undertaken by government's Department of Communities and Local Government (CLG), the implications of which were not known at that time.
- 2.4 At the end of March 2011, the City Council received feedback from CLG on the VFM review. Having considered the costs for the 12 remaining housing PFI projects in procurement across the country, the Housing Minister had instructed the HCA to seek 'cost savings and acceptable value for money' against a set of new benchmarks, before any further consideration would be given to Final Business Cases.
- 2.5 Detailed work was subsequently undertaken by the Council, in discussion with the HCA and the proposed Preferred Bidder for the project, to ensure a positive response could be provided to CLG so that the Minister could approve continuation of the project and review of the FBC recommenced.

- 2.6 Approval of the previously submitted PPB FBC has not therefore been able to proceed until the value for money exercise has been concluded. A report was tabled at the June meeting of Executive Board to update members at the earliest opportunity about the Government's review, its outcome and the Council's response. It was advised that further details of the impact on the project would be brought to the July Board meeting.
- 2.7 This report notes the changes that have been required as a result of the review and the impact the changes have had on the project costs, affordability and overall timescales.
- 2.8 Both previous Executive Board reports set out the detailed background to development of the project, its anticipated outputs and outcomes together with details of the procurement process, consultations undertaken and the legal and resource implications for the Council.

### **3.0 VALUE FOR MONEY REVIEW**

- 3.1 The Value for Money Review has been a one-off review of the remaining national housing PFI programme and has operated separately from the normal Final Business Case and value for money checks undertaken as part of the Government PFI approval processes.
- 3.2 Under the review, a range of new benchmarks were established by CLG for the acceptable cost and value of PFI contracts nationally. The Council's project, was checked against four VFM ratings: 'very good comparability' (green), 'good comparability' (yellow), 'high comparability' (amber) and 'very high comparability' (red).
- 3.3 Overall the City Council has been able to demonstrate that the project offered 'very good' or 'good' value for money across all the areas of the refurbishment and life cycle works and for contract operational costs.
- 3.4 However there were a number of areas where costs exceeded the new benchmarks or where CLG were no longer prepared to support the use of PFI credits:
- credit support would not be available towards new house building designed to standards above Code for Sustainable Homes Level 3, where the project was specified to the higher Code Level 4:-
  - credit support would not be allowed towards new house building space standards above the minimum standard set HCA guidelines; the Council's proposed preferred bidder had put forward space standards above this level;
  - credit support would no longer be available towards non housing outputs such as the proposed new community centre, housing office and estate retail units for the Little London Community Hub;
  - credit support would not be available towards the cost of works that should be recovered from leaseholders;
  - further, there were concerns about the overall level of 'wider infrastructure works', which included not only the Community Hub development but also the demolition of some non-decent housing in Beeston for future development of the sites outside of the PFI contract
- 3.5 HCA advised that it would be necessary to address all of these areas before a recommendation could be made to the Minister for Housing for the project to proceed into the normal FBC approvals process. The Council's response and the required project changes are covered in section 4.0 of this report.

- 3.6 The overall impact of the review to date and the Council's response has resulted in a reduction of .£9m of PFI credits from the project, reducing the credit level from £190m to £181.5m. The reduction can be offset through a mixture of efficiencies, increased Council contribution and removal of some elements.
- 3.7 Ministerial approval for the revised VFM position and changes to the project was received on 21<sup>st</sup> June 2011 enabling recommencement of the formal approval process through submission of an amended PPB FBC to the Homes and Communities Agency.
- 3.8 Subject to approval of the PPB FBC it is anticipated that the proposed Preferred Bidder could be confirmed in August 2011, with Financial Close and contract award in October 2011, and contract works and services commencing in January 2012. However, the timescale remains to be confirmed with CLG, pending confirmation of any further revisions to government approval processes.

#### **4.0 PROJECT AMENDMENTS**

- 4.1 Given the withdrawal of PFI credit support for some aspects of the project, it has been necessary to consider savings against the final tender costs submitted, to review the overall scope of the project and to review the overall impact on affordability.
- 4.2 Efficiencies have been identified in the final tender as follows:-
- operational savings covering a revised risk share on third party damage costs, a revised risk share on TUPE pension costs;
  - a reduction to the enhanced level of window cleaning proposed by the bidder;
  - works savings relating to the omission of some of the additional specification proposals made by the bidder on the new build proposals, above the level required by the Council's design requirements.
- 4.3 There have also been two main changes to the project scope, again, by reference to the submitted final tender costs, to ensure that the project as a whole remains affordable and deliverable within the allocated budget:
- removal from the project of the redevelopment of Little London Community Hub (comprising open space improvements, new retail units, new community centre, new housing office and the 12 new build flats proposed as part of the redevelopment of the site).
  - removal from the project of the demolition of Waverley Garth and Malvern Grove & Rise (the sites were proposed for subsequent redevelopment outside of the PFI contract).
- 4.4 As a result of the change, the existing facilities at the Community Hub will be retained and future proposals for the site will be developed separately from the PFI contract. In the interim, repairs are to be undertaken to deal with essential works to the existing buildings to ensure service continuity..
- 4.5 The potential for longer term improvements and/or redevelopment of the Community Hub site outside of the PFI contract will be assessed and work undertaken with local residents and stakeholders to develop new proposals to a similar timetable as the PFI project.
- 4.6 The Council and Aire Valley Homes Ltd will review the best way to resolve the retained non-decent housing at Waverley Garth and Malvern Grove & Rise, including consideration of demolition action as part of the main housing capital investment programme.

4.7 Full details of the savings and efficiencies identified and the impact on affordability are provided in Exempt Appendices 1 & 2.

## **5.0 CONSULTATION**

5.1 The approach taken by the Government to the VFM review meant it was not possible to undertake full consultation on its findings or the Council's response to these prior to June. Consultation on the response has taken place with the Executive Members for Neighbourhoods, Housing and Regeneration, the Housing PFI Project Board, Strategic Investment Board (SIB) and the Director of Resources.

5.2 Subsequent to the approval by the Minister to the Council's response to the VFM review, a programme of communications has been undertaken to inform key stakeholders and the community on the changes to be made to the project. Information has been provided to the following stakeholders:

- Ward Councillors;
- Member of Parliament for Leeds Central
- ALMO Senior Management and boards
  - Aire Valley Homes Ltd – Beeston Hill & Holbeck
  - West North West Homes Ltd – Little London
- LCC Locality Teams;
- Beeston Hill & Holbeck Regeneration Partnership Board; and
- the communities effected, including members of the former Community Advisory Groups for each estate and Little London retail tenants.

5.3 Although there is disappointment that changes to the project have been required in Little London, all stakeholders have welcomed the progression of the project into the final stages of approval and the retention of the housing improvements.

## **6.0 LEGAL, COMMERCIAL AND RESOURCE IMPLICATIONS**

6.1 The main proposals and risk analysis as outlined to Executive Board on 9<sup>th</sup> March 2011 remain broadly the same.

6.2 Given that the changes to the project have been made following the receipt of the final tender, consideration was given to the risks to the procurement process, in light in particular of the fact that it has not been possible to conduct further dialogue with the proposed preferred bidder. Therefore pricing has not been subject of further negotiation to achieve the HCA/CLG benchmarks, however some priced elements of the tender submitted have been removed. Legal advice on which the decision was based is noted in Exempt Appendix 3. The approach taken does not give rise to any new high risks.

6.3 The suite of Project Agreement, Payment Mechanism and Output Specification documents have been updated to reflect the changes and will be subject to confirmation once the Preferred Bidder can be appointed. The changes to the Project Agreement will require limited further derogation approval from HCA/CLG and will be dealt with as part of the overall approval of the Final Business Case stages.

6.4 In addition to the approval of the Final Business Case, government consent will be required for the formal delegation of housing management powers under Section 27 of the Housing Act 1985. Section 27 consents are already in place for the delegation of functions to the three Leeds ALMOs. These consents will be varied to permit the transfer of functions to the

PFI provider. Consent will be through the Tenant Services Authority, but administered as part of the PFI Final Business Case submission to HCA.

- 6.5 The overall impact of the changes to the project scope, the loss of PFI credits and changes to the overall contract costs, have impacted on the overall cost to the Council. The project however remains affordable within the budget allocation previously approved for the project by Executive Board. Exempt Appendix 2 details the changes to the project costs and affordability.

## **7.0 IMPLICATIONS FOR COUNCIL POLICY AND GOVERNANCE**

- 7.1 The Director approved the amendments to the Pre-Preferred Bidder Final Business Case, as authorised under part 3 section 3E of the officer delegation scheme approved in February 2010.
- 7.2 The changes to the project, as detailed in the amended PPB FBC, were reviewed by PPPU Legal and Procurement Unit and were considered to fall within the delegated authority approved by Executive Board on 9<sup>th</sup> March 2011 which enabled the Director to authorise any further changes to scope and affordability prior to submission to HCA/CLG.
- 7.3 Members of the Environment & Neighbourhoods Project Board, Director of Resources and SIB were briefed accordingly about the changes to the project and prior to the approval of the revised PPB FBC.
- 7.4 The changes made to the PPB FBC had also been made in consultation with Executive Member for Neighbourhoods and Housing and Executive Board members. The Delegated Decision to amend and submit the Pre-Preferred Bidder Final Business Case was taken as an urgent key decision under the rules of general exception outside of the normal Forward Plan requirements. The decision was also exempted from Call-In for scrutiny due to the urgent timescale for implementation. All Members were notified of the decision in accordance with the requirements of the constitution.
- 7.5 It should be noted that changes to the format of the Final Business Case have been required by Government since the original submission. The FBC contains materially the same information as that which has previously been agreed by Members, except for those matters described in this report. It also includes updated information from the Outline Business Case approvals, a value for money justification of the recommended final tender and an updated HCA financial model Public Sector Comparator. The revised FBC is provided in the Member's Library as an exempt document.
- 7.6 A further report will be brought to Executive Board to confirm the final project affordability details prior to Financial Close.
- 7.7 Project delegations to enable close were approved by Executive Board in March 2011 and remain unaffected by this report.

## **8.0 CORPORATE PRIORITIES**

- 8.1 The amended scope of the project continues to reflect the Council's business outcome to clearly prioritise resources to provide excellent services and value for money by delivering a major regeneration project and maximising the opportunity for external investment through PFI, within the affordability parameters previously agreed by Executive Board.
- 8.2 The PFI project remains a key scheme in seeking to meet the Thriving Places and Environment agenda of the Leeds Strategic Plan 2008-11. 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';
- 'Reduce emissions from public sector buildings, operations and service delivery, and encourage others to do so';
- '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'; and
- 'Create safer environments by tackling crime'.

8.3 The project also continues to strongly connect with the Vision for Leeds objective of 'narrowing the gap between the most disadvantaged people and communities and the rest of the city' and forms a central part of Regeneration Plans for Beeston Hill & Holbeck and the Little London Development Framework.

## **9.0 EQUALITIES**

9.1 The Equalities Impact Assessment for the project has been updated to reflect the project changes, and although the scope changes will impact on the residents of Little London due to the removal of the proposed community hub development, the impact would not be specific to any single group, being felt equally within the community. The existing facilities will be retained so there is no loss of service to this neighbourhood.

## **10.0 CONCLUSIONS**

10.1 The Little London, Beeston Hill & Holbeck Housing PFI Project has been subject to a government value for money review requiring a review of the scope and costs of the proposed project proposals.

10.2 Changes have been made to the project proposals resulting in the removal of the Little London community hub redevelopment, removal of housing demolition proposals on two sites within Beeston Hill, a number of cost and efficiency savings agreed with the proposed Preferred Bidder and overall contract cost savings, which have led to a Ministerial approval to proceed with the Final Business Case.

10.4 The net cost to the Council of the project has increased although the overall cost remains affordable within the budget allocated to the project.

10.5 The overall time scale for contract award and commencement on site cannot yet be confirmed, though it is anticipated that a Financial Close could be achieved by October 2011, enabling a commencement of works and services in January 2012.

## **11.0 RECOMMENDATIONS**

11.1 Members of Executive Board are recommended to:-

- i. note the outcome of the government value for money review;
- ii. note the overall changes and cost variations to the project ;

- iii. note the re-submission of an amended Pre-Preferred Bidder Final Business Case under the Director Delegation Scheme as noted in 7.1 above;
- iv. note the revised overall affordability position detailed in exempt appendix 2;
- v. note that (without affecting the resolutions of the meeting of this Board on 9 March 2011 including those granting authority to enable the Project to reach financial close) it is anticipated that a further report will be brought to the Executive Board in due course with details of the Pre-Financial Close affordability.

## **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**
  - Little London and Beeston Hill & Holbeck PFI Housing Project – Final Business Case and Contract Award
- **Delegated Decision of Director of Environment and Neighbourhoods 24<sup>th</sup> June 2011**
  - Little London and Beeston Hill & Holbeck PFI Housing Project – Revision of Pre Preferred Bidder 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 Final Business Case**
  - provided as an Exempt Document in the Member's Library