

**Not for Publication: Appendix 1 Exempt/Confidential - Access to Information
Procedure Rules 10.4 (3)**

Report of the Director of Neighbourhoods and Housing

Executive Board

Date: 15th November 2006

**Subject: Little London Housing Private Finance Initiative – Outline Business Case
update**

Electoral Wards Affected:
Hyde Park and Woodhouse

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

1.0 Executive Summary

- 1.1 Executive Board received and approved a report on 15th May 2006 which included proposals for a Regeneration Plan for Little London, the Outline Business Case (OBC) for the project including the scope of the scheme and the financial implications for the Council.
- 1.2 The Board also gave approval to the disposal of a number of identified development sites, and of Lovell Park Grange, Heights and Towers and the application of the capital receipts from such disposals to the project, subject to acceptable terms being agreed. The report noted that a communication strategy would be jointly developed with tenants and residents and that this strategy should include the appointment of an Independent Tenant Advisor.
- 1.3 The background to the project, the option appraisal process, consultation arrangements and the proposed scope were set out in detail in the report previously presented to members. The conclusion was that the Comprehensive Regeneration primarily delivered through a PFI scheme along with service improvement via neighbourhood management offered the best option.

- 1.4 The OBC was submitted to the Department for Communities and Local Government (DCLG) for consideration in June 2006. Since then ongoing dialogue between the Council and officers at the DCLG has resulted in further development of the OBC to address a series of queries on the Council's proposals. Yvette Cooper, local Government Minister has now approved the PFI credits. As with all PFI projects, the Treasury will scrutinise the business case before a final decision is made to proceed.
- 1.5 When Executive Board approved the submission of the OBC in May 2006, it was provided with key financial data and a summary affordability position of the project, which demonstrated that it provided value for money. The Board approved the financial contributions that would be required to meet the affordability requirements at that time. As a result of delays to the original programme, it is necessary to provide Board with an updated position and to seek approval to the revised affordability position set out in Appendix 1 paragraph 1.
- 1.6 The DCLG has also requested the Council to provide further information about the impact on the affordability of the project of a number of scenarios and to seek the specific approval of Executive Board to the principle of managing the affordability of the project if any of these circumstances arise. The details of these scenarios and their implications are dealt with at Appendix 1 paragraph 2 of this report.

2.0 Purpose Of This Report

- 2.1 To provide an update on the progress made in seeking approval to the OBC for the Little London project and the likely timetable for its completion.
- 2.2 To seek Executive Board approval to an updated affordability position on the project as set out in Appendix 1 paragraph 1.
- 2.3 To seek Executive Board approval to the implications of a number of scenarios which might impact on the affordability of the project and the way in which these might be managed as outlined at Appendix 1 paragraph 2.
- 2.4 The appendix is exempt as it contains information on the Council's approach to commercial issues, where the benefit of keeping the information confidential is considered greater than that of allowing public access to the information.

3.0 Development of the Outline Business Case and approval process

- 3.1 The Council submitted its OBC for the Little London project in June 2006. Since then, an ongoing dialogue between the Council and the DCLG has resolved a range of queries and clarifications including:-
- clarifying the level of stock condition information and impact on risk
 - affordability and sensitivity analysis
 - housing demand
 - level of market interest in the project
 - final tweaking of the financial model
- 3.2 The final amendments to the OBC process have been monitored by the Housing PFI Project Board and PPP/PFI Coordination Board.

- 3.3 The OBC has now been approved by Ministers and has been passed to the Treasury for scrutiny. It was originally anticipated that this would take place in late September, but instead this will take place in November.
- 3.4 The programme for the procurement of the PFI scheme has been updated since it was last reported to Members. It is not directly comparative to the original programme, due to the change in EU procurement rules requiring PFI projects to be developed under the Competitive Dialogue procedure. The updated programme submitted to DCLG is as follows:-

Milestone	Date	Updated position
OBC approval	Sept 2006	Nov 2006
Issue OJEU notice	Oct 06	Dec 2006
Deadline for receipt of completed PQQs	Dec 06	Feb 2007
Shortlist bidders	Jan 07	Mar 2007
Invitation to commence dialogue (replaces ITN stage)	Jun 07	Sept 2007
Competitive dialogue ends (now includes Call for Final tenders)	Sept 07	March 2008
Select preferred bidder	Apr 08	June 2008
Negotiation to contract close	Oct 08	Dec 2008
Service commencement	Dec 08/Jan 09	Jan/Feb 2009

- 3.5 The original programme assumed that the contract would be signed during the third quarter of 2008. It is now prudent to assume that this will not happen until the first quarter of 2009. The impact of such a delay is set out at Appendix 1 paragraph 1 for information.
- 3.6 DCLG is aware that Members' support for the affordability of the project has previously been given and that approval to the updated affordability position set out in Appendix 1 paragraph 1 will also be sought. As part of its normal assessment of PFI projects, DCLG requests that a range of scenarios and sensitivity analyses are undertaken to test the impact on affordability of the project.
- 3.7 DCLG has requested that Members be made aware of the potential impact of changes to assumptions in the Council's affordability model and gives its approval to the principle of managing the affordability of the project if any of these circumstances arise. The scenarios are set out at Appendix 1 paragraph 2 for information.
- 3.8 Sine the OBC was submitted, A Lovell Park Towers resident has issued a claim in the Administrative Court seeking to judicially review the decision of the Executive Board of Leeds City Council to proceed with the PFI option for the Little London Estate. The claim relates to the consultation process which preceded the Executive Board's decision and took place during February 2006. The challenge is limited to two narrow points (1) whether the consultation exercise was carried out after a decision had already been made by the Local Authority to adopt the comprehensive regeneration option, (2) whether her legitimate expectation as to the manner of consultation was breached. The Council has filed an acknowledgment of service and summary of grounds for defending the claim. The senior barrister employed on this case for the Council has indicated that the Council's defence is robust.

4.0 Conclusion

- 4.1 Given the delay in Treasury approval, the new EU requirements on competitive dialogue, and final tweaking of the financial model, some additional costs are already known and identified at Appendix 1 paragraph 1. However, within the range of sensitivities identified in Appendix 1 paragraph 2, further costs could potentially arise before the project is closed.
- 4.2 Whilst the Council can not enter into an open-ended commitment to support the affordability of this project, commitment could be given to agree up to the level identified in Appendix 1 which will be sought in the first instance from the HRA. Should any further affordability gap arise through procurement, the Council could give a commitment to meet this through other resources or through reviewing the project scope.

5.0 Recommendations

5.1 Executive Board is requested to:-

- a) note the progress made in seeking approval for the Little London OBC and the current timetable for completion;
- b) approve the updated affordability position for the project as set out in Appendix 1 paragraph 1;
- c) note the financial implications of a number of scenarios which might impact on the affordability of the project and to confirm their support for the way in which these might be managed as set out in Appendix 1 paragraph 2;
- d) reconfirm its full commitment to the Little London PFI project.