

Report of Director of Environment & Neighbourhoods

Report to Executive Board

Date: 15th February 2013

Subject: Little London & Beeston Hill & Holbeck Housing PFI Project

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 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). Appendix B 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 and in relation to the Preferred Bidder, where the benefit of keeping the information confidential is considered greater than that of allowing public access to the information.		

Summary of main issues

1. The Little London and Beeston Hill & Holbeck PFI project commenced procurement in July 2007 but has been subject to a series of delays with the result that it has not yet been able to achieve Financial Close. The Council is working closely with the Preferred Bidder consortium to assist its funders in completing remaining due diligence arrangements that will enable this.
2. However new uncertainty relating to Government requirements on finance and project documentation has been introduced to the project at a very late stage which means that financial close will be further delayed.
3. The Council has secured a commitment from Government that it will continue to support the project and is keen to secure financial close as quickly as possible in order to begin this major investment in the city to realise the long awaited improvements to tenants homes and estates. A best case scenario for this is now estimated as July 2013.

4. The Council's commitment to Little London, Beeston Hill and Holbeck extends beyond the PFI investment. The report sets out activities that are underway or being planned for other housing in the project areas through new build and refurbishment and for improvements to the Little London local centre ('community hub').

Recommendations

Executive Board is recommended to:

- (i) Confirm the Council's continued commitment to securing PFI housing investment for the neighbourhoods of Little London, Beeston Hill and Holbeck;
- (ii) Note the current position on procurement of the project and the delays in reaching Financial Close and agree that the strongest possible representations be made to Government in clarifying and resolving its new requirements;
- (iii) Note and support the separate regeneration projects that are underway or planned in the Beeston Hill, Holbeck and Little London areas;
- (iv) Approve that the first call is made on the capital receipt from the sale of land at the Little London Community Hub to fund the relocation of the Neighbourhood Housing Office and reprovision of new community centre facilities.
- (v) Note that a further report setting out the confirmed financial position and a revised programme for financial close will be reported to Executive Board at the earliest opportunity.

1. Purpose of this report

- 1.1 This report updates Executive Board on the current position of the Little London and Beeston Hill & Holbeck PFI Housing project and provides a chronology of its delayed procurement.
- 1.2 The report also sets out actions that the Council is taking to secure other improvements in the project areas in advance of and alongside the PFI works.

2 Background information

2.1 The Little London and Beeston Hill & Holbeck project will be 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.

2.2 The main programme of works will include refurbishment of the 1245 Council homes to high standards of energy efficiency, construction of 388 new Council homes to high environmental standards and environmental improvements to the estates. The main housing outputs to be delivered through the project will be:

2.3 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.

2.4 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

2.5 Beeston Hill :

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

- 2.6 The project will also ensure that the benefits of investment are secured for the Leeds area 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 apprenticeship/traineeships, safeguard and create jobs for local people, provide construction work experience opportunities and create a number of social enterprises.
- 2.7 The project will be delivered through the initial capital investments as described above made within the first 4 years, with ongoing repairs and maintenance of the housing and estate areas for 20 years.
- 2.8 The Council has worked closely with the bidders in the process at each stage of the procurement and particularly with the Preferred Bidder, the Government's Department of Communities and Local Government (CLG) and the Homes and Communities Agency (HCA) to resolve a series of complex challenges that have resulted in delays to the procurement. The project has yet to reach Financial Close, which would enable the contract to be signed and the works and services contract to mobilise and commence.
- 2.9 Executive Board has received a series of reports relating to the project over the last 7 years. A table summarising these is provided at Appendix A.
- 2.10 The potential for significant investment in the housing and estate of Little London has been in discussion since the early 2000's. An Outline Business Case (OBC) for a project to build new homes and refurbish existing properties was endorsed by HM Treasury in 2006 and was part of the round two bid for PFI credits.
- 2.11 The Beeston Hill & Holbeck project was included as part of the round 5 programme of PFI credits in early 2007 and the City Council submitted its OBC in November 2007. This OBC proposed a joint procurement with the Little London project, an approach that was endorsed by Government in March 2008.
- 2.12 Procurement for the project formally commenced in July 2007, through publication of a tender notice in the Official Journal of the European Union (OJEU), which enabled the City Council to progress the Little London project independently or as part of a larger project with Beeston Hill & Holbeck, subject to Government approval. It was originally anticipated that it would take up to 3 years to reach Financial Close.
- 2.13 Expressions of Interest were received and four consortia qualified to enter into a formal process of 'competitive dialogue' with the Council, through which de-selection of tenders was made at progressive stages.
- 2.14 The Outline Solutions stage of procurement commenced in November 2007, with three consortia selected to proceed to further dialogue in April 2008 and invited to submit Detailed Solutions from June 2008. This stage of dialogue was concluded in October 2008 with the Project Board agreeing the results of evaluation in December 2008.

- 2.15 At that stage the project anticipated the disposal of Council owned land through a related Development Agreement in order to provide additional private housing across the project areas as part of a mixed tenure approach to regeneration and to make a financial contribution to the project. The original project scope also included replacement retail provision, community facilities and housing office within the 'community hub' in Little London, funded through a land value return arising from sale of development sites under the Development Agreement.
- 2.16 However during the course of 2008, the full effects of the 'credit crunch' and rapid decline in the housing market at that time became apparent. This was reflected in pricing relating to the Development Agreement which could not meet the City Council's needs and requirements and there was little or no prospect that the housing market would improve significantly prior to the planned date for final tenders to be submitted.
- 2.17 A re-scope of the project was required to remove the market housing and the capital contributions associated with this. This resulted in a change in balance between new build and refurbishment outputs, the removal of new build proposals for the Waverley Garth and Malvern Rise sites (but continuing with their demolition) and transferred the Little London Community Hub into the PFI funding envelope. It also created a delay in moving to the next stage of procurement.
- 2.18 The scope changes were agreed with the bidding consortia, Government and approved by the City Council's Executive Board on 4th March 2009. A further amendment was made in December 2009 when the Council agreed to undertake separate demolition of the Carlton Gate and Holbeck Towers sites in advance of the PFI project starting. The resulting project scope was confirmed again by the HCA in August 2010
- 2.19 The Refined Solutions stage of the procurement commenced in March 2009, with two remaining bidding consortia invited into further dialogue. Interim bid submissions were received on time in August 2009, but final bids could not be requested until a number of commercial issues were resolved with the sponsoring Government Departments, which took far longer than anticipated. Final tenders were received in September 2010 and a Final Evaluation Panel in October 2010 selected a proposed Preferred Bidder. In order to formally notify the Preferred Bidder and to complete the procurement, a first stage approval by Government of a Final Business Case (FBC) was required. This 'Pre Preferred Bidder' FBC was submitted in October 2010 and in normal circumstances should have taken up to 2 months to review and confirm.
- 2.20 However in January 2011 the Council was informed by the new Government of the implications for the national PFI housing programme of the November 2010 Comprehensive Spending Review, which required a fundamental review of the value for money of those projects still in procurement. The detailed requirements were made available in March 2011 and the Council's response was submitted to the HCA in May 2011 following detailed work with both it and the proposed Preferred Bidder. Changes to the project to enable the revised submission to meet new VFM benchmarks included removal of the Little London Community Hub redevelopment and removal of the demolition of the Waverley Garth and Malvern Rise sites in Beeston Hill.

- 2.21 The VFM submission received CLG ministerial approval in June 2011. However further delays were incurred when HM Treasury requested a revised 'Pre Preferred Bidder' FBC, which although submitted in the same month was not approved until October 2011, a year after the proposed Preferred Bidder was originally identified.
- 2.22 The Preferred Bidder for the Project could not be confirmed straight away as had been planned, as market changes in the intervening period had an impact on the proposed sub-contract arrangements and the banking arrangements to provide loan funding support for the project. The Preferred Bidder consortium – Sustainable Communities for Leeds (Sc4L) – was able to finally be confirmed on 27th January 2012 with all parties approving the arrangements to move forward to Financial Close.
- 2.23 At that time it was intended that the contract was to be let by the end of March 2012 and to commence from 1st July 2012, subject to final approvals from Government (the 'Pre Financial Close FBC), confirmation of the required PFI credits for the Project, funders completing due diligence and securing Credit Committee approval. The Council issued local newsletters to tenants and residents with these timescales included.
- 2.24 This process has taken much longer than anticipated. In January 2012 the Council was informed that one of the consortium members was involved in a corporate merger and restructuring. This was completed in March 2012, but was followed by a corporate re-financing exercise that was not finished until November 2012. This has further delayed the completion of the project funders' due diligence.
- 2.25 At the end of May 2012 the Council was also informed that one of the three bank funders to the consortium was unable to continue to support the project. The majority of the project's funding requirements would continue to be met by two remaining banks but also required the Council to reprofile its affordability contribution, which was agreed by Executive Board at its meeting in July 2012.

3 Main issues

- 3.1 The procurement has recently encountered further delays to reaching Financial Close, which had been programmed for December 2012, but was not achieved as a result of the ongoing due diligence being undertaken by the consortium's funders and incorporation of new commercial drafting into the Project Agreement as required by Treasury and notified to the Council in late December.
- 3.2 The new drafting is to reflect some elements of the emerging new 'PF2' funding regime, but the details have yet to be clarified fully despite the Council requesting a response in early January. PF2 ('Private Finance 2') is the Government's proposed new approach to obtaining private finance for public infrastructure projects and is understood to represent a rebalance of the PFI risk allocation profile and a move away from a very limited and more expensive bank funded market to a bigger bond funded market with long term finance available on relatively lower levels of financing costs.

- 3.3 In late January the Council was contacted by the HCA and told that Treasury would not accept the financial terms negotiated for the funding of the project. The Council is now in dialogue with the various Government departments to address these new matters raised at such a late stage.
- 3.4 In aggregate, the delays in procurement currently amount to 2 years and 3 months. A best case scenario is now that Financial Close could be achieved by July 2013. The causes of these delays have been largely outside of the direct control of the Council, being driven by external economic factors, Government reviews of funding requirements and project documentation and commercial matters specific to the Preferred Bidder.
- 3.5 Nevertheless it must be recognised that the ongoing impact has been most keenly felt by those tenants and residents in the project areas who in some cases have now been waiting up to 10 years for improvements to their homes and living environment. As the Council has not been able to control the causes of delays it has proved extremely difficult to offer consistent and meaningful communication with the local communities and other stakeholders on the progress of the procurement and when this situation may be rectified.
- 3.6 There have been a number of occasions on which a programme for reaching Financial Close has appeared almost certain, only for a further delay to arise. This has proved a source of frustration and disappointment for both the Council and local people.
- 3.7 The Council remains firmly committed to obtaining the PFI investment and to realising the improvements to tenants' homes and estates. The Preferred Bidder has also restated its commitment to the deal.
- 3.8 There is also a commitment on the Council's part however to ensuring regeneration of these areas is delivered through means other than just PFI. Alongside the ongoing efforts of the Council to work with all parties to conclude the procurement as quickly as possible, there are some separate measures that are being progressed to deliver improvements in the Little London & Beeston Hill areas, in advance of the PFI works, which are set out in the sections below.
- 3.9 Further details in relation to the latest delay are set out in the Appendix B. This is an Exempt Appendix under Access to Information Rules 10.4 (3) as it contains commercially sensitive information on the Council's approach to procurement issues and in relation to the Preferred Bidder, where the benefit of keeping the information confidential is considered greater than that of allowing public access to the information.

Little London Community Hub

- 3.10 The Community Hub site currently provides 7 council-owned retail units (now largely vacant), a Neighbourhood Housing Office, community centre, car parking, play area and public open space. Following confirmation of its removal from the PFI project scope in October 2011, alternative options for redevelopment of the site and refresh of the local facilities have been explored.

- 3.11 Alongside this work the requirement for new primary school capacity in the area has emerged. At its meeting of December 2012 Executive Board approved publication of a statutory notice for expansion of Little London Primary school on the Community Hub site.
- 3.12 The revised approach to the site therefore involves the expansion of the Primary School to 3 forms of entry, relocation of the Neighbourhood Housing Office (NHO) within the site, refurbishment or rebuild of the community centre and securing investment from a private retail concern to provide a new local convenience store.
- 3.13 Feasibility work is currently underway to ascertain the land requirements for the expanded primary school and how the community centre and Neighbourhood Housing Office would be accommodated on-site.
- 3.14 The site currently occupied by the NHO has been market tested for interest from retailers and the Council is in discussions with a national retailer regarding a sale and redevelopment of this part of the site. Upon sale and once the new retail is operational, the existing Council-owned shops will be closed and demolished to facilitate the expansion of the school and creation of new community buildings.
- 3.15 The NHO will occupy a temporary facility on-site (adjacent to the existing community centre) during this redevelopment process – a planning application for this was submitted in January 2013.
- 3.16 The site feasibility work will be completed by March of this year, with a view to the school expansion being fully complete and open by Sept 2015. Subject to contract, the Council anticipates that the new retail facilities could be trading by January 2014, with the community centre and NHO complete later in 2014.
- 3.17 The funding package for work across the site currently comprises the schools Basic Needs Programme and the Housing Revenue Account. It is proposed that there is a first call on the capital receipt from sale of the existing NHO site, to fund the legitimate costs associated with the relocation of the NHO and re-provision with the new community centre facilities. This is on the basis that this disposal (and the receipt arising) would not be possible without the reconfiguration of the facilities on-site.

Refurbishment of Homes in Beeston Hill

- 3.18 Two sites in Beeston Hill that were intended for demolition through the PFI project will now be retained and refurbished. The Waverley Garth and Malvern Rise sites have a combined 87 homes.
- 3.19 Work has now been undertaken to assess how these properties can be brought up to Decent Homes standard to complement the intended investment elsewhere in the estate through PFI investment. Design feasibility has been undertaken for the refurbishment of these properties to Decency 'plus' standards. The total cost for works to all 87 units is estimated at £2.53million. It is anticipated that this work will commence on site in 2013, with completion by May 2014 to be funded from the Housing Revenue Account.

Refurbishment of Homes in West Hunslet

- 3.20 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. Seven properties managed by the ALMO have been brought back into use following refurbishment to Decent Homes standard; work is progressing on the remaining 14 over the course of the next 6 months.

New Homes in Holbeck & West Hunslet

- 3.21 The Council is in discussions with Unity Housing Association to deliver 41 new affordable homes on a site at Brown Lane East in Holbeck, that has previously been cleared of back-to-back properties. The properties will comprise flats and houses for both affordable rent and to be available on a shared ownership basis.
- 3.22 The Homes and Communities Agency has confirmed that Unity has been allocated grant funding under the Affordable Housing Programme 2011-15 for this development.
- 3.23 A report will be brought to the Executive Board's next meeting in March in relation to the terms of disposal of the site to Unity HA. Subject to approval it is anticipated that a planning application could be submitted in the Spring with the aim of commencing the build programme in October 2013 for completion in late 2014.
- 3.24 The Council is also exploring options for the redevelopment of the Garnets site in West Hunslet, where 78 back-to-back properties were demolished in between 2010-12. There is potential for the construction of 20 new affordable homes on this site.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Consultation has been undertaken throughout the project development and procurement process, varying according to the stage reached.
- 4.1.2 On the matters specific to this report the Executive Member for Neighbourhoods, Planning and Support Services has been briefed regularly on the ongoing discussions with all parties involved in seeking to resolve the issues preventing completion of procurement. Ward members and the MP for Leeds Central have also been updated on the latest position.
- 4.1.3 Letters will be issued to all tenants and residents in the project areas and a meeting has been held with local community representatives providing an update on matters referred to in this report.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 The project has undergone 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.

4.2.2 Other projects referred to in the report have been subject to their own separate EDCI screenings and assessments undertaken where appropriate.

4.3 Council policies and City Priorities

4.3.1 The PFI scheme and other projects referred to in the report will contribute 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 contribute to improving local communities. In particular, it will address key priorities 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.

4.4 Resources and value for money

4.4.1 The financial position of the project and affordability assessment were reported to Executive Board in July 2012, based on a Financial Close at the end of that month.

4.4.2 Work is underway to reassess the implications of the further delay in reaching Financial Close although this cannot be fully completed until the nature of any changes to the terms of financing are known and the timetable for close is

confirmed. The Exempt Appendix provides a comparison of current anticipated project costs compared to the approach that the Council understands is being advocated by Treasury.

- 4.4.3 It is currently intended that the updated position and impact on affordability thresholds as previously agreed will be reported in full to the Executive Board at the next earliest opportunity.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 This report has been introduced as a late item as the urgency of the issues and implications of further delays to the project require the immediate consideration of Executive Board. These cannot be reasonably delayed until the next meeting of the Board for reasons of good governance and transparency. The Chair of Scrutiny Board (Housing & Regeneration) has been briefed and agreed to the late submission.
- 4.5.2 Appendix B is exempt under Access to Information Rules 10.4 (3) as it contains commercially sensitive information on the Council's approach to procurement issues, financial information and commercial information in relation to the Preferred Bidder, where the benefit of keeping the information confidential is considered greater than that of allowing public access to the information.
- 4.5.3 There are no specific legal implications arising from this report, though it should be noted that concluding procurement and proceeding with the letting of the contract for the PFI Project is subject to final Government approvals of the funding arrangements and confirmation of approval to delegate the required housing management functions to the project under Section 27 of the Housing Act 1985. Approval in principle to the Section 27 consent was granted by the Tenant Services Authority in May 2012, and should only require confirmation on the basis of the updated Project Agreement reflecting the final commercial position of the project.
- 4.5.4 As previously reported to Executive Board, a final report will be submitted to the Director of Environment and Neighbourhoods prior to financial close to authorise the process for close and the final terms of documentation.

4.6 Risk Management

- 4.6.1 The Housing PFI Project Board is provided with monthly updates on risk management, with details provided on increasing risks and all high or very high risks.
- 4.6.2 Updates on risk management are also given to the Homes and Communities Agency to confirm that the City Council is appropriately managing the risks for the project.
- 4.6.3 However, as stated in the main body of the report, there is limited mitigation the Council can put in place for risks of delay where these are driven by changing external factors such as commercial financing and changes in Government requirements. Further risk considerations are included in the Exempt Appendix to this report.

5 Conclusions

- 5.1 The Little London and Beeston Hill & Holbeck PFI Housing Project formally commenced procurement in July 2007 and it was anticipated at the time to reach Financial Close within three years.
- 5.2 The procurement has been confronted by a series of delays, many of which have been outside of the direct control of the Council, leading to the current position, five and a half years after the issue of an OJEU notice, that a date for Financial Close still cannot be confirmed.
- 5.3 Delays have included the credit crunch and recession impacting on project scope and the timetable for competitive dialogue; delays in Government approvals for project documentation; a requirement by Government to undertake a fundamental review of costs leading to a year of delay in confirming the preferred bidder; the requirement for the Council to re-profile its financial contribution to the project; delays in the Preferred Bidder consortium confirming its project financing and most recently further requirements by Government to change the basis on which the project may be finally closed.
- 5.4 The Council is continuing to work closely with the Preferred Bidder to resolve the outstanding consortium issues and to confirm the programme to Financial Close. The Council is also in dialogue with Government to ensure its latest requirements can be fully clarified and resolved as quickly as possible.
- 5.5 Alongside this work, activity is underway to ensure improvements in each of the project areas can be delivered in advance of and alongside the PFI investment. These include investment in new and existing housing in Beeston Hill & Holbeck and redevelopment of the Little London community hub.
- 5.6 Details of the updated PFI financial position and programme for the remainder of the procurement will be reported at the next earliest opportunity to the Executive Board, along with any further details on the Government's revised requirements.

6 Recommendations

- 6.1 Executive Board is recommended to:
 - (i) Confirm the Council's continued commitment to securing PFI housing investment for the neighbourhoods of Little London, Beeston Hill and Holbeck;
 - (ii) Note the current position on procurement of the project and the delays in reaching Financial Close and agree that the strongest possible representations be made to Government in clarifying and resolving its new requirements;
 - (iii) Note and support the separate regeneration projects that are underway or planned in the Beeston Hill, Holbeck and Little London areas;

- (iv) Approve that the first call is made on the capital receipt from the sale of land at the Little London Community Hub to fund the relocation of the Neighbourhood Housing Office and reprovision of new community centre facilities.
- (v) Note that a further report setting out the confirmed financial position and a revised programme for financial close will be reported to Executive Board at the earliest opportunity.

7 Background documents¹

N/A

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.