

**Report of Director of City Development**

**Report to Executive Board**

**Date: 18<sup>th</sup> July 2012**

**Subject: Little London, Beeston Hill & Holbeck – Housing PFI updated affordability position**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): Beeston & Holbeck, City & Hunslet and Hyde Park & Woodhouse.	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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 type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 10.4(3). Appendix Number: A	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

**1. SUMMARY OF MAIN ISSUES**

- The Little London, Beeston Hill and Holbeck Private Finance Initiative Project will be the largest single area regeneration investment in Leeds for many years and one of the largest housing PFI projects in the country. The project will result in significant capital improvements to 1245 existing Council homes, construction of 388 new council homes for rent, together with improvements to estate areas over the next four years and an ongoing service contract to maintain building and environmental standards over a 20 year period.
- Due to a shortfall in availability of senior debt funding in the lending market, revised funding proposals which require a re-profiling of the Council's contribution to the project are proposed to secure financial and contract close for the project, which remains within the affordability limits originally approved by Executive Board in 2008.
- The procurement of the project has suffered significant challenges and delays since final tenders were evaluated in October 2010 following government efficiency review and the second set of banking funding issues. However, the project is close to conclusion with contract signature anticipated later this month.

## 2. RECOMMENDATIONS

Members are recommended (but without affecting the authority to proceed to financial close of the project and approvals in relation there to resolved at previous meetings of this Board [and in particular Executive Board resolution 184 (g) – (j) inclusive made on 9 March 2011]) to:

- i. note the progress made and the intention to let the contract by the end of July 2012, or as soon as possible after that, to allow a start on site by November 2012, with mobilisation and preliminaries prior to this date;
- ii. note the process in place to achieve financial close and in particular note and endorse the action taken by the Director of Environment and Neighbourhoods to seek revised section 27 Housing Act 1985 consents in support of the project;
- iii. approve the key decision to re-profile the Council's affordability contribution to the project as set out in the exempt **Appendix A** and authorise the Director of Environment and Neighbourhoods to approve the final profiling of the contributions ; and
- iv. approve the updated financial implications and affordability parameters set out in the exempt **Appendix A**.

## 3. PURPOSE OF THIS REPORT

- 3.1 This report confirms outcomes being sought for the Little London, Beeston Hill and Holbeck Private Finance Initiative Project and provides updated details of the financial position in advance of Financial Close.
- 3.2 The project remains within the final scope confirmed by Executive Board on 27<sup>th</sup> July 2011 but requires a key decision to approve revisions to the funding arrangements in order to proceed, although these can be contained within the overall affordability limits re-affirmed by the Board at its meeting on 9<sup>th</sup> March 2011. The Budget limits were set originally as part of the Outline Business Cases by Executive Board in February 2008 and noted again on 7<sup>th</sup> March 2012.
- 3.3 The Executive Board resolutions on 9<sup>th</sup> March 2011 confirmed authority for the project to proceed to financial close, and this report is not intended to affect that authority, or resolutions made.

## 4. BACKGROUND INFORMATION

- 4.1 The project represents 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.
- 4.2 The main programme of works includes refurbishment of the 1245 Council homes, construction of 388 new Council homes to rent and environmental improvements to the estate. The programme will commence in 2012, with an initial focus on the refurbishment of the existing homes, and be completed overall by 2016-17.

4.3 The main housing outputs to be delivered through the project will be:

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.

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

Beeston Hill :

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

4.4 The project will also deliver benefits in the form of **enhanced environmental standards and improved community safety** to the housing and estate areas by ensuring:

- all new homes to be built to Code for Sustainable Homes Code 4 standards;
- all existing homes to fully meet the Decent Homes standard with minimum improved energy efficient standards;
- the energy efficiency targets of the homes support a reduction in fuel poverty; and
- Neighbourhoods meet the Secured by Design and Design for Life environmental standards, helping transform the homes and environment in these areas.

4.5 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 99 apprenticeship/traineeships in Construction and Grounds Maintenance;
- safeguard up to 160 jobs for existing sc4L and supply chain staff currently working in Leeds;
- create up to an additional 250 employment opportunities for local skilled people;
- provide a minimum of 48 construction work experience placements plus additional work experience opportunities through the development of an Education Liaison Strategy; and

- create a number of social enterprise opportunities linked to the project.

- 4.6 The Pre Preferred Bidder Final Business Case (PPB FBC) for the project was approved by Executive Board at its meeting on 27<sup>th</sup> July 2011. The PPB FBC included changes that had to be incorporated into the project following a review of the project costs and deliverables as part of the Government's 'value for money' review of housing PFI Projects across the country. The scope of the amended PPB FBC was confirmed by Government on 18th October 2011.
- 4.7 The scope changes involved the removal of planned improvements to the existing shop parade and community centre in Little London from the project. The Council is assessing how the redevelopment and improvement of these facilities can be delivered to complement the PFI investment. A major part of this is the proposal to expand Little London Primary School (details are set out elsewhere in the Executive Board's meeting papers).
- 4.8 The existing shopping parade and community centre are in a very poor condition and alternatives are being explored which will enable continued community centre and retail provision as well as consideration of pedestrian safety issues.

## **5. MAIN ISSUES**

- 5.1 Sustainable Communities for Leeds (Sc4L) was confirmed as Preferred Bidder for the project on 27<sup>th</sup> January 2012. The consortium members are Cyrill Sweet Investments, Keepmoat Investments and Lloyds Bank/Bank of Scotland. Executive Board noted in March 2012 an updated affordability position in the Pre Financial Close Final Business Case for the project. HCA confirmed the position and allocation of PFI credits (by DCLG) to financially support the project on 28<sup>th</sup> February 2012.
- 5.2 At that time it was anticipated that all parties would be able to move forward to financial close in March 2012 and the commencement of works and services by early summer. However this was subject to funders completing due diligence and securing Credit Committee approval. This process has taken much longer than anticipated.
- 5.3 At the end of May 2012 the Council was informed that one of the three funders was unable to continue to support the project. The majority of the project's funding requirements will continue to be met by the two remaining lenders: Nationwide Building Society and the Co-operative Bank, both of whom have extensive experience of housing private finance schemes. A funding shortfall remains, and having considered options to address this, it is proposed that this should be met through a re-profiling of the Council's affordability contribution to the project.
- 5.4 If the Council was unable to proceed with the project under the PFI funding route, it would need to identify around £140 million from existing resources to bring the existing 1,245 Council homes up to decency standard and to construct the 388 new homes described above. The PFI approach also ensures funding is in place to meet the repairs and maintenance and lifecycle investment costs for the 20 year contract period, which would otherwise need to be identified from other resources.
- 5.5 The proposed changes to the funding requirements will involve the City Council re-profiling the affordability contributions it makes over the first 5 years of the contract

in line with the anticipated construction programme. This can be achieved without impacting on other HRA programme priorities through a combination of reserves not earmarked for other schemes and the ongoing savings anticipated by the consequential reduction in the unitary charge for the project. A detailed explanation of the changes and the updated affordability position are set out in exempt **Appendix A**. However, in summary, the revised position remains affordable within the original parameters approved by Executive Board. It does not materially alter the risk profile of the project. It has been subject to risk assessment and takes account of legal advice, and provides the best value for money solution within an acceptable timeframe.

- 5.6 The proposals are subject to final Government approval but are within HM Treasury guidelines for such an approach. A submission has been made through HCA/CLG and the outcome should be received in time to update Executive Board at its meeting. Subject to Government and Executive Board approval, and following funder Credit Committee approval, it is intended that the contract will be signed by the end of July 2012, or as soon as possible after that, and that works will commence from early November 2012 (after a 3 month contract mobilisation period).

## **6. CORPORATE CONSIDERATIONS**

### **6.1 Consultation and Engagement**

- 6.1.1 Consultation has been undertaken throughout the project development and the procurement process, varying in intensity according to the stage reached.
- 6.1.2 The key lines of consultation and involvement over the Final Business Case stages have been:
- Executive Member – overall oversight and progress reporting;
  - Ward Members and MP – progress reports as appropriate;
  - internal Stakeholders – progress reporting and preparation for contract mobilisation;
  - Community Advisory Group – informal role giving local input into preparation for tenant and resident consultation including presentation of tenant choices; and
  - resident groups and individual – enquiry responses.

### **6.2 Equality and Diversity / Cohesion and Integration**

- 6.2.1 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.

6.2.2 Because the project re-profiling detailed in this report can be achieved without impacting on other identified HRA programme priorities there have been no new equality issues identified, nor have the impact levels of existing issues changed.

### **6.3 Council Policies and City Priorities**

6.3.1 The PFI scheme also contributes 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 contributing to improving local communities. In particular, it will address key issues 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.

### **6.4 Resources and Value for Money**

6.4.1 The project remains properly resourced to complete the procurement process and a detailed organisation structure is in place to deliver the mobilisation and contract management phase of the project.

6.4.2 The re-profiling of the Council’s affordability contribution will be funded directly from the Housing Revenue Account (HRA) which has sufficient reserves to meet the projected payment profile without any impact on other known or planned commitments.

## **6.5 Legal Implications, Access to Information and Call In**

- 6.5.1 The Director of City Development considers that the decision requested in this report is urgent (i.e. that any delay would seriously prejudice the Council's or the public's interests)' and that therefore this report should not be subject to call in. This is because the updated financial and affordability assumptions have only been identified and progressed in the last few weeks meaning that they could not be identified previously on the forward plan. The updated proposals are also predicated on the basis that a contract can be signed at the end of July or as soon as possible after that but before the next scheduled meeting of Executive, as the affordability position cannot be guaranteed to remain unchanged beyond that.
- 6.5.2 The change in approach to funding the project have been identified as a key decision and been made in consultation with the Executive Member for Neighbourhoods and Housing and Executive Board members. The approval by Executive Board of this key decision is required on an urgent basis under the rules of general exception outside of the normal Forward Plan requirements. All Members have been notified of the decision in accordance with the requirements of the constitution.
- 6.5.3 **Appendix A** 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 (including project affordability position) and commercially sensitive 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.
- 6.5.4 Proceeding with the letting of the contract for the Little London, Beeston Hill and Holbeck 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 revised commercial terms discussed in this report.
- 6.5.5 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.

## **6.6 Risk Management**

- 6.6.1 An updated risk management position was provided to the Homes and Communities Agency alongside the PFC FBC submission to confirm that the City Council is appropriately managing the risks for the project.
- 6.6.2 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.
- 6.6.3 The previous principal risk reported on the project related to the availability of senior lenders and the volatility of market funding interest rates. Whilst there remains a risk that rates might change, this should be mitigated by the improved financial

position for the project and the limited financial buffer included in the costs. The key risk now is around programme delay which would have a greater bearing on project and funding costs.

- 6.6.4 The re-profiling of City Council contributions will result in changes to the drafting of the Project Agreement between the City Council and the preferred bidder, and also has required consideration of risks around procurement and State Aid. These are dealt with in detail at exempt **Appendix A**.

## 7. CONCLUSION

- 7.1 The Little London, Beeston Hill and Holbeck PFI Project is nearing the conclusion of a long development and procurement process. Subject to the final stages being completed successfully the contract is due to be let by the end of July 2012, or as soon as possible after that, to allow a start on site in November 2012, with mobilisation and preliminaries prior to this date.
- 7.2 The project will bring much needed benefits to three local inner city communities, with the renovation and improved energy efficiency of the retained Council housing stock, replacement of unsustainable homes with new higher standard energy efficient new homes, improvement of the local environment and opportunities for training, employment and involvement for the local residents.
- 7.3 Despite all the delays and reviews the project will still deliver significant improvements to these priority regeneration areas and remains affordable to the Council at this time even though it has been affected by austerity cuts and higher market funding terms as a result of wider financial and economic pressures.

## 8. RECOMMENDATIONS

Members are recommended (but without affecting the authority to proceed to financial close of the project and approvals in relation there to resolved at previous meetings of this Board [and in particular Executive Board resolution 184 (g) – (j) inclusive made on 9 March 2011]) to:

- i. note the progress made and the intention to let the contract by the end of July 2012, or as soon as possible after that, to allow a start on site by November 2012, with mobilisation and preliminaries prior to this date;
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- iii. approve the key decision to re-profile the Council's affordability contribution to the project as set out in the exempt **Appendix A** and authorise the Director of Environment and Neighbourhoods to approve the final profiling of the contributions; and
- iv. approve the updated financial implications and affordability parameters set out in the exempt **Appendix A**.



## 9. Background documents<sup>1</sup>

### Appendix A (Confidential) - updated affordability position

Other Background documents :

- 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
- Executive Board Report July 2011 - Little London and Beeston Hill & Holbeck PFI Housing Project – Confirmation of Pre Preferred Bidder Final Business Case and VFM Outcome
- Delegated Decision of Director of Environment and Neighbourhoods 3<sup>rd</sup> February 2012
  - Little London and Beeston Hill & Holbeck PFI Housing Project – Revised Pre Financial Close Final Business Case

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<sup>1</sup> The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.

- Executive Board report – March 2012
  - Little London and Beeston Hill & Holbeck PFI Housing Project – Pre Financial Close Final Business Case and Section 27 delegation report
- 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 Pre-Preferred Bidder Final Business Case – provided as an Exempt Document in the Member’s Library
- Equalities Impact Assessment