



DERBY CITY COUNCIL

COUNCIL CABINET
18 October 2005

ITEM XX

Cabinet Member for Housing and Social
Inclusion

Housing PFI progress

SUMMARY

- 1.1 Derby's second bid for Housing PFI funding is approaching the final stages of government approval, and assurances about the Council's commitment to the project are being sought by Partnerships UK, PUK, for them to recommend acceptance to the Project Review Group, PRG
- 1.2 PUK are concerned that the current contribution authorised by the Council may be insufficient to make the scheme viable, and that a greater level of potential contribution may be required. They are therefore seeking reassurance that the Council would support an additional contribution to the scheme from its own resources if necessary.
- 1.3 Even with an extra contribution, it is expected that the relative value for money to the Council would still be much better than traditional procurement through Registered Social Landlords, RSLs. If this were not the case at any point, then the Council could withdraw its support at that point.
- 1.4 The PFI scheme offers the prospect of a large capital investment in social housing in Derby, resulting in 175 affordable homes for rent. The PFI scheme will result in a much greater level of rented units than would be the case through the existing means of authority support for RSL developments. The capital programme for RSL developments can therefore be diverted if necessary to provide additional financial support.
- 1.4 Subject to any issues raised at the meeting, I support the following recommendation.

RECOMMENDATION

2. To approve additional funding for the Housing PFI scheme, should it prove necessary, to be financed from within the existing housing capital programme by a transfer from the facilitation fund, as long as the PFI project continues to offer better value for money for the Council than other forms of provision of affordable rented accommodation.

REASON FOR RECOMMENDATIONS

3. Derby's affordable rented stock would increase under this measure by at least 175 units, which with current land prices would cost the Council more than it could afford from within its capital programme. The PFI project offers the prospect of being able to stretch Council resources very considerably compared to existing means of provision.



Housing PFI progress

SUPPORTING INFORMATION

- 1.1 Derby's second non HRA PFI deal, having received ministerial approval, has now reached the stage of applying to the Project Review Group, PRG. PRG are advised by Partnerships UK, PUK. PUK have raised some final points about the scheme, which it is not felt are insurmountable, but do need to be addressed.
- 1.2 PUK queried the availability of land for the new build aspects of the scheme for 175 homes, of which 50 would be refurbishments. This issue appears to have been solved by a likely option agreement by owners and developers of a site in Derby as part of initial discussions about a Section 106 planning agreement.
- 1.3 They have also queried how the Council would cope with any changes to the scheme from its initial assumptions. One issue within this is the financing arrangements that might be offered by prospective bidders. The original Outline Business Case, OBC, stated that the likely outcome was for an 'on balance sheet' arrangement with a Registered Social Landlord, RSL. A Special Purpose Vehicle, SPV, as used in many other schemes was indicated by our initial assumptions as unaffordable – contributions of around £400,000 a year would have been required on our original assumptions.
- 1.4 RSL appetite for the scheme remains, but the indications that we are receiving are that a third option – of an RSL led and owned SPV might be more likely to be the basis of any bids. As the non HRA housing PFI market is beginning to mature, this appears to be a way in which RSLs can use much less of their own capital and bring in a specific loan, while shielding themselves from some of the risk of the scheme.
- 1.5 This option is much cheaper than the full SPV model, as RSLs would not be expected to charge as much in interest as a profit making organisation would seek. It would, however, be more expensive than the on balance sheet model that the current OBC is based upon.
- 1.6 The OBC therefore has to be reworked to reflect this position. The early indications are that there may well be a need to increase the Council's contributions from the current approved maximum of £935,000 should this be absolutely necessary. Additional funding could be found only by reducing the existing funding going into the facilitation fund. This would reduce the Council's ability to support other RSL schemes that fail to receive Housing Corporation funding in this year's bidding round. The 'facilitation fund' is the means by which the housing capital programme

supports the development of new affordable housing in Derby, normally through the provision of grants to RSLs.

- 1.7 The current position on the facilitation fund is that existing pipeline schemes have effectively committed the Council's budget and the balance of the fund, which together amount to around £1.7m. At this moment, therefore, there are no additional resources available. The capital programme, however, includes forward provision in 2006/07 and future years of £0.5m a year in funding for the facilitation fund. In addition to this, should there be any successful disposals of Housing land, then further funds would be available. The Council therefore has a considerable ability to support the scheme or other housing projects from this source.
- 1.8 The justification for this change would therefore have to be that the PFI project would deliver a lot more housing than the alternative of funding RSL schemes through direct grants from the Council. These vary in cost according to the individual project but on average will be considerably more expensive, and therefore not be able to fund anything like the 175 units expected from the PFI project.
- 1.9 If the affordability requirement of the PFI project rose to the point where it no longer offered the Council greater value for money than an alternative, then the Council would retain the option to not proceed with the scheme. The facilitation fund offers the Council the ability to fund an amount above the current commitment. The assurance that PUK requires on this issue will hopefully be addressed by the offer to consider that the PFI scheme would become the first call on the use of the facilitation fund while the PFI scheme remained the best use of resources for the Council.

OTHER OPTIONS CONSIDERED

2. The other option is to cease to support the project. This would lose the opportunity of obtaining a large amount of funding towards the provision of 175 additional affordable rented homes for Derby.

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Background papers:	Outline Business Case for PFI project.
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

1. The offer of PFI credits has been approved by the ODPM, subject to PRG approval. PUK advice is considered along with the views of ODPM in reaching a decision. Once PRG approval is received, the credits are then secure as long as a viable project is then worked up and agreed with a preferred bidder. Costs of procurement including fees are estimated at the minimum Treasury guideline of £750,000.

Legal

2. Legal advisers have been appointed to the Council, subject to the project receiving PRG approval.

Personnel

3. None arising directly.

Equalities impact

4. The Council will have nomination rights to the homes for a period of at least 30 years. The project is aiming to include 10% of homes for disabled tenants.

Corporate objectives and priorities for change

5. An additional 175 units of affordable housing would be a considerable step towards many of the Council's objectives for affordable housing.