

FORWARD PLAN SELECT COMMITTEE
26th September 2007

**Briefing note on Issues included in the Forward Plan Issue 4 2007/08
(11/09/07 to 10/12/07)**

SERVICE AREA: Housing & Community Care

Report ref	Report title
H&CC -06/07-36	Award of Contract for the Non HRA Housing & Social Care PFI Project
<p>Summary:</p> <p>This report will provide Members with an update on the detailed negotiations that have been held with Brent Co-efficient (BCE) over the past 12 months on the award of the council's Non HRA Housing & Social Care PFI Project. The PFI scheme has been developed to provide social housing and replacement residential facilities for people with learning disabilities with the aid of a government grant of £26.6m in the form of PFI credits. Negotiations are still on-going and, depending on their progress by the time the report is due to go out, the report will ask Members to delegate authority to the Director of Housing and Community Care, in consultation with the Director of Finance and Corporate Resources and the Borough Solicitor, to finalise negotiations and to finalise all necessary agreements and documents, by 30th November 2007.</p> <p>BCE is a consortium consisting of Hyde Housing Group (Housing Management Services), Bouygues UK (Construction) and the Bank of Scotland (Finance). The Executive selected BCE as preferred bidder for the PFI scheme in October 2006. Since then detailed negotiations have taken place with BCE in order to deliver a scheme and in order to present this further report to the Executive on the award of contract.</p> <p>The report will examine issues that have been subject to negotiation which include:</p> <ul style="list-style-type: none">- Issues affecting the affordability of the scheme- Outputs that are to be delivered from the scheme- Technical and Service Standards- Phasing of the delivery of the units and disposal of Council owned sites- Project Agreement and other legal and contractual requirements- Review of schemes outputs following discussions with Communities and Local Government- Timetable for completion to achieve financial close- Allocations and lettings process required for the scheme	

The need to make the scheme affordable means that the output specification has had to be reduced. There was a budget gap at the time that BCE were appointed preferred bidders in October 2006 and this has increased for the following reasons:

- The impact of reduced densities, compared to the bid, on the amount - and therefore cost - of land needed for the scheme;
- Land price movements;
- Building cost increases as a result of extension in the period to financial close;
- Increased building and land costs associated with planning requirements on sustainability, S106 and other matters; and
- Movements in interest rates.

These have been offset by a number of savings in the scheme including: a revised financial structure which has reduced interest rate margins and means that no principal repayments are required during the period of the scheme (with debt on the scheme being offset at the end of the contract by the value of the housing units within the scheme); and a change in the period of the contract from 30 to 20 years which has reduced life-cycle maintenance costs and increased the annual value of PFI credits.

These savings have not been sufficient to pay make up the funding gap and changes have therefore had to be made to the specification. These include:

- Reduction in the number of units from 500 properties in the original scheme to 400;
- Reduction in the average size of units from 3 bedrooms to 2.5 bedrooms; and
- A revised allocation between social housing at affordable rents and social housing at market rents, with some properties converting from market to social rents over the period of the project.

A key issue in the negotiations has been the treatment of council owned sites. The Department of Communities and Local Government has made the provision of PFI credits for a lower number of units than originally envisaged conditional on the council including its sites at nil cost in the scheme. In view of that, and the need to bridge the affordability gap, Members are recommended to agree that all the council sites included within the PFI (Melrose House, Homelea House, 9 Willesden Lane, 167 Willesden Lane, and the council's interest in Barnhill Cottages) are transferred to Hyde at nil cost. This is subject to BCE coming up with measures to bridge the remaining affordability gap in the project.

Members are asked to note that, in addition to addressing the affordability gap, the revised property mix also reflects the best configuration that is achievable after taking into account the planning and development constraints across each of sites. Planning Applications for the first phase of sites have been prepared and are currently in the process of being considered by the Planning Committee.

One of the key features of the PFI scheme is that there is no differentiation in the property and housing standards applied to the permanent and temporary accommodation that are delivered under this project. Given this, the PFI project provides an opportunity to allow residents that are occupying their properties as temporary accommodation (where the council has a homelessness duty to provide secure accommodation) to be made an offer of permanent accommodation in the property they are living in. The report requests the Executive's approval to amend the council's Allocation Scheme to permit direct lettings to be made to PFI properties and to set a minimum annual target to allow at least 50% of the permanent vacancies that are available in each year to be converted from a temporary (assured short hold tenancy) to a permanent (assured tenancy).

The timetable to achieve financial close on negotiations is set out in the table below.

8 th October	Executive approval
9 th October	Application to CLG on land disposal consents
By 12 th October	All outstanding commercial issues resolved
15 th October	Submission of Final Business Case to CLG
By 26 th October	Partnerships UK approves derogations
By 20 th November	CLG consents on land disposals received
By 20 th November	CLG seeks ministerial sign off of FBC
30 th November	Financial close

Achievement of this timetable is subject to negotiating elimination of the remaining affordability gap, resolution of other outstanding issues with the contractor, granting of planning permission for the first phase sites identified for the PFI, and CLG approval to the FBC. Failure to achieve the timetable would add further to costs and would jeopardise the project.

Nature of Decision to be taken/intended outcome

Subject to outstanding affordability issues being satisfactorily addressed:

Members to delegate authority to the Director of Housing and Community Care, in consultation with the Director of Finance and Corporate Resources and the Borough Solicitor, to agree the PFI Project Agreement and all other related documents including those which shall be entered into by the Council with any of Brent Co-Efficient's funders or subcontractors.

Members to authorise the Borough Solicitor, or authorised delegate on her behalf, to execute all of the legal agreements, contracts and other documents on behalf of the Council referred to in this report (and such other legal agreements and documentation which may be necessary to give full effect to the PFI Contract), subject to her receiving confirmation of credit approval from the Department for Communities and Local Government or, executing such contracts and other documentation with a pre-condition that they shall only come into full effect upon the issuing of such PFI credit approval by the Department for Communities and Local Government.

Members to agree that the Director of Finance and Corporate Resources can issue, on behalf of the Council, such certificate or certificates under the Local Government (Contracts) Act 1997 to Brent Co-Efficient in respect of the PFI Project Agreement and to Brent Co-Efficient's funders in respect of any Direct Agreement entered into between the Council, such funders and Brent Co-Efficient. Members to agree that the Director of Finance and Corporate Resources will be fully indemnified by the Council in the event of any claim against him arising from the provision of any Certificate he may issue in accordance with this recommendation/decision.

Members to agree that officers prepare a case for submission to CLG for additional PFI credits for up to 200 units, subject to being able to demonstrate that such an extension would represent value for money. Members to note should CLG grant additional credits, any extension to the scheme would be subject to final approval by the Executive.

Members to agree to dispose of the following sites to BCE for nil consideration, subject to securing any necessary consents from the Secretary of State: Melrose House, Homelea House, 9 Willesden Lane, 167 Willesden Lane and the council's interest in Barnhill Cottages.

Members to agree that the Director of Housing and Community Care shall seek to obtain the approval of the Secretary of State under Section 123 of the Local Government Act 1972 and all other consents that may be necessary to dispose of the properties referred to in the report to Hyde Housing Association at less than best consideration.

Members to agree for the Council's Housing Allocation Scheme to be amended to enable the Council to make offers of permanent accommodation in the form of an assured tenancy with a registered social landlord (i.e. Hyde Housing Group) at the same accommodation which is being provided to the homeless person/family under Part VII of the Housing Act for the purposes of the PFI project.

Nature of Decision to be taken/intended outcome (contd.)

Members to agree to set a minimum annual target to allow at least 50% of the permanent vacancies that are available in each year to be converted from a temporary (assured short hold tenancy) to a permanent (assured tenancy) and to delegate authority to the Director of Housing & Community to finalise arrangements and the eligibility criteria to be adopted for the temporary to permanent conversions to be achieved.

Timescale for decision:

8th October 2007. A final business case for the PFI is required to be submitted to the CLG by 15th October 2007 in order for a Financial Close to be achieved by 30th November.

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