

Title: **Housing PFI scheme – Review of governance arrangements, financial implications and risk management approach**

Portfolio holder: **Cllr Virginia Fortescue**

Reporting officer: **Chris Trowell, Housing PFI Project Manager**

Purpose

The purpose of this report is to provide a high level review of the governance arrangements that are in place for the Council's housing private finance initiative (PFI), together with an overview of the financial implications and the approach to risk management.

Background

The PFI scheme's 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 in the district.

We are seeking to appoint a PFI contractor to design, build, finance and operate at least 400 good quality affordable homes for rent. The homes will be let exclusively to Council nominees, using housing association tenancies and at Housing Corporation target rents, for a contract period of 30 years.

The project has taken longer to deliver than was originally envisaged, mainly due to external factors. Target dates are as follows:

- Summer 2008 – preferred bidder chosen.
- December 2008 – contract signed.
- December 2009 – first home completed.
- December 2011 – all homes completed.

Key issues

a) governance

Cabinet is responsible for delivering the PFI scheme within the policy and budgetary framework that has been approved by Council. A project board provides the overall direction and management of the project within the remit set by corporate management. The board is supported by a project team of Council staff, including a full-time project manager (Chris Trowell), as well as experienced external advisors.

The Housing PFI Project Board consists of Cllr Fortescue, Cllr While, Tim Darsley and Kevin Hanlon (from 4ps, part of the Local Government Association). Cllr Fortescue is the 'project owner' and Tim Darsley represents the future service users. Throughout the project, Members have been welcomed to attend board meetings as observers.

The governance arrangements, in which decision-making is delegated to the lowest appropriate level and communication lines are kept short and open, have worked very well to date. Strong cross party support on the Project Board has ensured a consistent direction of travel through two changes of administration.

b) financial implications – set up costs

The Council (and the bidders) will incur significant up-front costs before the PFI contract can be signed. This is mostly due to the need for external consultants and additional staff.

The original budget requirement was £1.039 million (July 2005). This has increased to £1.350 million (October 2007), due primarily to:

- the extended procurement period (delays),
- Government's requirement to double the amount of Council provided land, and
- Government's changes to the basis of the PFI contract.

The revised budget requirement is well within previously identified tolerances and set up costs remain affordable to the Council. Set up costs are monitored at monthly Project Board meetings and corrective action is taken, where required.

c) financial implications – affordability

The cost of the scheme is mainly funded from Government subsidy (in the form of PFI credits), with the balance coming from tenants' rent and the Council's financial contribution.

The Council's capital contribution will be in the form of 'nil consideration' land for 100 homes, which has been valued at approximately £2.3 million. Cabinet has approved a mechanism whereby more Council land could be provided for nil consideration in order to resolve any affordability issues or to deliver as many homes as possible.

The agreed revenue contribution is £195,000 per annum for 30 years, index linked from April 2004. Our financial advisors (Grant Thornton) have recently completed an affordability review. This shows that the scheme remains affordable within the above contributions.

d) risk management

The risk panel (Ian Jamieson, Graham Hogg and Chris Trowell) meets on a quarterly basis to review scheme risks using an industry standard evaluation tool. Changes to the risk map are considered by the Project Board, also on a quarterly basis.

As the scheme has progressed, the likelihood of key risks occurring has generally reduced. The impact of those risks has remained fairly constant. This is because the PFI scheme is the Council's largest project, so any significant problems would have a major impact. The current risk profile is shown in Appendix 1. This is due to be updated immanently.

One of the underlying principles of the PFI is that project risks are borne by the party that is best able to manage those risks. In many cases this means that we will be transferring risks to our PFI contractor (and they will be pricing this risk transfer into the contract). There will be some risks that the Council has to (or chooses to) retain under the contract. These retained risks will need to be kept under review during the contract period.

e) local government reorganisation (LGR)

A further set of risks and mitigating actions have been identified following the announcement of a single council for Wiltshire. These have been incorporated into the corporate LGR risk assessment.

Wiltshire County Council's unitary bid highlighted the PFI as an important social housing initiative that cannot afford any delays. Affordable housing provision has been identified as a probable priority area for the new Local Area Agreement.

f) contract management

Effective contract monitoring and management arrangements will need to be put in place to ensure that the Council receives good value for money from the contract and that the tenants (our customers) receive good service standards. This will be required regardless of which council is responsible for the contract once it has been signed.

It will be necessary to agree the contract manager's job specification(s), reporting structure and funding arrangements before the PFI contract is signed. Ideally the lead individual would be involved at pre-contract stage. This work has not been progressed to date.

Effect on strategies and codes

The PFI scheme will make a major contribution towards 'meeting housing need', which is one of the Council's corporate priorities. Affordable housing provision is likely to be one of the priority areas for the new Local Area Agreement.

Risk management implications

See sub-section d), above, for risk management implications.

Finance and performance implications

See sub-sections b) and c), above, for financial implications.

The monthly payments that the Council will make to the PFI contractor, under the 30 year contract, will be performance related. It will therefore be important to ensure that effective contract monitoring and management arrangements are put in place before the contract is signed. See sub-section f), above.

Legal and human rights implications

There are no significant legal or human rights implications affecting this report.

Next steps

Spring 2008 – detailed bids received.

Recommendations

It is recommended that Audit Committee reviews the arrangements outlined in the report.

Background papers

None.

Appendix 1 – Housing PFI risk profile (July 2007)

Risk no.	Risk event	Impact	Probability
1.	Set up costs are not affordable to the Council	Moderate	Almost certain
2.	Incorrect assumptions in the financial model (too optimistic/pessimistic)	Major	Moderate
3.	Loss of political support	Major	Moderate
4.	Unable to find: a) appropriate land b) planning permission	Major	Moderate
5.	Inadequate project management.	Major	Unlikely
6.	Lack of competition (no market)	Major	Likely
6a.	Scheme costs not affordable	Major	Moderate
7.	Become single project authority	Major	Unlikely
8.	Original specification not properly defined (does not meet current/future need)	Moderate	Moderate
9.	Future requirements change	Moderate	Unlikely
10.	Inadequate post contract monitoring (client side)	Moderate	Moderate
11.	Contract terminates	Moderate	Unlikely