

IMPLEMENTATION EXECUTIVE
27 AUGUST 2008

West Wiltshire Non-HRA PFI Scheme

Executive Summary

The housing PFI is a flagship project for delivering at least 400 new affordable homes. Started by West Wiltshire District Council, it will need to be completed by Wiltshire Council. This is an introductory report and further reports are proposed at key project stages.

Proposals

It is proposed that Implementation Executive:

- a. note the report, including the financial implications and risk assessment;
- b. endorse the continuing procurement of the project; and
- c. request a further report prior to submission of the final business case.

Reason for Proposals

To ensure ongoing delivery and control of the project, and a smooth transition to the new council.

Authors:

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1. INTRODUCTION

- 1.1. Delivering more affordable homes is a major ambition for Wiltshire Council. West Wiltshire's non-housing revenue account (non-HRA) private finance initiative (PFI) is a flagship project for meeting the new council's affordable housing and local area agreement (LAA) targets.
- 1.2. Its key objective is to significantly reduce the level of unmet housing need within West Wiltshire, by achieving a step-change in the provision of affordable housing.
- 1.3. A partner is being sought to design, build, manage and operate at least 400 good quality affordable homes for rent. A mixture of dwelling types is to be provided across West Wiltshire. The estimated capital cost is approximately £76m.
- 1.4. The homes will be let to council nominees, using housing association tenancies and at Housing Corporation target rents, for a contract period of 30 years. Post-contract nomination rights will be agreed with the successful bidder.
- 1.5. As with other PFI projects, the contractor will be entitled to receive performance related (unitary charge) payments for providing homes and services in accordance with the contract standards.

2. BACKGROUND

- 2.1. West Wiltshire District Council originally submitted an expression of interest to the Department for Communities and Local Government (CLG) in December 2003. In spring 2006, the outline business case was approved and PFI credits (central government subsidy) were allocated by CLG. A contract notice was issued in November 2006 and the scheme is currently in procurement.
- 2.2. With bid submission due at the end of September, it is hoped to announce the preferred bidder in late December 2008 and to achieve contract/financial close (contract award) during summer 2009 i.e. after vesting date.
- 2.3. A number of challenges have been overcome during the scheme's development and procurement. Most recently, one of two short listed bidders withdrew from the tender process. CLG has agreed to the procurement continuing with a single bidder, subject to value for money being demonstrated.
- 2.4. SPB Homes is the remaining bidder, a consortium of Sarsen Housing Association and Barclays Private Equity, with Persimmon Homes as its principal sub-contractor. Persimmon will be providing development land for approximately 200 dwellings and, through its Westbury Partnerships subsidiary, building all (400) of the new homes.

- 2.5. Using PFI funding to deliver additional affordable homes on private sector land is one of the scheme's innovative features. However, the housing market downturn has caused a significant reduction (from six to three) in the number of Persimmon sites on offer.
- 2.6. A high level overview of the emerging scheme and an indicative programme are shown in Appendix 1. Scheme details are likely to be revised during bid development and bidder negotiations, in particular due to changes in Persimmon's land offer.
- 2.7. This introductory report provides a summary of what has been a long and complex process to date. Implementation Executive received an informal briefing on 9 July 2008. Further details are available on request from Chris Trowell, project manager.
- 2.8. It is proposed that more detailed information be reported to Implementation Executive following bid evaluation and bidder negotiations, and prior to submission of the final business case. A final report will be required, seeking authority to enter into a contract.

3. MAIN CONSIDERATIONS

3.1. Local Government Reorganisation

- 3.1.1. West Wiltshire District Council will be the procuring authority until vesting date. That responsibility will transfer to the new council from 1 April 2009, until financial close. Thereafter, Wiltshire Council will be the administering authority for the contract period.
- 3.1.2. In order to minimise the risk of abortive work and to provide reassurance to CLG and the bidder, Implementation Executive is asked to endorse the continuing procurement of the project.

3.2. Project/Contract Management

- 3.2.1. The District Council has a full time project manager reporting to a project board made up of elected members (the housing and finance portfolio holders), the project (corporate) director and external representation from 4ps (part of the Local Government Association).
- 3.2.2. It is anticipated that the project manager will transfer into Procurement & ICT, from where the contract will eventually be managed.

3.3. Financial Implications

- 3.3.1. The scheme's operating costs will be heavily subsidised through PFI credits, with the balance being met from tenants' rents (paid directly to the contractor) and by an annual revenue contribution from Wiltshire

Council. That revenue contribution is currently set at £195,000 per annum, index linked to RPI from April 2004.

- 3.3.2. An additional capital contribution by way of nil consideration District Council owned land, valued at up to £5.76m (September 2007 values), will also be made.
- 3.3.3. Anticipated set up costs though to financial close are £1.35m. They are funded by the District Council and any unspent budget will be rolled forward to the new council.
- 3.3.4. Based on a recent affordability review with the bidder, a 400 home scheme remains affordable.
- 3.3.5. It is proposed that more detailed financial information be reported to Implementation Executive in due course, as indicated above.

3.4. Environmental Impact of the Proposal

- 3.4.1. It is anticipated that all PFI dwellings will meet or exceed Level 3 of the Code for Sustainable Homes.

3.5. Equalities Impact of the Proposal

- 3.5.1. The project is intended to achieve a step-change in the provision of good quality affordable homes and services for those in greatest need. Nomination arrangements will be fair and transparent, through Homes 4 Wiltshire choice based lettings system.
- 3.5.2. Dwellings will be built to Lifetime Homes standards, so that they are accessible to a wide range of people and are adaptable for those tenants with special requirements.

3.6. Risk Assessment

- 3.6.1. A quarterly review of scheme risks is carried out, using an industry standard evaluation tool. The current risk map is shown in Appendix 2. Risk nos. 1 to 7 (including 6a) relate to the pre-contract stage and nos. 8 to 11 are post-contract risks.
- 3.6.2. PFI works on the principle of risks being allocated to the party best able to manage (and price) those risks. While there is intended to be a significant level of risk transfer to the PFI contractor, certain risks (or a share of those risks) will need to be retained by Wiltshire Council.
- 3.6.3. It is proposed that a detailed risk assessment be reported to Implementation Executive in due course, as indicated above.

4. CONCLUSION

- 4.1. West Wiltshire District Council's housing PFI scheme has been in development since 2003. It will need to be completed by Wiltshire Council after 1 April 2009. The project will make a major contribution to meeting the new council's affordable housing and LAA ambitions. It is at an advanced procurement stage; is affordable and deliverable.

Housing PFI scheme overview

Heading	Detail
Number of homes	At least 400 new affordable rented homes across West Wiltshire. Homes owned by the PFI contractor during and after the contract.
Contract period	30 years from contract close, including a three year construction period. PFI contractor required to provide housing management and maintenance services in accordance with specified performance standards.
Estimated capital cost	Approximately £76m
Annual revenue contribution	£195,000 index linked to RPI from April 2004 for operational period
Capital contribution	Nil consideration land - up to £5.76m (September 2007 valuation)
Set up costs	£1.35m - funded by West Wiltshire District Council and any unspent budget rolled forward to the new council
Nomination rights	100% for 30 years. Post-contract nomination rights to be agreed during bidder negotiations. Nomination agreement based on Homes 4 Wiltshire choice based lettings system. Nominations to include 16 and 17 year olds. 15 no. dwellings to be used as temporary accommodation.
Rents	Housing Corporation target rents, subject to maximum annual increases of RPI plus 0.5%. Rents paid directly to the PFI contractor.
Council provided development sites	For approximately 112 homes
Bidder provided development sites	For approximately 288 homes, including 200 homes on Persimmon land. Persimmon's land offer is liable to change.
Development standards	Housing Corporation Design and Quality Standards, including: <ul style="list-style-type: none"> • enhanced Housing Quality Indicators; • Code for Sustainable Homes Level 3 or higher; • Secured by Design compliance; • Lifetime Homes standards; and • Building for Life standards.

Indicative programme

Milestone	Target date
Bid submission	September 2008
Final business case approved CLG	December 2008
Preferred bidder announced	December 2008
Contract award	Summer 2009
Start on site	Summer 2009
Full occupation	Summer 2012

Note - scheme details and programme subject to change during bid development and bidder negotiations.

Housing PFI risk map

Risks		Gross		Net		Current (July 2008)	
No.	Description	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood
1.	Set up costs are not affordable to the Council	Catastrophic/ major	Almost certain	Catastrophic/ major	Almost certain	Moderate	Moderate
2.	Incorrect assumptions in the financial model (too optimistic/pessimistic)	Catastrophic/ major	Almost certain	Major	Moderate	Major	Moderate
3.	Loss of political support (loss of reputation and delivery against corporate plan)	Major	Likely	Major	Likely	Major	Moderate
4.	Unable to find a) appropriate land that meets objectives; b) planning permission	Catastrophic	Almost certain	Major	Likely	Major	Moderate
5.	Inadequate project management	Catastrophic	Almost certain	Major	Likely	Major	Moderate
6.	Lack of competition – single bidder [revised 22 July 2008]	Catastrophic	Moderate	Major	Moderate	Major	Almost certain
6a.	Scheme costs not affordable	Catastrophic	Almost certain	Major	Moderate	Major	Moderate
7.	Become single project authority	Catastrophic/ major	Moderate	Major	Likely	Major	Unlikely
8.	Original specification not properly defined (does not meet current/future needs)	Major	Almost certain	Moderate	Likely	Moderate	Moderate
9.	Future requirements change significantly	Catastrophic/ major	Almost certain	Catastrophic/ major	Likely	Moderate	Unlikely
10.	Inadequate post contract monitoring (client side)	Major	Almost certain	Major	Almost certain	Moderate	Moderate
11.	Contract terminates	Major	Moderate	Moderate	Unlikely	Moderate	Unlikely