

Wiltshire Council

Environment Select Committee

6 September 2011

Housing PFI project – decision to enter into contract

Executive summary

The Environment Select Committee has previously taken an interest in the housing PFI project. Following recent ministerial approval of the position reached through the value for money review, the project is now approaching a key internal decision. The committee is requested to identify any factors, in addition to those set out in this report, which should be taken into account when making the decision whether or not to enter into the contract.

Proposal

That the committee considers the attached report and identifies any additional factors which should be taken into account when deciding whether or not to enter into the housing PFI contract.

Reason for proposal

To ensure the robustness of any decision to enter into the contract.

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Purpose of report

1. The purpose of this report is to:
 - update the committee on the progress of the project;
 - identify key changes since the June 2010 Cabinet approval;
 - outline the internal decision making process with regard to entering into the PFI contract; and
 - seek the committee's view as to any additional factors which should be taken into account when making the above decision.

Background

2. The Environment Select Committee has previously taken an interest in the housing PFI project, which is now approaching a key internal decision.

Main considerations for the committee

Changes to the project

3. In June 2010, Cabinet authorised officers to conclude negotiations in respect of the project and to enter into a contract with Silbury Housing Ltd (SHL) to provide 350 homes, and for the homes to be delivered on a phased basis with 242 homes being delivered in phase 1 and the balance in phase 2.
4. The intention was to sign the contract last summer and to start building work later in the year. However, the project has been delayed as a result of the government's Spending Review and the value for money (VfM) review of housing PFI projects. This was reported to the committee in May 2011.
5. All affected councils have been asked to make additional savings from their projects and to reduce the amount of PFI credit (public subsidy) requested. In response to this we have reduced our credit requirement from a maximum of £83 million to £77 million.
6. The outcome of our VfM review was successful and we have now received confirmation (July 2011) that the Minister has agreed to continue to support Wiltshire's project through to financial close (contract award) on the basis of the position reached through the VfM review.
7. £6 million reduction in PFI credit has been achieved by shortening the contract period to 20 years from the date when all of the phase 1 homes are due to be

completed. As a result of this change, the Council's nomination rights will step down from 100% to 50% about seven years earlier than previously anticipated.

8. However, 74% of the homes (in phase 1) will still be required to remain as affordable housing after the contract has ended, due to a combination of our continuing nomination rights (at the 50% level) and planning requirements. Furthermore, the Council's revenue contribution to the project (see paragraph 23 below) will cease some seven years earlier than previously anticipated.
9. This was the only way of making the expected level of savings in order for the project to continue, without having to reduce the number of new homes built or the quality of those homes and the services provided to the tenants. Other than the shortened contract period (and the reduced credit allocation) there have been no significant changes to the project as presented to Cabinet in June 2010 and no reduction in the overall quality of the outputs.
10. The Quarterly Housing Briefing circulated to all councillors in July 2011 included current details of the PFI project and the above changes. This is reproduced at Appendix 1.

Internal approval

11. Commercial negotiations with SHL are reaching their conclusion. A near final version of the project agreement (contract) has been submitted for government approval and we are currently reviewing near final financial models.
12. The June 2010 Cabinet resolution authorised:

“the Director of Resources and Director of Neighbourhood and Planning after consultation with the Cabinet Member for Economic Development, Planning and Housing, the Leader of the Council and the Cabinet Member for Finance, Performance and Risk, the Chief Finance Officer and the Solicitor to the Council, to conclude negotiations on and agree all project documentation relating to the PFI transaction and to enter into the PFI Contract and associated agreements on behalf of the Council;”
13. A meeting of the above mentioned officers and councillors has been arranged for 14 September 2011 to seek approval to enter into the PFI contract, subject to the necessary external approvals being secured prior to financial close. Following the recent Cabinet/CLT reorganisation (in which the housing service moved into DCS), both the Cabinet Member for Adult Care, Communities and Housing and the Corporate Director of Community Services will be in attendance. The proposals will also be considered by the Housing PFI Project Board on 12 September 2011.
14. It is anticipated that the above meetings will be presented with details of the key project outputs together with the financial, legal and risk implications of entering into the contract. The committee is requested to bring to the Cabinet Member's attention any additional factors which should be taken into account when making the above decision.

Programme and financial close date

15. The current timetable shows financial close taking place in November 2011. However, this is heavily dependent on the timing of external (mainly governmental) approvals and is, therefore, largely out of the Council's control.
16. Persimmon (in its dual roles as a land provider and the building sub-contractor) is fully committed to the project provided that it remains on programme. If further delays occur its Board may need to consider Persimmon's continued involvement in the project. We are maintaining open communications with Persimmon and Sarsen Housing Association in order to manage this risk as far as is possible.

Environmental impact of the proposal

17. The PFI homes will meet Level 3 of the Code for Sustainable Homes (CSH) as required by construction specification. The additional cost of building to Level 4 would be approximately £10,000 per unit. This would not be eligible for PFI credit and would, therefore, have to be paid for by the Council.
18. Photovoltaic (PV) roof panels are no longer necessary in order to meet CSH Level 3 because the builder is now adopting a 'fabric first' approach (i.e. increasing insulation levels) in accordance with good industry practice. However, discussions are ongoing with Sarsen with regard to the possibility of installing PV panels on a self-financing basis.

Equality and diversity impact of the proposal

19. 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. 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 Council's risk register, where the current risk rating is 'high'. The target rating of 'medium' is unlikely to be achieved until government approval to enter into the contract has been secured.
21. The risk management implications of entering into the contract will be taken into account at the meetings referred to in paragraph 13 above.

Financial implications

22. We are currently reviewing near final financial models for the project. It is important to point out that the Council will bear the risk of changes in interest rates (known as swap rates) until the PFI contract has been signed. However, we have included a prudent buffer within the financial models in case of any increase in swap rates between now and financial close.

23. The Council's total predicted set up costs, including costs previously incurred by West Wiltshire District Council, are now £2.5 million. Provision will be made in next year's budget for the Council's revenue contribution of approximately £230,000 per annum (index linked) to commence in respect of the operational period of the project. These payments will cease some seven years earlier than previously anticipated due to the shortened contract period.
24. The financial implications of entering into the contract will be taken into account at the meetings referred to in paragraph 13 above.

Legal implications

25. A near final version of the project agreement has been submitted for government approval. There are no other significant legal implications or ethical governance issues affecting this report.
26. The legal implications of entering into the contract will be taken into account at the meetings referred to in paragraph 13 above.

Options considered

27. None applicable.

Conclusion

28. The Environment Select Committee has previously taken an interest in the housing PFI project. Following recent ministerial approval of the position reached through the value for money review, the project is now approaching a key internal decision. The committee is requested to identify any factors, in addition to those set out in this report, which should be taken into account when making the decision whether or not to enter into the contract.

Background papers

- Cabinet report – 22 June 2011
- Environment Select Committee report – 10 May 2011

Appendices

Extract from Quarterly Housing Briefing – July 2011

Appendix 1

Housing PFI update from Quarterly Housing Briefing – July 2011

This is a project to provide around 350 new affordable rented homes in the west of Wiltshire. We are working with Silbury Housing Ltd as the remaining bidder – a consortium led by Devizes based Sarsen Housing Association in partnership with Persimmon. The project is split into phases, with 242 homes due to be provided in phase 1, as below:

Site	Location	No. of homes
Broad Street	Trowbridge	31
Hillside	Warminster	33
Leigh Park	Westbury	53 (two sites)
Manor School	Melksham	51
Paxcroft Mead	Hilperton	18
Victoria Road	Warminster	32
York Buildings	Trowbridge	24
Total		242

All of these sites have full planning permission and are owned either by the Council or consortium members. A key feature of the project is the intention to provide approximately half of the homes on private sector land. Phase 1 includes three Persimmon sites (Leigh Park x 2 and Victoria Road), where 85 new affordable homes will be provided in addition to the s106 units.

The project has been delayed, most recently by the Government. Following last year's Spending Review, the housing PFI programme has been cut in half and all remaining projects have been subject to a value for money review.

Our project is considered to provide good value. However, all affected councils have been asked to make additional savings and to reduce the amount of public subsidy (PFI credit) requested. We have offered to drop our credit requirement from a maximum of £83m to £77m by shortening the contract period to 20 years from the date when all of the phase 1 homes are due to be completed.

As a result of this change, the Council's nomination rights will step down from 100% to 50% about seven years earlier than previously anticipated. 74% of the homes (in phase 1) will still be required to remain as affordable housing after the contract has ended, due to our continuing nomination rights (at the 50% level) and/or planning requirements.

This has been put forward as a way of making the expected level of savings in order for the project to continue, without having to reduce the number of new homes built or the quality of those homes and the services provided to the tenants.

The PFI homes will meet Level 3 of the Code for Sustainable Homes, as per the tender specification, and will be built to Lifetime Home standards, meaning they are suitable for a wide range of occupiers. Any increase in these standards would be ineligible for PFI credit and would, therefore, have to be funded by the Council.

Sarsen will own the homes and the residents will be Sarsen tenants. All general needs nominations will be made via Homes 4 Wiltshire. There will be no impact on existing tenants when the contract finishes (unless the Council exercises its option to acquire the homes), as the post-contract nomination arrangements apply only to new lettings.

Our proposed savings will require ministerial approval. In the meantime, we are working to finalise the contract (Project Agreement) and final business case for government sign-off. Given the number of external approval stages to go through, it is likely to be the end of the year before the contract can be signed (financial close).

Predicted set up costs through to financial close are £2.4m, of which over £2m has already been spent – our partners have invested at least double that amount. Once the contract is signed the Council will make a revenue contribution of around £220k per annum (index-linked), for the reduced contract period, with the majority of the costs being met through PFI credit and the tenants' rent.

Please contact Chris Trowell for further information – 01225 718053 or chris.trowell@wiltshire.gov.uk