



DERBY CITY COUNCIL

COUNCIL CABINET
14 March 2006

Cabinet Member for Housing and Social
Inclusion

ITEM 8

Housing Private Finance Initiative – PFI – Project: Approval of the Outline Business Case - OBC

SUMMARY

- 1.1 The Outline Business Case – OBC – for the Project has been revised with a view to resubmission to the governments Project Review Group – PRG – for its meeting on 21 March 2006.
- 1.2 The revisions propose some changes to the make-up of the Project, and indicate the need for an increase in the level of the Council's contribution.
- 1.3 The Project Board and Team believe that, subject to the outcome of the PRG meeting, there is danger that the Project may no longer represent the best option for the Council should the OBC not be approved.
- 1.4 Subject to any issues raised at the meeting, I support the following recommendation.

RECOMMENDATION

- 2.1 The Council's contribution to the Project be increased to £2m, with the need for any further increases to be the subject of separate reports to Cabinet.
- 2.2 The Council should reconsider the Project's future should the OBC not be approved on 21 March, or be approved with unrealistic conditions attached.
- 2.3 A further report on the outcome of the PRG meeting be submitted to Cabinet at the earliest opportunity.

REASON FOR RECOMMENDATIONS

- 3.1 An increase in the Council's contribution will contribute to the financial viability of the Project, and is likely to be a key factor for PRG approval. There is a clear expectation from government that the level of the contribution should be set at the maximum affordable.
- 3.2 Should the OBC not be approved before the end of the current financial year, the Project may require additional PFI credits.

- 3.3 The future of the Project will need to be reconsidered by Cabinet after the PRG meeting.



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SUPPORTING INFORMATION

- 1.1 A report on the Council's OBC, prepared by Partnerships UK – PUK, effectively HM Treasury – was considered by PRG in November 2005. The OBC was not approved, and a number of conditions were given before any re-submission could take place. In summary, those conditions were as follows:
- the affordability of the Project, and the assumptions made in determining that affordability
 - achieving 'site certainty', and the need to have Outline Planning Permission – OPP – in place at issue of the Invitation to Negotiate – ITN
 - the adequacy of the arrangements for the Council's external advisers to the Project.
- 1.2 Since the meeting of PRG, the Project Team and Board, in consultation with the Office of the Deputy Prime Minister – ODPM – have re-examined the OBC, seeking to address the points raised by PRG, without undermining the vision at the heart of the Project. The revisions made have been agreed with ODPM, and subsequently passed to PUK in order to inform the report they will prepare for the meeting of PRG on 21 March 2006. The Council does not see that report before the meeting, and despite on-going and re-assuring discussions with ODPM and PUK, it is difficult to predict the outcome of the meeting with any certainty.
- 1.3 In summary, the revisions made are as follows:
- although the total number of affordable rented homes to be provided remains at a **minimum** of 175, the ratio of new build to acquired/refurbished has been adjusted. It is proposed that 95 should be new build, with 80 refurbished (from 125 new build, 50 refurbished). Bidders are likely to propose variations to this ratio and indeed can be asked to do so by the Council as part of the bidding process
 - the adjusted ratio necessitates a corresponding change in the projected phasing of the homes becoming available, and the proposed phasing is as follows:

Projected phasing of the homes

Option	07/08	08/09	09/10	10/11	Total
New	5	85	5	0	95
Refurbished	5	50	25	0	80
Total					175

- potential sites and their order of priority have changed
- a corresponding increase in the financial contribution of the Council from £1.8m to £2m will be necessary if the Project proceeds as now planned. Further proposed increases in contribution may occur at later stages, but the Project remains relatively good value for money for the Council, when compared to investments in other new build social housing. In addition, it may be that final negotiations with the Council's shortlisted and Preferred Bidder(s), will indicate the need for an increase in the contribution, subject to the project remaining value for money
- the Council has undertaken to engage additional external adviser support (primarily financial) for appropriate stages of the Project (which should be containable within the existing Project budget)
- an unequivocal commitment has been given that the ITN will not be issued until and unless OPP has been secured for all new build sites.

- 1.4 The Project Board and Team believe that these revisions demonstrate a willingness to recognise the points raised by PRG in November, and take meaningful actions accordingly.

OTHER OPTIONS CONSIDERED

- 2.1 To withdraw from the Project with immediate effect.
- 2.2 To continue to seek approval of the OBC should PRG not approve it, or approve it with unrealistic/undeliverable conditions on 21 March 2006.

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Background papers: None
List of appendices: Appendix 1 – Implications

IMPLICATIONS

Financial

- 1.1 Ministerial approval to the original OBC in April 2005 resulted in the provisional allocation of £22.25m of PFI credits to fund the Project, subject to PRG approval, then expected in August 2005. Since that point, necessary revisions to the Project have increased the financial contribution required by the Council from £0.9m to £2m. The projected overall cost to the Council of just over £10,000 for each unit remains significantly cheaper for the Council than an equivalent scheme led by a Registered Social Landlord – RSL – funding, a direct benefit of PFI credits.
- 1.2 The Council's risk in developing the Project has increased substantially since last year, as a result of delays, the changed mix of housing and many other factors. Should there be further increases in contribution required, the Project still remains likely to be reasonable value for money for the Council, although there will be a point at which the Council has insufficient resources to proceed. This point has not been reached yet, and the Project remains viable from the Council's point of view.

Legal

- 2.1 Should the OBC be approved, the Project will proceed to the next stages, and will be supported by the Council's appointed external legal advisers to the Project, Addleshaw Goddard, for which budgetary provision has already been identified.
- 2.2 Should it not proceed, the appointment will be terminated with the comparatively modest costs already incurred in reaching this stage settled at that point.
- 2.3 The Council has the right to withdraw from the Project at any stage up to Financial Close.

Personnel

- 3.1 Should the OBC be approved, the newly created and previously agreed post of Housing Development Officer (PFI) will be advertised.
- 3.2 Should it not be approved, the post will be 'frozen' until further notice.

Equalities impact

- 4.1 Should the OBC be approved, eventual delivery of the Project will provide additional affordable rented homes – new build and refurbished – for Derby households, and particularly through the refurbished properties, contribute to the regeneration of the City.
- 4.2 Should the Project not proceed, those benefits may not be available on the scale, or in the comparatively early timeframe envisaged.

Corporate objectives and priorities for change

- 5.1 The Project falls within the Council's objectives of **a shared commitment to regenerating our communities, healthy, safe and independent communities, and a diverse, attractive and healthy environment.**
- 5.2 The Project will further the priority of **investing in our buildings.**
- 5.3 An additional 175 units of affordable housing would be a considerable step towards many of the Council's objectives for affordable housing.