

Wiltshire Council

Environment Select Committee

10 May 2011

Housing PFI Update

Executive summary

Commercial agreement has been reached between the council and Silbury Housing Ltd in respect of the housing PFI 'deal'. However, these negotiations will need to be re-opened following receipt of the government's 'derogations' response. The project is currently delayed due to additional governmental approval processes. Despite public sector spending cuts, there is still a reasonable prospect of the project reaching a satisfactory conclusion, although not until later in the year.

Proposal

That the committee considers the attached report and raises any comments or queries with the Portfolio Holder for Housing.

Reason for proposal

As invited by the Chairman of the Environment Select Committee.

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Housing PFI Update

Purpose of report

1. To update the committee on the progress of the housing PFI project.

Background

2. Previous updates have been provided to this committee in November 2009 and May 2010.

Main considerations for the committee

3. The government's Spending Review made sponsoring departments accountable for the revenue implications of PFI projects. In response to this and the general reduction in departmental expenditure limits, DCLG withdrew financial support from 13 'pipeline' housing PFI projects and instigated a value for money review of the remaining programme.
4. The project continues to be delayed. Unlike at previous stages in the procurement, these delays are outside of the council and the bidder's control.
5. Committee may recall that the council has been negotiating the PFI contract with Silbury Housing Ltd (SHL), a special purpose vehicle owned by Devizes-based Sarsen Housing Association. The project is to provide approximately 350 new social rented homes, of which 242 will be in the first phase.
6. SHL has been the de-facto preferred bidder since June 2010, when cabinet resolved to enter into the PFI contract. It was hoped, at the time, that the contract would be signed in July 2010. However, commercial discussions continued into the autumn and, at that point, the project became embroiled in the Spending Review.

Value for money and cost savings

7. This has left 13 projects in procurement, including Wiltshire's. We were advised in November that value for money (VfM) assessments were being carried out and that decisions about individual projects would be made in December. In the event, the VfM review has proved more difficult than expected and feedback was not provided until March.
8. Two areas of Wiltshire's costs (maintenance and operational insurance) were assessed as being too high; all others were either good or very good. This is testament to previous negotiations to drive down costs and maximise VfM. Other projects (particularly regeneration based initiatives) will have had far more negative feedback on their costs.
9. Following further negotiations with SHL and based on a better understanding of how the VfM benchmarks were calculated, the two areas of concern have been addressed. However, it is clear that authorities are being invited to offer up additional savings and it would be helpful if, as a result of this, we were willing to accept less PFI credit (subsidy).

10. There is very little left to cut from the specification without affecting the quality of the homes and services provided to tenants. However, some potential savings have been identified on a commercial basis and a process is underway to agree these internally and with SHL. This will require formal sign-off by the Housing and Local Government Minister before the project can proceed further.

Project Agreement and derogations response

11. Commercial agreement on the PFI contract (Project Agreement) was reached in September between the council and SHL, and a schedule of 'derogations' (proposed changes to the Treasury/DCLG's standard forms of contract) was submitted for consideration by government, at the time.
12. Derogations feedback should normally take six to eight weeks to provide, but our response has only just been received. In this, the government has raised a number of issues and we will be working with SHL and the Homes and Communities Agency (HCA) to address the various points. This will require the previously agreed commercial position to be re-opened with the bidder.

Final business case

13. The final business case (FBC) is partly written, but the two most important sections – on VfM/affordability and contractual issues – cannot be completed until the above work streams have concluded.
14. Whereas DCLG previously had authority to sign off business cases for their sponsored projects, since April, the Treasury has applied a new approval tier for 'major projects'. This will add approximately an extra month to the programme.

Programme and financial close date

15. Commercial agreement on the project was reached with SHL during the autumn and, had it not been for governmental delays, it would have been possible to 'close' (sign) the project by the end of March, at the latest.
16. With the additional approval processes now in place and following discussions with HCA, it is apparent that financial close is unlikely to take place before autumn 2011. This creates pressures, for both the council and SHL, in terms of managing set up costs and stakeholder support.

Environmental impact of the proposal

17. The PFI homes will meet Level 3 of the Code for Sustainable Homes, which is currently the minimum requirement for social housing. Given the focus on cost savings, other projects are being encouraged to scale back their proposals from higher code levels.

Equality and diversity impact of the proposal

18. All of the homes will be built to Lifetime Home standards, meaning that they are suitable (and adaptable) for a wide range of occupiers, taking into account mobility needs etc.

19. Allocations to the general needs accommodation will be made through Homes 4 Wiltshire and the relevant policy has addressed equality issues.

Risk assessment

20. The housing PFI project is included on the corporate risk register, where the current risk rating is 'high'. The target rating of 'medium' is unlikely to be achieved until the FBC has been approved by government. The FBC will include a full risk assessment.

Financial implications

21. Please refer to the above sub-section in respect of value for money and cost savings.
22. Our predicted set up costs though to financial close are £2.4m. Provision has been made, within the 2011/12 budget, for the Council's revenue contribution to commence, assuming that the first units are completed within this financial year.

Legal implications

23. Please refer to the above sub-section in respect of the Project Agreement and derogations response.
24. There are no significant ethical governance issues affecting this report.

Options considered

25. None applicable.

Conclusion

26. Commercial agreement has been reached between the council and SHL in respect of the housing PFI 'deal'. However, these negotiations will need to be re-opened following receipt of the government's derogations response. The project is currently delayed due to additional governmental approval processes. Despite public sector spending cuts, there is still a reasonable prospect of the project reaching a satisfactory conclusion, although not until later in the year.

Background papers

None.

Appendices

None.