

**CABINET**  
**24 NOVEMBER 2009**

---

**HOUSING PFI – APPROVAL OF FINAL BUSINESS CASE**

**Executive Summary**

The purpose of this report is to seek Cabinet's agreement to the proposed details of the scheme and for our final business case to be submitted.

In view of affordability issues and the planning situation, it is proposed to reduce the size of the scheme from 400 homes to around 350 homes and for these homes to be delivered on a phased basis, with approximately 242 homes being provided in Phase 1. The intention is to sign the PFI contract by the end of March 2010 and to start building work next spring.

This is considered to be a prudent and pragmatic solution that will allow the maximum affordable number of homes to be provided as quickly as possible.

**Proposal**

That Cabinet agrees to proceed with the housing PFI scheme:

- to provide around 350 homes in total on a phased basis, as set out in Appendix 1, with approximately 242 homes to be provided in Phase 1; and
- to submit a final business case on this basis, subject to final details being agreed by the Service Director, Housing in conjunction with appropriate councillors and officers.

and that Cabinet:

- confirms that the Council will make an annual index linked revenue contribution to the scheme of approximately £220,000 at current prices for 30 years;
- agrees that all Council owned sites in the project will be provided for nil consideration or that any capital receipt in respect of these sites will be used as a financial contribution to the scheme;
- authorises officers to seek such consents and permissions, and to issue such certificates and notifications as may be required to facilitate the project; and
- requests a further report prior to entering into the PFI contract.

**Reason for Proposal**

To ensure that the housing PFI scheme is deliverable in view of current constraints.

Graham Hogg, Service Director, Housing

**CABINET**  
**24 NOVEMBER 2009**

---

**HOUSING PFI SCHEME – APPROVAL OF FINAL BUSINESS CASE**

**Purpose of Report**

1. To seek Cabinet's agreement to the proposed details of the scheme and for our final business case (FBC) to be submitted.

**Background**

2. The private finance initiative (PFI) scheme was started by West Wiltshire District Council (WWDC) in 2003. 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..."
3. One of the actions in Wiltshire Council's first year plan 2009/10 is to "Start building 400 new affordable Private Finance Initiative homes in the Trowbridge area". Provision of new affordable housing is a high priority for Wiltshire Assembly and this is reflected in the Local Area Agreement (LAA) targets for delivering new affordable homes.
4. An overview of the project is provided in Appendix 1. We are effectively procuring the supply of nomination rights, for people on the Council's housing register, to good quality affordable rented homes. A small number of units of temporary accommodation are also to be provided for homeless households. The contract's payment mechanism will ensure that our PFI contractor is given an incentive to keep the homes well managed and maintained.
5. The scheme is supported by a maximum PFI credit allocation (i.e. central government subsidy) of £83 million from the Homes and Communities Agency (HCA). WWDC previously agreed to make an annual index linked revenue contribution, for 30 years, towards the cost of operating the project. At current prices this stands at £220,000 per annum.
6. We are negotiating the contract with Silbury Housing Ltd, a consortium led by Sarsen Housing Association in partnership with Barclays Private Equity. Sarsen and Persimmon Homes are providing approximately half of the land and Westbury Partnerships will be the building contractor.
7. Strategic direction and governance is provided by a project board made up of the Cabinet Member, EDPH; Portfolio Holder, Housing; Corporate Director, EDPH; Service Director, Housing; and external representation from Local Partnerships (formally known as 4ps, local government specialists in PFI). The board is supported by a cross cutting team of internal officers and external advisers.

## **Main Considerations for the Council**

8. The project has been delayed due to various internal and external factors. Since 1 April 2009 the two main reasons for delay have been affordability issues and planning approvals. However, we are now approaching the stage where our FBC can be submitted to HCA in order to secure the PFI credits and to appoint Silbury Housing as our preferred bidder.

### **Affordability**

9. As with any PFI scheme, Silbury Housing needs to raise the cost of providing the homes through bank loans. Funding terms have increased significantly due to the credit crunch and there is an affordability gap of some £1 million per annum on the original 400 home scheme.
10. In order for the project to be financially viable it will be necessary to:
- secure additional PFI credits from central government;
  - increase the Council's financial contributions;
  - reduce the scope of the scheme, in quality and/or quantity; or
  - any combination of the above.
11. HCA have advised that no additional credits are available for the scheme. The default position in PFI projects is for the procuring authority to meet any affordability gap through increased financial contributions and Cabinet may wish to consider this option. However, following discussions with the Chief Finance Officer, it is recommended that the project should be re-scoped, so that an affordable solution can be delivered within the agreed revenue contribution.

### **Scope of scheme**

12. In view of affordability issues, the Housing PFI Project Board proposes that the scheme should be reduced to around 350 homes. This is the estimated maximum number of homes that can be provided without having to increase the Council's agreed revenue contribution (currently £220,000 index linked).

### **Land and planning**

13. There have been significant difficulties in securing planning permission for the required number of homes. Following Western Area Planning Committee on 28 October 2009 there is now permission for 242 homes, as set out in Appendix 2, with no further sites currently subject to planning.

### **Phased approach**

14. In view of the planning situation, the Project Board proposes that the scheme should now be delivered on a phased basis, with 242 homes being provided in Phase 1 and the balance, up to around 350 homes in total, coming forward in future phases via contract changes. This mechanism is currently being used on another housing PFI scheme.

### **Homes and Communities Agency funding**

15. HCA has indicated that the full £83 million PFI credits will still be available for a phased project to deliver around 350 homes (i.e. the maximum number of homes within the Council's affordability envelope), subject to all Council owned land being provided for nil consideration and our full annual revenue contribution being made.

### **Programme**

16. Our intention is to sign the PFI contract by the end of March 2010 and to start building work on Phase 1 next spring. The timescale for delivering any additional homes in future phases is yet to be agreed.

### **Value for money**

17. In addition to providing an affordable solution, it will be necessary to demonstrate to HCA that the project provides overall value for money.
18. For the sake of transparency, Cabinet's attention is drawn to Persimmon's land price, which is at a level below the peak of the market, but above current depressed prices. A significant price reduction has been achieved though negotiations, but we are now at a point where there is unlikely to be scope for further material savings if Persimmon's land is to be included in the scheme as opposed to it being built out for open market sale.
19. At the time the project was started in 2003, PFI was the only realistic option for achieving a step-change in the provision of affordable housing. Other options are now available and some of these, such as s.106 nil subsidy schemes and former Housing Corporation grant funding, are more financially attractive to the Council than others. However, in order to meet our LAA targets we need to use all of the options that are available to us including PFI and the Government's new council house building initiative.
20. Instead of supporting the PFI contract, the Council's agreed revenue contribution could be used to service the loan element of a council house building bid. However, due to the differing levels of Government subsidy between the two funding routes, this would provide substantially fewer homes than through the PFI.

### **Overview and Scrutiny**

21. An update report on the project and its potential impact on meeting the Council's LAA affordable housing targets were considered by the Environment Select Committee on 3 November 2009. It was resolved that members noted the number of homes under the PFI scheme for west Wiltshire had been revised from 400 to 350 and that the project would be delivered on a phased basis.

### **Final business case**

22. This is a complex project and there are limitations on the amount of information that can be included in this report. Negotiations are also ongoing with Silbury Housing and HCA to reach an agreed commercial position.

23. It is therefore proposed that Cabinet agrees for the FBC to be submitted in accordance with the parameters set out in the Proposal section of this report, subject to the final details being agreed by the Service Director, Housing in conjunction with appropriate councillors and officers.

### **Environmental Impact of the Proposal**

24. The provision of around 350 new homes will inevitably have an environmental impact on individual localities. However, it is anticipated that at least 150 of the homes will be located on previously developed 'brown field' land.
25. All PFI homes will meet Level 3 of the Code for Sustainable Homes, meaning that they achieve 25% reduction in energy consumption from Building Regulations standards. A number of environmentally sustainable features will be incorporated into the homes including low water consumption fittings, energy efficient lighting and photovoltaic roof tiles, which generate electricity from daylight.

### **Equalities Impact of the Proposal**

26. All general needs homes will be allocated through the Homes4Wiltshire choice based lettings (CBL) system. The CBL policy ensures that nominations are made in a fair and transparent way. Allocations to the temporary accommodation units will be managed outside of CBL.
27. The homes will also be built to Lifetime Home standards meaning that they are suitable for a wide range of tenants and are capable of adaptation to meet the changing needs of residents due to age and disability etc.

### **Risk Assessment**

28. The model PFI contract provides for a standard risk sharing profile between the Council and our PFI contractor. There is limited scope for changing that profile and any significant changes need to be signed-off by HCA.
29. There is a risk of Persimmon withdrawing its half of the land prior to the contract being signed, which could further delay the project or result in it being terminated. However, following recent planning decisions that risk is reduced. Our ability to deliver additional homes in future phases could be affected by further affordability issues and planning delays.

### **Financial Implications**

30. This project's affordability has been adversely affected by current financial market conditions. We have been advised by HCA that additional PFI credits are not available. In view of the tough economic and budget climate facing all councils across the Country, it is not recommended that the Council increases the annual revenue contribution. Instead it is proposed to reduce the scope of the scheme.

31. The reduction in scheme size from 400 homes to around 350 homes indicates the severity of increased funding terms compared to the position two years ago, when 400 homes would have been affordable. However, the full £83m PFI credits are still available, subject to all Council owned land being provided for nil consideration and our full annual revenue contribution being made.
32. Following an open market tender process, Sarsen Housing Association is in the process of acquiring Manor School, Melksham, which is jointly owned by Wiltshire Council and the Diocese of Salisbury. Based on HCA's requirement for Council owned land to be provided for nil consideration, it will be necessary to use any capital receipt in respect of the Council's part of the site as a financial contribution to the PFI scheme.
33. It is important to point out that the Council will bear the risk of changes in interest rates (known as swap rates) until we sign the PFI contract (known as financial close) or change it to provide additional homes. We will also be affected by changes in interest earned on the sinking fund in the early years of the project. To this extent our annual revenue contribution will depend on actual swap rates and prevailing investment rates.
34. On a positive note, the rules on refinancing have changed, so that 70% of any future benefits will accrue to the Council and the project could be refinanced when loan terms are more favourable.
35. The Council's total set up costs are estimated to amount to some £2 million, of which £1.1 million has been spent to date and is irrecoverable regardless of whether the project proceeds. Approximately £1.5 million has been provided by WWDC including from identified reserves. Approximately £500,000 revenue funding will need to be identified for set up costs from existing resources, in addition to the annual revenue contribution of £220,000 index-linked.

### **Legal Implications**

36. The PFI contract (known as the Project Agreement) is still being agreed between Silbury Housing and the Council. This needs to be submitted for approval by HCA. There is a risk that HCA may not agree our changes to the standard drafting and this could delay financial close. Likewise the comments of Silbury Housing's funders and their respective advisers are still awaited on the Project Agreement. If significant issues are raised this could also affect the timetable.
37. The Council has received external legal advice that considers the risk of a legal challenge to the existing procurement process arising from changes to the original specification (e.g. changes in unit numbers, provider percentages, and location) that will be made to accommodate the proposed phased approach to providing a reduced number of homes.

38. To summarise briefly, the advice is that the risk of a legal challenge is not significant provided no further significant changes are introduced to the scheme. This is to avoid changes to the requirement accumulating to such a level as would make the specification (legally speaking) materially different to as it was originally stated. However, if the assumptions on which this advice is given are changed in the future, the advice will need to be reviewed.

### **Options Considered**

39. The original options appraisal from our outline business case has been revisited. As discussed above, while there are now other realistic options in addition to PFI for providing affordable housing, we need to use the full range of options that is available to us in order to meet our LAA targets.

### **Conclusions**

40. In view of affordability issues and the planning situation, the Housing PFI Project Board proposes that the scheme should be reduced to around 350 homes to be delivered on a phased basis. This is considered to be a prudent and pragmatic solution that will allow the maximum affordable number of homes to be provided as quickly as possible. It is therefore proposed to submit our FBC on this basis.

**Graham Hogg, Service Director, Housing**

---

Report Author:

Chris Trowell, PFI Project Manager – 01225 776655 ext. 564 or  
[chris.trowell@wiltshire.gov.uk](mailto:chris.trowell@wiltshire.gov.uk)

22 September 2009

### **Background Papers**

None.

### **Appendices**

Appendix 1 – Project overview

Appendix 2 – Location and number of homes (Phase1)



## APPENDIX 1 – PROJECT OVERVIEW

| Heading                                       | Detail  |
|---|---|
| Number of homes                               | A scheme of around 350 homes, subject to affordability, to be provided on a phased basis. 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                        | Approx. £56m.   |
| PFI credits                                   | A maximum of £83m.  |
| Annual revenue contribution                   | £194,000 index linked to RPI (2.5%) from April 2004 for operational period. Approx. £220,000 at current prices.   |
| Capital contribution (nil consideration land) | Phase 1 – approx. £4.7m.  |
| Set up costs                                  | Estimated £2m through to full service commencement. Approx. £1.5m funded by WWDC.   |
| Nomination rights                             | 100% for contract period. At least 50% post-contract nomination rights. All general needs allocations through Homes4Wiltshire choice based lettings system. 15 no. dwellings to be used as temporary accommodation. |
| Rents   | Housing Corporation target rents for general needs units. Tenants' rents paid directly to the PFI contractor.   |

### Target programme

| Milestone                     | Target date   |
|-------------------------------|---------------|
| Final business case submitted | January 2010  |
| Preferred bidder confirmed    | February 2010 |
| Financial close               | March 2010    |
| Start on site                 | Spring 2010   |
| Full service commencement     | End 2012      |

## APPENDIX 2 – LOCATION AND NUMBER OF HOMES (PHASE 1)

| Site name/location            | Ownership                               | No. of homes | Planning status |
|-------------------------------|---|--------------|-----------------|
| Broad Street, Trowbridge      | Wiltshire Council                       | 31           | Approved        |
| Hillside, Warminster          | Wiltshire Council                       | 33           | Approved        |
| Leigh Park Area R1D, Westbury | Persimmon Homes                         | 25           | Approved        |
| Leigh Park Area R11, Westbury | Persimmon Homes                         | 28           | Approved        |
| Manor School, Melksham        | Wiltshire Council/<br>Salisbury Diocese | 51           | Approved        |
| Paxcroft Mead, Hilperton      | Wiltshire Council                       | 18           | Approved        |
| Victoria Road, Warminster     | Persimmon Homes                         | 32           | Approved        |
| York Buildings, Trowbridge    | Wiltshire Council                       | 24           | Approved        |
| Total                         |   | 242*         |                 |

\* The location and number of any additional homes in future phases is yet to be agreed.