

# **West Wiltshire District Council**

## **Council**

**19 July 2005**

### **West Wiltshire Housing Private Finance Initiative**

#### **1. Purpose of Report**

The purpose of this report is to:

- Present the outcome of further investigations and analysis since the 8 February Council meeting.
- Review the current position with the PFI Project.
- Identify the options open to the Council.
- Secure the decision of the Council as to whether to proceed with the project and submit the outline business case.

#### **2. Background**

The Council has been considering the potential of a PFI scheme to make a substantial contribution towards meeting the need for affordable housing in West Wiltshire since 2003.

Following the acceptance by the ODPM of the Council's expression of interest in May 2004, work proceeded on preparing an outline business case - a detailed description of the scheme, its outputs, costs and risks.

A summary of this work and a draft outline business case was considered by Council on 8 February 2005. The main features of the scheme at that stage were:

- 500 new homes would be provided by a PFI operator and made available at affordable rents.
- 100% of nomination rights would be available to the Council for 30 years.
- Housing management and maintenance services would be provided by the PFI operator.
- The homes would be spread throughout the District using brownfield sites where possible and with a specific allocation for rural areas.
- The scheme would include 75 units of temporary accommodation, with a specific element for young people.

The proposed scheme would cost the Council £195,000 per year (indexed from April 2004) for 30 years. The Council would also contribute free land to accommodate 100 homes, with an estimated market value of £5m.

The majority of the cost of the scheme would be borne by the Government through the award of PFI credit. This would be worth, at today's prices, between £72m and £100m, depending on the type of PFI operator.

A draft of the outline business case was presented to the ODPM in January 2005. Although supportive of the Council's scheme, the ODPM considered that further work was necessary to reduce the PFI credit requirement.

The Council considered a report on the proposed scheme and a summary of the outline business case on 8 February 2005. The resolutions of Council included;

- to continue to develop the outline business case
- to confirm the limits of affordability for set up costs at £500,000 revenue expenditure and £500,000 capital expenditure
- to investigate options and to develop a proposal for limiting the set up costs within these limits
- to bring forward a report before the end of July on the results of the further work and to seek a decision on the future of the PFI project.

This report addresses the last resolution. It reports on the four main work streams that have been undertaken since February, namely; the overall costs of the scheme, the land needed for the scheme, set up costs and risk management. It also comments on the position now reached following this work and sets out the options available to the Council.

### **3. Scheme Costs and PFI Credit Requirements**

#### *Background*

The total cost of the PFI scheme will depend on a number of variables - principally the cost of land and building the homes, together with the cost of managing and maintaining them over the 30 year contract period. Other factors such as inflation, the length of the development period, the type of operator and any retained value in the homes at the end of the contract will also have a significant effect.

When the draft outline business case was considered earlier this year, both Members and the ODPM raised the following concerns:

- The average unit cost (£200,574) seemed high in comparison with other schemes and the cost of buying existing properties in West Wiltshire.
- The PFI credit requirement (£72.1m) was much higher than in the expression of interest (£17.7m) and this increase did not seem fully justified.

The scheme costs and the PFI credit requirement have been subject to a detailed review based on the following:

- A second round of consultation with potential bidders. There was a high degree of co-operation from housing associations and many of them agreed to disclose commercially sensitive information about their financial assumptions. This was used to check the Council's assumptions for the PFI scheme.
- Our technical consultants were challenged to justify their advice about land and building costs, based on evidence gathered through the additional consultation.
- The knowledge of our financial consultants and 4Ps of other housing PFI schemes in the country.

### *Unit Costs*

In January, the ODPM gave a strong indication that it expected the Council to produce a mixed tenure scheme. After careful consideration, the Project Board agreed to support a scheme comprising 415 homes for rent, to be funded through the PFI, and 85 affordable home ownership properties, to be outside the PFI contract but linked to it. The overall scheme would still provide 500 affordable homes.

Land costs have been reviewed by King Sturge and Kavanaghs who confirmed that the anticipated land costs are still valid. There has therefore been no change to the average land cost per unit for the overall scheme. However, the introduction of the 85 affordable home ownership properties has meant that much of the Council's free land has been diverted to make this element financially viable without further subsidy. This has resulted in the cost of the land for PFI scheme increasing as shown below.

<b>Overall scheme (500 units) 28/6/05</b>	<b>PFI scheme (415 units) 28/6/05</b>
WWDC owned land @ nil cost – 100 units	WWDC owned land @ nil cost – 15 units*
Open market land @ £50k per plot – 350 units	Open market land @ £50k per plot – 350 units
Rural exception sites @ £10k per plot – 50 units	Rural exception sites @ £10k per plot – 50 units
Average land cost per unit £36,000	Average land cost per unit £43,373
*The reduction from 100 units to 15 units reflects free Council land going into the 85 affordable home ownership units.	

The ODPM has suggested that a 400 unit scheme of all rented housing should be considered. Although delivering fewer houses, this would reduce the risks associated with the land assembly. It would also reduce the PFI credit requirement from the ODPM.

Building costs have been reviewed by Hunter and Partners in relation to the evidence from the local housing associations. This has resulted in a reduction of the proposed build costs of about 10%. A small contingency is still included to reflect the level of uncertainty about the eventual number and type of sites, development constraints and other abnormal costs.

The proposed mix of units has been reviewed, based on a more detailed analysis of the Council's Housing Needs Survey and current demand levels and also feedback from housing associations. This has shown a requirement for more one and two bedroomed houses and flats, less bungalows and less three and four bedroomed properties. The proposed unit floor areas have also been reviewed in line with Housing Corporation Scheme Development Standards and Lifetime Home requirements. The revised housing mix and sizes are shown below.

<b>Unit type</b>	<b>Floor area (m2)</b>	<b>PFI scheme (units)</b>	<b>Affordable home ownership (units)</b>
1 bed/2 person flat	51	78	0
2 bed/4 person flat	73	72	12
2 bed/4 person bungalow	73	30	0
2 bed/4 person house	81	160	38
3 bed/5 person house	92	60	35
4 bed/7 person house	116	15	0
<b>Total</b>		<b>415</b>	<b>85</b>

The above revisions have resulted in the average unit cost being reduced to £151,289, a reduction of 25% from the draft outline business case. The ODPM has confirmed that these costs are now in line with its expectations.

#### *Scheme Costs and PFI Credit Requirement*

The results of the changes in the unit cost elements above and other updated assumptions have been fed into the financial model used by our advisors, Grant Thornton, to calculate the cost of the scheme from a bidder's perspective. The revised PFI credit requirement is as shown below:

<b>Operator type</b>	<b>PFI credit requirement</b>
Commercial Special Purpose Vehicle (SPV)	£90.203 m
Charitable on balance sheet RSL	£63.754 m

The reasons for the large difference between the two operator types is that the commercial SPV has a higher cost of borrowing, a requirement to make a return on equity and has a corporation tax liability. In reality we would expect to receive a number of bids between these extremes including possibly a “social SPV” led by a housing association.

The ODPM has now indicated that it would wish to see the above range of operator types and PFI credit requirements contained in a final outline business case.

#### **4. Land Assembly and Council Owned Sites**

##### *Background*

Securing enough development land for 500 homes has always been a major challenge facing the project and officers have spent a great deal of time ensuring that the land supply is deliverable.

In its expression of interest, the Council proposed to provide enough land for 100 homes at nil cost. The ODPM regards this is an essential part of the Council's contribution to the project. It was originally intended that many of these units would be on Section 106 sites but the new supplementary planning guidance means that affordable housing can now be provided on these sites without any subsidy. This means that officers have had to identify many more sites from the Council's residual land holding.

It was always intended that the bidders would bring forward the majority of the sites and this is still the case. Work has concentrated on ensuring that there is sufficient forward land supply, in public and private ownership, to meet the PFI land requirement.

##### *Council Sites*

A list of potential Council sites has been drawn up in conjunction with the Planning Policy and Technical Services sections. This represents the most suitable sites for housing development from the Council's residual land holding. Other sites may become available in due course, for example at Southview, Trowbridge, where the planning application has been called in by the Secretary of State. It is important to note therefore that the list is not definitive as to what

would be included in a PFI scheme. It is a demonstration that the Council can meet its commitment to provide land for 100 homes.

The Council's Asset Management Group and the PFI Project Board have recommended approval of the sites list. All ward members have been consulted on the sites list and a number of comments have been received. The sites list and Members' comments are summarised in Appendix 1.

The PFI scheme involves the Council agreeing to provide land at nil cost for at least 100 units. This is achievable based on the current sites list. It also means that the Council may provide additional land at nil cost to assist with the deliverability and affordability of the scheme. This would be subject to additional land becoming available as the project proceeds.

It can be seen that most of the Council sites have current or alternative uses and this raises a number of technical, planning and community issues. In considering these sites Members will need to balance the benefits of the PFI scheme against these other issues.

#### *Other Public Land*

Wiltshire County Council has agreed to offer the District Council (or our preferred bidder) first refusal at open market value on any potential residential sites that are surplus to their requirements. There is enough surplus County Council land for approximately 100 homes. The County Council sites are generally of a better quality than the Council's although there would still be some planning issues to resolve. Unfortunately the Council does not have the resources (either staff or financial) to bring forward the County Council sites. It is therefore proposed that the preferred bidder will enter into direct negotiations with the County Council at an appropriate stage in the programme.

Preliminary discussions with other public sector land owners, including the Primary Care Trust and British Railways Board, have taken place but no specific opportunities have been identified. West Wiltshire Housing Society has a number of potential sites which could be included in the scheme if they are selected as the preferred bidder.

#### *Private Sites*

Most of the District's residential development land is privately owned. Most large sites are allocated in the District Plan and smaller sites tend to be windfall opportunities. Clearly the Council is not in a position to bring forward these sites. Indeed it was always intended that the bidders would be responsible for providing most of the sites for the PFI scheme.

#### *Forward Land Supply*

A detailed land register was produced in order to estimate the amount of development land that is currently available. This indicated that there was enough land for approximately 1,400 units. However due to the timescale of a PFI project, many of the current sites will no longer be available once the

scheme gets to tender stage. It is therefore more relevant to look at the medium term projections for all allocated and windfall sites. The Planning Policy section has provided this information for the period from 2006/07 through to 2010/11 (see Appendix 2). It can be seen that, excluding current planning consents, there is sufficient forward land supply for about 4,900 units. The key issue is not therefore whether there is sufficient land but whether the bidders can compete with other developers to secure enough land for the project.

The Housing PFI Project Board has approved a land strategy which reflects the above issues. This is shown at Appendix 3.

## **5. Set Up Costs**

Set up costs are those costs incurred in bringing the PFI contract into existence. They include the costs of specialist financial, housing, technical and legal advice and of project management. Set up costs are one off costs to the Council which in the main cannot be refunded or recovered. They are incurred whether or not a contract is eventually signed. The majority of the set up costs have to be met from the revenue budget.

A detailed set up cost budget has been developed, reviewed and updated at each key stage in the project. At present the total project budget stands at just over £1million. This is in line with the level expected by the ODPM for a project of this size. The amount spent and committed on set up costs up to the end of June 2005 stands at £187,000.

Over the past five months, detailed work has been carried out to investigate options for reducing or limiting the set up costs. Many possibilities have been investigated by officers. Of these, three areas seemed to hold out the most promise and have been investigated in depth and with external professional advice.

### *Success Fee*

A success fee would be where the successful bidder is levied a sum by the Council as a reimbursement of some or all of our set up costs. Our advice is that this would not represent a robust option since until a contract is signed there is no guarantee that the fee will be received.

The fee would not represent value for money overall since it could not be covered by the PFI grant and would therefore have to be repaid with interest over the period of the contract. A success fee would also not comply with recommended accounting practise. This option has therefore been ruled out.

### *Capitalisation*

The capitalisation of set up costs would ease the pressure on the Council's revenue budget although capital resources are also in short supply. Our advice is that the capitalisation of set up costs is possible where expenditure is on normal capital activities, where it enhances the asset or where it would have

been incurred by the operator resulting in a higher unitary charge to the Council. On this basis it is considered that it would be possible to capitalise around £200,000 of the total set up budget. We are awaiting KPMG's written confirmation of this and the Audit Commission's agreement.

### *Commuted Sums from Section 106 Agreements*

Under the Council's planning policies, developers of sites above certain thresholds are required to make a contribution towards affordable housing. This is normally in the form of houses or land within the site. In certain circumstances however the contribution may take the form of a sum of money to be applied to the provision of affordable housing away from the development site itself. This is known as a commuted sum.

The Council currently holds a commuted sum of £193,000 which is not committed to any particular scheme. This would normally be expected to support the provision of about four or five affordable homes. This sum could be applied to the PFI scheme and, in enabling the scheme to proceed, would be far more productive in the provision of affordable housing. Since further section 106 agreements will arise as private sector development proceeds in the district, this mechanism would also provide a substantial contingency for further contributions to the PFI scheme if needed.

### *Affordability*

In the light of these investigations into set up costs, the Council's position can be summarised as below.

		<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>Total</b>
		<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Budget requirement	4 July	101,199	412,158	309,608	216,303	1,039,268
<b>Less:</b>						
Budget provided	Council MTFP	101,199	159,438			260,637
				161,251		161,251
Addition to meet £500k revenue					78,112	78,112
PFI reserve	Cabinet		40,000			40,000
<b>Current actual shortfall</b>		<b>-</b>	<b>212,720</b>	<b>148,357</b>	<b>138,191</b>	<b>499,268</b>
<b>Less: options to be confirmed</b>						
Housing revenue saving			50,000			50,000
Capitalisation	KPMG		134,485	68,084	9,879	212,448
S 106 commuted sums			193,000			193,000
<b>Likely future (surplus) shortfall</b>		<b>-</b>	<b>(164,765)</b>	<b>80,273</b>	<b>128,312</b>	<b>43,820</b>



**Notes:**

- The revenue contribution from Housing of £50,000 depends on the year end outturn for 2005/06. This will not be known until May 2006.
- Capitalisation will require Council approval of the addition to the capital programme and allocation of resources. This could bring forward the need to borrow. The ability to use capital resources is based on advice from KPMG and will require audit commission agreement.
- The contingency fund within the set up costs budget stands at £200,000 to cover unforeseen expenditure due to additional work and/or time delay. This will be supplemented by requiring future S.106 agreements to give the option to use for PFI.
- At the end of June 2005 an amount of £123,702 had been spent on set up costs.
- The current actual revenue shortfall is £499,268, which is based on a budgeted revenue costs of £500,000. The shortfall could be reduced through the use of housing revenue, capital resources and S.106 deposits to £43,820.
- The implications of increasing the Council's revenue budget above £500,000 would be severe and would limit its ability to deliver the corporate plan.

## **6. Risk Management**

A review of potential risks arising from the PFI project has been carried out using an industry standard evaluation tool assisted by KPMG our internal auditors. This identified potential risks, possible consequences and action required to reduce the risks.

Each risk was evaluated before and after the planned actions, looking at impact and likelihood. This allows an informed decision to be taken as to the best way to manage the risk, which could be to tolerate, treat, transfer or terminate.

PFI is concerned with the balance between risk and benefit. The majority of risks are likely to have a major impact on the Council if they were to happen. However, by introducing appropriate controls and actions it is possible to reduce the likelihood of the risk happening.

In total 11 key risks have been identified. Risks 1-7 relate to pre-contract stage and 8-11 post-contract.

### *Pre contract*

1. set up costs are not affordable to the Council
2. incorrect assumptions in the financial model
3. loss of political support
4. unable to find appropriate land and/or planning permission
5. inadequate project management
6. lack of competition no market of PFI contractors
7. the council becomes a 'single project' authority

	January 2005		June 2005	
Risk	Impact	Likelihood	Impact	Likelihood
1	Catastrophic	Almost certain	Major	Moderate
2	Major	Moderate	Major	Moderate
3	Major	Likely	Major	Moderate
4	Major	Likely	Major	Moderate
5	Catastrophic	Likely	Major	Moderate
6	Catastrophic	Moderate	Major	Unlikely
7	Major	Likely	Major	Moderate

### *Post Contract*

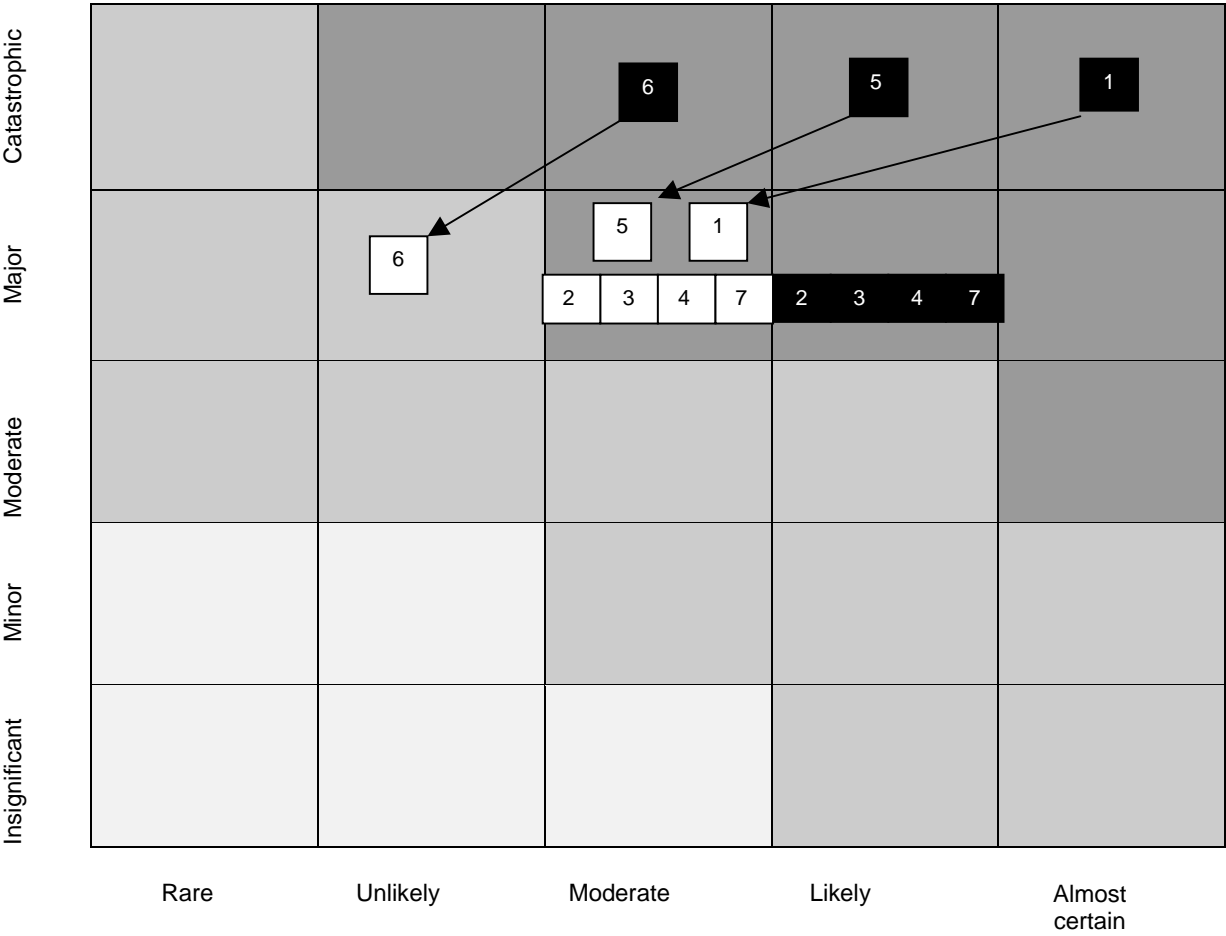
The impact and likelihood of post contract risks is less certain and is estimated based on future actions, which currently are not in place.

8. original specification not properly defined
9. future requirements change
10. inadequate post contract monitoring
11. contract termination

	January 2005		Future	
Risk	Impact	Likelihood	Impact	Likelihood
8	Moderate	Likely	Moderate	Moderate
9	Catastrophic	Likely	Moderate	Unlikely
10	Moderate	Moderate	Moderate	Moderate
11	Moderate	Unlikely	Moderate	Unlikely

Each risk has been regularly reviewed and updated to take into account the actions implemented to reduce risk. The chart below shows the current position June and the direction of travel for risks 1-7.

IMPACT



LIKELIHOOD

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## 7. Financial Implications

### *Financial position*

In forming a view on the financial implications it is necessary to consider the Council's current financial position and future resource requirements.

- The current revenue budget for 2005/06 stands at £12,382,000 and although only 3 months into the year early indications are that the budget is very tight with a small overspend projected at the year-end.
- Revenue reserves stand at the risk based level of £1,200,000 as recommended by the Head of Finance and agreed by The Audit Commission.
- Capital resources are reducing and will require borrowing to finance capital expenditure from 2007/2008 onwards.
- Future revenue projections forecast a deficit before council tax and service growth of between £700,000 and £1,100,000, with a likely position of £900,000 for each of the next 2 years (2006/2007 and 2007/2008). There is continued uncertainty around the level of central government grant due to 'floors and scaling factor' and a high risk that additional grant received in 2005/2006 will not be available for future years.
- Levels of Council Tax increase are likely to be restricted to around 5% due to the threat of capping.

### *PFI - Key Financial Facts*

Description	Revenue £	Capital £	Notes
<i>one off</i>			
Set up costs (£1,039,000)	827,000	212,000	
Land input 100 plots	0	5,000,000	
<i>on-going</i>			
Unitary charge (increase by inflation)	195,000	0	
Loss of car parking income (2 sites)	38,000	0	1
Resource to monitor the contract	40,000	0	2
Savings from Housing budget	(40,000)	0	3

**Notes:**

- The land register proposes 2 car parks to be used. This would result in a reduction of revenue income of £90,000. However, it is assumed that cars would relocate to other car parks and the average lost income would be £38,000 from 2008/2009.
- Additional resources would be required to monitor the contract and this is estimated at £40,000 (including on-costs) from 2008/2009
- Savings are estimated from the Housing budget of around £40,000 from 2006/2007 onwards

*Budget Robustness*

The affordability of set up costs is one of the key areas within the project and the following measures have been put in place to manage this difficult area.

- Financial advisor fee fixed at each stage of project.
- Legal advisor fee fixed for project with timetable extended by 7 months.
- Project timetable realistic and agreed by ODPM and advisors (Appendix 4)
- Contingency Fund.

Changes to **timing** of the existing project are unlikely to result in any significant increase in advisor costs, but would increase project manager costs.

<b>Project overrun</b>	<b>6 months £</b>	<b>12 months £</b>
Financial advisor	0	0
Legal advisor	0	15,000
Project Manager	30,000	60,000

Changes to **scope** of project after outline business case stage would result in significant additional costs and **must be avoided**, as this has not been budgeted for.

Affordability of set up costs over and above the budgeted £1,039,000 would be managed as follows:

- The contingency sum of £200,000 within set up costs budget.
- Further S.106 deposits (to be negotiated up to £500,000).
- Savings within the Housing budget (up to £200,000).
- General fund savings within year (unlikely).
- General fund revenue reserve (unlikely).

## 8. Options

In the light of the above, there are broadly five options available to the Council.

### ***Option 1 – Agree additional revenue funding to cover the set up costs and submit the outline business case***

The estimated shortfall on the set up costs, after the £200,000 contingency sum has been spent, is under £44,000.

Further funding could be made available from the Housing budget. This is due to revenue savings that will arise over the next three years as a result of changes in the provision of temporary accommodation - £36,024 in 2005/06, £54,036 in 2006/07 and £90,887 in 2007/08. Also, the Homelessness Directorate has indicated that it will continue to pay Homelessness Support Grant. Currently we receive £78,000 per year of which £48,000 could be allocated to the PFI project for 2006/07 and 2007/08.

Members could take the view that the potential benefits of the PFI scheme justify agreeing the additional expenditure on the set up costs.

As part of the outline business case approval process, the ODPM would need to be fully satisfied that the Council could meet the set up costs, including any unforeseen eventualities. It can be seen that there is substantial capacity within future section 106 agreements for further contributions to the PFI scheme if needed.

#### *Impact:*

- Efficiency savings from the Housing service could be used to fund the small remaining balance of the PFI set up costs budget.
- Use of the existing section 106 commuted sum (£193,000) would mean the loss of four or five affordable homes that would have otherwise been provided.
- On average, every £43,000 of additional section 106 commuted sum funding would mean the loss of one affordable home that would otherwise have been provided.

### ***Option 2 – Defer the decision for approximately three months subject to reaching agreement to work with another Council on a joint scheme***

Weymouth and Portland Borough Council has just received approval under round 4 of PFI to develop an outline business case for 500 affordable homes. North Somerset Council is also interested in housing PFI, though it has not submitted a formal expression of interest.

Our experience and knowledge would potentially allow these councils to fast track their schemes through to outline business case stage. There is potential

for cost sharing and economies of scale, principally by using the same advisors and a single operator.

*Impact:*

- Potential to reduce the Council's set up costs. Depending on the extent of the shared work, it may be possible to generate savings of about 25% (£250,000). This would require further investigation.
- Additional cost for the three month's deferral limited to the project manager's costs (approximately £15,000).
- Additional work, complexity and risk of running a joint scheme – in particular, the risks due to a partner withdrawing from the project or causing delays.
- It is uncertain at this stage whether this would produce more or less interest from the market. Delay may impact on bidders' confidence and their ability to hold land for the scheme. However, a larger scheme would be attractive.

***Option 3 – Defer the decision for approximately six to nine months subject to reaching agreement to work with other Councils on a joint framework for new build affordable housing***

The ODPM are keen to promote a pilot framework for joint working between councils, which is based on some of the principles of the LIFT (Local Improvement Finance Trust) model that is currently being used in the health and school sectors. The idea is that an operational housing PFI scheme could be extended to or replicated in another local authority area without the need for the lengthy procurement period. The ODPM is giving serious consideration to a proposal for the 4th round PFI schemes to form the pilot scheme, potentially including West Wiltshire.

*Impact:*

- The joint framework would incur additional costs and delay due to the need to write new documentation and for 4th round schemes to catch up with the Council's position.
- The additional costs would be shared between all the authorities and the ODPM. The overall impact on West Wiltshire could be neutral.
- Delays would impact on scheme costs due to inflation. The ODPM are aware of this.
- LIFT schemes are able to reach contract close more quickly than PFI schemes, so the overall delay could be reduced.
- Deferral may send a negative message to the market and bidders could concentrate on other immediate opportunities.

***Option 4 – Defer the project indefinitely until the Council's financial position is more certain and housing PFI is better established***

This would involve winding up the operational group (including the project manager and the consultants) and the Project Board, and putting all the work that has been completed on hold. Most of the work could be updated and re-used at a later date.

***Impact:***

- The Council would be able to wait until the financial position is more stable before making a decision about whether to proceed with the scheme.
- If housing PFI becomes more mainstream activity, the project risks should be reduced.
- ODPM may not agree to keep the Council's place in the programme and our PFI credit allocation. This risk would increase with the length of the deferment.
- Scheme costs would increase due to inflation, but the PFI credit allocation may be fixed.
- There would be costs of around £40,000 to wind up the project.
- The Council would lose the skill base of the consultants and the project manager.
- Deferral may send a negative message to the market and bidders could concentrate on other opportunities, including 4<sup>th</sup> round schemes.

***Option 5 – Withdraw from the PFI project***

If after considering all the options, the Council decides that the risks of the project outweigh its benefits, it should end the project forthwith.

If the PFI project did not proceed, the identified Council land could provide a one-off addition of up to 100 affordable homes. In addition to this, the two existing sources of affordable housing would continue. Section 106 agreements are expected to provide around 80 units per year and Housing Corporation funding around 20 units per year.

***Impact:***

- At least 400 additional units of affordable housing would not be provided.
- There would be savings on the set up costs still to be incurred (approximately £850,000).
- There would be savings of £195,000 per annum (index linked) for thirty years on the unitary charge.
- The Council's land could be used to provide around 100 units of shared equity housing using the government's Homebuy scheme for low cost home ownership.
- There would be a potential capital receipt of up to £5m if the Council's sites were sold on the open market. This could be used as grant to Housing Associations to support around 85 units of affordable housing to rent.
- There would be costs of around £40,000 to wind up the project.



- There would be continued expenditure of around £70,000 per year on the private sector leasing scheme and other measures to deal with homelessness.

## 9. Comment

The work on reviewing and developing the outline business case over the last five months has been very worthwhile. A number of areas have been clarified and refined - unit costs and overall scheme costs for example. The costs of financial and legal advisors are much more certain and controlled. The Council's land supply has been reviewed and consulted upon. Further market testing has been carried out and interest from bidders remains strong. Importantly, the officers and Members involved in the project have developed their knowledge of the PFI process.

Areas of uncertainty remain however. These include the ability of bidders to assemble land, the nature and costs of the bids and the outcome of negotiations for a PFI contract. Such uncertainties are inherent in the PFI process and are the reason that the project remains in the high risk areas shown in Section 6.

The issue for the Council now is to consider the balance between the risks and the benefits of securing up to 500 additional affordable homes for the District.

Scheme details and costs have been reviewed and refined and are acceptable to the ODPM.

Land supply remains an area of considerable risk to all parties. The Council's land supply is of small, marginal and sometimes contentious sites. If the Council is to proceed with the scheme it is essential that it meets its commitment to provide land for at least 100 homes. The deletion of sites from the Council's sites list would seriously undermine the scheme. Members will need to weigh any local concerns about sites against the overall benefits of the scheme to West Wiltshire.

Set up costs have tended to dominate the Council's view of the PFI project. From an external perspective, these seem very small in relation to the overall cost and benefits of the project. Nevertheless the investment of over £1m in just one of the Council's corporate priorities remains a major strategic issue for the Council. There is a risk that this level of expenditure, together with the drawing in of staff resources and Member attention, would lead to the Council becoming a single project authority. However, the Council has previously dealt with major projects, such as the housing stock transfer, without compromising other services. Inevitably, on a project like this, there will be other times when the Council will need to make difficult decisions.

With the inclusion of Section 106 commuted sums, a prudent set up cost budget within reach of the affordability limits has now been achieved. Members consideration of the scheme can now be in the round and not from this one standpoint.



Of the options set out in Section 8, working with another authority could generate some savings to the set up costs but would add to the overall work, complexity and risk. This should only be pursued if an agreement can be reached quickly and on this Council's terms. Working up a scheme under the LIFT model is favoured by the ODPM but it would require us to work with several other councils who are currently at a less advanced stage. This has the potential to generate additional complexity and delay. Deferring the project indefinitely is not justified by cost issues alone. The prospects of the Council's financial position improving significantly in the future are not strong.

The ODPM has suggested that a 400 unit scheme of all rented housing should be considered. Although delivering less homes, this would reduce the risks associated with land assembly. It would also reduce the PFI credit requirement from the ODPM.

Finally, it is important for Members to be aware that the ODPM and councils across the country are regarding the West Wiltshire experience as a test case for the use of housing PFI by smaller councils. Our decision therefore should be robust and based on an objective consideration of the situation.

## **10. Recommendations**

It is recommended that:

- the Council decides upon whether to proceed with the PFI scheme, to defer the scheme or to withdraw from the scheme.

If the Council decides in principle to proceed with the scheme based on option 1, it is recommended that:

- i) the ODPM's suggestion of a 400 unit scheme of all rented homes is accepted
- ii) the Council confirms its agreement to provide land for at least 100 units at nil costs into the PFI scheme
- iii) the indicative list of Council owned sites is included in the outline business case
- iv) an updated outline business case is prepared on the above basis
- v) authority is delegated to the PFI Project Board to confirm the final content of the outline business case
- vi) the outline business case is submitted to the ODPM as soon as is practicable.

If the Council decided upon any of the deferral options (options 2,3 or 4), a further report would be brought back to Council as soon as the implications had been fully assessed.

Tim Darsley  
Corporate Director

Councillor Tom James  
Housing Portfolioholder

Councillor Trevor Carbin  
Resources Portfolioholder

## Appendix 1 - Council sites list and Members' comments

1. Preferred sites					
Site name	Ward	Current use	Capacity	Additional information	Consultation comments
The Conigre	Bradford on Avon North	Informal car parking	3	<ol style="list-style-type: none"> <li>1. Within conservation area</li> <li>2. Historic planning consent</li> <li>3. Planning issue regarding loss of car parking</li> <li>4. Located on steep hill – access issues</li> <li>5. Likely local opposition</li> <li>6. Possible right of way across site</li> </ol>	
Cherry Orchard	Mid Wylie Valley	Former allotments	6	<ol style="list-style-type: none"> <li>1. Within Area of Outstanding Natural Beauty</li> <li>2. Partly within floodplain</li> <li>3. Planning issue regarding loss of allotments</li> <li>4. Cabinet approval for disposal</li> <li>5. Supported by Parish Council – possible to increase site capacity</li> <li>6. Sewage treatment plant needs upgrading</li> </ol>	

Blenheim Park	Melksham Without	Public open space	5	<ol style="list-style-type: none"> <li>1. Two small areas, not main 'green'</li> <li>2. Within Bowerhill village policy limits</li> <li>3. Planning issue regarding loss of open space</li> </ol>	
Southwick Road	Dilton Marsh	Informal car parking and garages	6	<ol style="list-style-type: none"> <li>1. No significant planning issues</li> <li>2. Possible rights of way to private garages</li> </ol>	<p><b>Cllr. Bower:</b> North Bradley Parish Council discussed this at their meeting on Monday evening and I have been sent the following message by the Clerk:-</p> <p>"The Councillors discussed this proposal and it was decided that they considered it totally unsuitable for affordable housing because of the position etc. and they would like these views known."</p>

Court Street car park (part only)	Adcroft	Pay car park	10	<ol style="list-style-type: none"> <li>1. Large allocated mixed use site in the District Plan – only small part identified for PFI – above library or through land swap</li> <li>2. Within conservation area etc.</li> <li>3. Planning issue regarding loss of car parking</li> <li>4. Part of site identified for new library – in principle Cabinet decision for flats above, subject to design and health &amp; safety issues (IG)</li> <li>5. Loss of car parking revenue £42,000 for whole site (IJ)</li> <li>6. Poor ground conditions</li> </ol>	
Broad Street car park	Adcroft	Pay car park	20	<ol style="list-style-type: none"> <li>1. Located at busy road junction</li> <li>2. Allocated mixed use site in the District Plan</li> <li>3. Within conservation area etc.</li> <li>4. Planning issue regarding loss of car parking</li> <li>5. Potential to include highway (Broad Street) within extended site area (IG)</li> <li>6. Loss of car parking revenue £48,000 for whole site (IJ)</li> </ol>	

Paxcroft Mead	Paxcroft	S.106 site	12	<ol style="list-style-type: none"> <li>1. Serviced land for £1 under historic S.106 agreement</li> <li>2. Possible flooding issues</li> </ol>	<p>Cllr. Clark: Paxcroft Mead. I fully support the use of this site for the purpose originally intended - affordable housing. Please note that although in the Trowbridge town policy limit, this site is in the parish of Hilperton.</p> <p>Other sites: rather a heavy emphasis on car parks isn't there? If this is the only land WWDC own then let's pull the plug on this expensive exercise here and now. Are the council taxpayers ever going to be asked for their view on paying a small fortune for a few hundred houses?</p>
Weymouth Street car park	Warminster East	Pay car park	4	<ol style="list-style-type: none"> <li>1. Former petrol filling station</li> <li>2. Allocated mixed use site in the District Plan</li> <li>3. Planning issue regarding loss of car parking</li> <li>4. Need to link into Five Towns Initiative (IG)</li> <li>5. Loss of car parking revenue unknown</li> <li>6. Possible covenants</li> <li>7. Possible contamination</li> </ol>	<p>Cllr. March: I believe all 3 of us would be opposed (though we recognise the need for affordable housing), to land being used for this purpose here. Car parking is a big issue in Warminster, to say the least, and we do not wish to lose valuable parking space.</p>



Hillside Hostel	Waminster East	Homeless hostel	30	<ol style="list-style-type: none"> <li>1. No significant planning issues</li> <li>2. Temporary Accommodation working group likely to recommend closure – Cabinet decision in June.</li> <li>3. Working group may recommend open market disposal</li> </ol>	Cllr. March: supports open market disposal of this site.
Westbury Leigh	Westbury Laverton	Pay car park	4	<ol style="list-style-type: none"> <li>1. Underused car park – only serves local residents</li> <li>2. Planning issue regarding loss of car parking</li> <li>3. Need to link into Five Towns Initiative (IG)</li> <li>4. Loss of car parking revenue unknown</li> <li>5. Narrow access past WWHS properties</li> </ol>	<p>Cllr. Hawker:</p> <ol style="list-style-type: none"> <li>1. The car park serves the nearby former council-housing as none have on-site parking and the service road in front of the houses is too narrow to safely allow parking.</li> <li>2. The car park is regularly used by Jehovah Witnesses attending the nearby Kingdom Hall. Although the Kingdom Hall has some parking on site, I understand that there is frequent overflow which results in parking on-street in Westbury Leigh (the road) and in the subject car park. When there is a major service, so many worshippers might try to attend that saturation of all existing nearby parking occurs - both on-street and the subject WWDC car park.</li> </ol>

					<p>3. The car park serves the nearby Westbury Leigh Community Hall which is based in Holy Saviour church. This popular facility is fully booked virtually every evening of the week. Large events quickly fill the on-site car park (approx. 20 spaces) and users then park on-street and in the subject WWDC car park. The trustees of the hall consider that the viability of this popular community facility would be most seriously threatened if the WWDC Car Park were to be not available in the current manner (I agree).</p> <p>It should be borne in mind that the above-mentioned community hall is supported by numerous local bodies including the town council and WWDC via grants which have been given. In particular, the facility was created out of a refurbishment of the church only 4 years ago using funds raised by local residents a grants from various charities.</p> <p>In the light of all the above, I doubt if there can be any circumstances in which anyone could reasonably support the disposal of the Westbury Leigh Car Park.</p>
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					<p>Cllr. Newbury: I agree with what Councillor Hawker says as a local member for Westbury Laverton.</p> <p>The Westbury Leigh car park is needed by the community, and to seek to use it as building land for the proposed PFI would be hopelessly short-sighted. The inclusion of a 'site' of this kind (echoed elsewhere in the district, of course, and especially in Trowbridge) is one of several factors undermining the credibility of the PFI.</p>
Total			100		

2. Reserve sites					
<b>Baytree Farm (part only)</b>	Dilton Marsh	Overflow car park	4	<ol style="list-style-type: none"> <li>1. Small part of large field – currently leased to nursery</li> <li>2. Within Special Landscaped Area and conservation area</li> <li>3. Housing needs survey required</li> <li>4. Potentially expensive highway requirements</li> </ol>	
<b>Dorset Crescent</b>	Melksham Spa	Public open space and play area	8	<ol style="list-style-type: none"> <li>1. Immediately adjacent to alternative play area – potentially surplus, subject to recreational needs assessment</li> <li>2. Planning issue regarding loss of open space</li> </ol>	<p>Cllr. Mudge: reported that the Town Council have agreed in principle to the use of the area for affordable housing under the PFI project. However they consider that 8 homes would be overcrowding and that 4 would be preferred. At planning stage TC want design in sympathy with the surrounding properties and the area to be landscaped on completion. Area contains many elderly residents and their interests have to be protected.</p>

<b>Southview (WWDC ransom only)</b>	Trowbridge park or Trowbridge Dryhnem	Agricultural – WWDC ransom	25	<ol style="list-style-type: none"> <li>1. Council owned ransom strip – proposed to negotiate free land in lieu of capital receipt</li> <li>2. Allocated housing site in the District Plan – subject to potential de-allocation</li> <li>3. Adjacent to large social housing estate</li> </ol>	
<b>Adjacent St Thomas’ Passage</b>	Adcroft	Unused land	10	<ol style="list-style-type: none"> <li>1. Landlocked site – accessed via WCC land</li> <li>2. Safeguarded for highway improvements in the District plan – scheme not proceeding</li> </ol>	
<b>Rear of Market Place (WWDC ransom and small site only)</b>	Waminster East	Backland – WWDC ransom	10	<ol style="list-style-type: none"> <li>1. Council owned ransom strip and small part of larger site</li> <li>2. Allocated mixed use site in the District Plan</li> <li>3. Within conservation area etc.</li> <li>4. Multiple land ownership – difficult land assembly</li> <li>5. Access issues</li> </ol>	Cllr. March: the Market Place area is the subject of a planning application, just submitted.
<b>Rear of St George’s Close</b>	Waminster East	Public open space	5	<ol style="list-style-type: none"> <li>1. Planning issue regarding loss of open space</li> <li>2. Possible made up ground</li> <li>3. Access issues</li> </ol>	

<b>Fairfield Road (S.106 part only)</b>	Waminster East	Employment – potential S.106 site	15	<ol style="list-style-type: none"> <li>1. Large allocated housing site in the District Plan – only part identified for PFI – whole site likely to go for retail use</li> <li>2. Planning consent granted, but S.106 not signed</li> <li>3. Highway issues</li> </ol>	Cllr. March: we have reason to believe Fairfield Road is also on the list (of current planning applications), this time for retail use.
<b>Total</b>			<b>77</b>		

## Appendix 2 - Forward Land Supply 2006/07 to 2010/11

West Wiltshire District Projected Housing Supply, 1st April 2006 to 31st March 2011 (5 years)								
Column 1	Column 2	Column 3			Column 4		Column 5	
West Wiltshire District areas	Dwellings with permission or subject to legal agreements at 01/04/2004	Dwellings allocated in District Plan but not subject to planning permission at 01/04/2004			Contribution from unidentified large sites 10 dwellings or more 2006-2011		Contribution from unidentified small sites of less than 10 dwellings 2006-2011	
		green (P)	green (U)	brown	green	brown	green	brown
Trowbridge	746	1250	300	342	0	113	11	100
Bradford on Avon	23	0	0	165	0	63	3	28
Melksham	114	763	0	126	0	60	8	46
Westbury	359	180	191	161	0	144	3	36
Warminster	106	190	0	208	0	58	8	86
Rural	165	0	0	0	0	96	71	98
<b>District total</b>	<b>1513</b>	<b>2383</b>	<b>491</b>	<b>1002</b>	<b>0</b>	<b>534</b>	<b>104</b>	<b>394</b>

### Notes:

Column 1: Data collected by Wiltshire County Council and published on annual basis (Housing Land Availability April 2004)

Column 3: Allocated sites not subject to planning permission at 01/04/04 and included in District Plan 1<sup>st</sup> Alteration (adopted June 2004) for delivery by 2011; Green (P) means greenfield peripheral sites i.e. extensions to the urban areas; Green (U) means urban greenfield sites located within defined urban areas.

Green (P) total includes 970 dwellings potentially subject to deallocation

Column 4: 8 years completions data on non allocated sites of 10 or more dwellings has been used to determine potential large windfall supply 2006-2011(5 years). The assumption is made that no large unidentified greenfield sites will come forward.

Column 5: 8 years completions data on sites of less than 10 dwellings used to determine potential small windfall supply 2006-2011 (5 years).

## Appendix 3 - Land Strategy

The Council's strategy for delivering enough development land for 500 affordable homes is set out below:

- The overall number of affordable homes is 500 including 415 rented units to be provided through the PFI and 85 home ownership properties to be provided outside the PFI, but linked to it.
- At Outline Business Case stage, the Council agrees to provide land for a minimum of 100 units at nil cost. The Council also agrees to provide additional land at nil cost, at subsequent stages, to assist with scheme affordability and deliverability.
- Free land will go into the home ownership units and this will be used to cross subsidise the rented units.
- The Council's land will be provided on a long lease basis unless it is advantageous to provide it on a freehold basis. It will be a requirement that the capital proceeds, which accrue to the operator from selling further equity shares in the home ownership units, will be reinvested in providing additional affordable housing in West Wiltshire. In rural areas, where affordable housing is scarce, it is intended that shared owners will not be able to staircase to full ownership and the Council will have full nomination rights in perpetuity, subject to compliance with legislation.
- The Council may appoint legal and technical advisors work up details of the Council owned sites prior to ITN (Intention to Negotiate) stage. This work would include title cleansing, ground investigations, feasibility studies and outline planning consents. This would be a significant cost item, however, it has been included in the set up costs budget and can be capitalised. It would also add value to the Council's land holding, which could be sold if the PFI scheme does not proceed.
- Bidders will be expected to bring sites as part of their detailed bids at ITN stage. It is anticipated that the preferred bidder will need to deliver enough land for approximately 400 units by contract close. This will be a significant dimension to the project and the ability to bring land will be one of the selection criteria at PQQ (pre-qualification) stage.
- Bidders will be able to include new build 'off the shelf' units for affordable home ownership within variant bids.
- The preferred bidder will be required to obtain full planning consent on and ownership of all the agreed scheme sites prior to contract close, unless mutually acceptable terms are agreed for some of the sites to be secured at a later stage.
- The Council's legal advisors will explore with ODPM the potential for a phased PFI contract (known as a framework agreement) whereby a contract could be closed on the first tranche of land with the remainder to follow at a later date.



## Appendix 4 - Target Programme

Housing PFI Project Board approved the following programme on 5 April 2005:

Task	Target date
Initial Approval	May 04
Submission of OBC	Jul 05
Approval from ODPM	Nov 05
OJEU Notice	Dec 05
Expressions of Interest received	Feb 06
Select tender list chosen	Mar 06
ITN issued	Jun 06
ITN responses received	Oct 06
Preferred partner and reserve chosen	Jan 07
Contract signature	Jul 07
Start on site	Aug 07
Full availability	Aug 10
<i>BAFO issued (if needed)</i>	<i>Jan 07</i>
<i>BAFO responses received</i>	<i>Mar 07</i>
<i>Preferred partner and reserve chosen</i>	<i>May 07</i>
<i>Contract signature</i>	<i>Oct 07</i>
<i>Start on site</i>	<i>Nov 07</i>
<i>Full availability</i>	<i>Nov 10</i>