

Leeds City Council

# **SWARCLIFFE PRIVATE FINANCE INITIATIVE PROJECT**

## **OUTLINE BUSINESS CASE**

Prepared by  
Leeds City Council  
Department of Housing Services

### **Final Draft**

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This report contains 57 pages

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## **SECTION 1 EXECUTIVE SUMMARY**

### **1.1 Overview**

This Outline Business Case (OBC) has been prepared by Leeds City Council's Department of Housing Services in conjunction with housing specialists Graham Moody Associates. It considers options to secure the sustainable regeneration of the Swarcliffe estate, situated to the east of Leeds city centre.

This OBC considers the need for the scheme, its relationship with the Community Plan for the area and the comprehensive consultation programme undertaken, before presenting the financial and non-financial costs and benefits for a variety of redevelopment options.

The estate comprises 2,730 Council homes built between the 1950s and the mid-1970s in a mix of low rise housing, low-rise flats, maisonettes and multi-storey flats. They display a significant need for improvement and there is a substantial amount of housing that is unpopular and which suffers extremely high turnover. The preferred option presented suggests a contract to procure a private sector partner to deliver to an agreed Output Specification, the demolition of 949 units of housing and the comprehensive refurbishment of the remaining 1,781 homes. In addition, it is anticipated that up to 400 new homes could be provided on the footprint of demolished stock.

The private sector partner will be responsible for the refurbishment and maintenance of all the housing in the contract. The private sector partner will also be responsible for securing investment in the estate environment, and for making the estate a safe and attractive place throughout the life of the contract. At the end of the contract, the maintenance of the stock will be transferred back to the Council and it must be in a good state and appropriate for letting to tenants.

## 1.2 Project Objectives

The aims and objectives of the Private Finance Initiative (PFI) project for Swarcliffe will be linked to and informed by the City Council's Housing Strategy. On a city-wide level, it will aim to contribute towards securing investment in, and managing the demand for social rented housing in the city. Locally, the objectives will be:

- To address problems of poor housing condition in Swarcliffe;
- To undertake environmental remodelling to improve the area;
- To create a safe and secure environment for the estate;
- To remove unpopular stock and replace it with housing for which there is a demand; and
- To create a better mix of housing and residents to provide a more harmonious and sustainable community

In addition, a major objective of the project thus far has been to base it upon comprehensive consultation with the residents of Swarcliffe and those Members of the Council who represent the area. It should also be stressed that the PFI solution is a central part of a Community Plan aimed at the physical, social and economic regeneration of the area.

## 1.3 Business Need

The need for the PFI project in Swarcliffe relates to a desire amongst Ward Members, Council Officers, partner agencies and local residents to arrest and reverse the signs of decline evident in the area, and to make it a place where people will want to stay in or to move to.

This OBC notes that the estate has not benefited from any major renovation and refurbishment action since construction and has total refurbishment needs in excess of £45 million compared with the contract value of the Council's annual capital programme for the whole housing stock of approximately £50 million.

There are high numbers of empty homes and high turnover of housing, especially in the multi-storey flats and maisonettes. There is also clearly a mismatch between the supply of housing on the estate and demand.

Demand for Council housing in the area has reduced significantly over recent years. This falling demand has been caused by the disproportionate number of multi-storey flats and maisonettes, the inadequate supply of housing for older people, the lack of vacancies in family housing (apart from 2 or 3 bed maisonettes and multi-storey flats) and the deteriorating reputation and image of the estate.

It is accepted locally that a radical transformation is required that can substantially improve housing conditions and the estate environment, improve the mix of housing, address underlying social problems (especially in relation to crime and community safety) and as a result boost demand to live in the area. Local Members, local residents and service providers are united in promoting the Community Plan, and the PFI project as an integral part of the plan, as the means of providing that transformation.

## **1.4 Consultation**

The Consultation Programme undertaken in Swarcliffe is rooted in the Council's innovative approach to tenant and resident involvement. The Council is completely convinced that the effective involvement of the local community is crucial in ensuring that the option chosen for improving the area should succeed in meeting locally-identified priorities. The four phase programme has included:

- A survey of 400 households living in the area and discussions with service providers and community organisations to identify views of the area
- A series of newsletters to inform local residents of progress and to advertise consultation events
- Three area based, and six theme-based, 'drop-in' sessions to identify views on local priorities, with surveys issued seeking views on housing improvement needs and options.
- Three community consultation events that were attended by over 700 people and gave the opportunity for people to consider the various options for redevelopment of the estate and improvements to housing and services. Further consultation was also carried out with people most likely to be affected by the various redevelopment plans
- A Community Forum, and a series of Working Groups reporting to the forum.

The Community Forum and a Residents' Panel will continue to act as the main means for securing the active involvement of local residents in the progress of the PFI project and in formulating the Community Plan. The project has so far enjoyed the strong support of local Ward Members who have chaired the Community Planning Steering Group (soon to be replaced by the Community Forum) and local partner service providers.

## **1.5 The Proposed Contract**

The project proposes a contract for a private sector partner to be appointed to effect redevelopment of the estate and the refurbishment of retained housing stock. The PFI contract will provide incentives for the PFI Operator to help achieve the objectives set in partnership with the Council, other agencies and the local community. The PFI Operator will be responsible for:

- Refurbishing and improving the energy efficiency of the remaining Council homes
- Managing the repairs and maintenance service
- Demolishing vacated homes and redeveloping these within the terms of the Output Specification.
- Grounds maintenance and the caretaking of public open space in the estate
- Upgrading the external environment, improving defensible space and the reduction of crime
- Caretaking and cleaning services
- Redeveloping, and where appropriate providing shopping areas on the estate
- Continuing links with the wider community and on-going participation in the Community Plan

The PFI Operator will be responsible for demolition of the stock but the Council will meet the cost of tenant and homeowner compensation payments.

The PFI Operator will be expected to invest in refurbishing the remaining Council housing stock and to design out crime and improve community safety through external environmental works. Only when all retained Council homes have attained the Output Specification will 100% of the unitary charge be paid for the service. Tenant and resident representatives will be involved in setting the Output Specification and selecting the successful contractor, and will be included as partners in contract monitoring

arrangements. At the end of the contract, the maintenance of the stock will be transferred back to the Council and it must be in a good state and appropriate for letting to tenants.

## 1.6 Output Specification

The Output Specification will establish the contract performance standards required to create a popular and attractive estate including the refurbishment of homes. The Output Specification will be developed further by reference to Treasury Taskforce (TTF) Guidelines and Standards and the standards set by the Housing Corporation, setting details of the services and performance measures as appropriate. The output specification will set out the required performance standards throughout the contract term and the contract will include incentives for achieving specified service standards together with rectification procedures and penalties for dealing with services that fall below acceptable levels.

The PFI Operator will be expected to undertake all necessary refurbishment within the first five years of the programme. The demolition programme will be linked to and run in parallel with the refurbishment programme, the PFI Operator assisting with the decanting of the tenants by refurbishing to meet the project needs.

Acceptable quality standards will be set with reference to industry recognised standards as will benchmarks against other social housing providers. The Council will provide details of previous satisfactory specifications as a guide for the PFI Operator. Key Performance Indicators will be established to measure and track the performance of the PFI Operator, together with the corrective action measures necessary in the event of output failure.

## 1.7 Option Appraisal

A number of options were considered which are outlined in Section 7. A detailed appraisal was undertaken of these options to ensure that the Council's objectives were met, and that the option chosen reflected the wishes of the local community and Council members and offered the best value for money. Appraisal of options was based upon a combination of factors:

- Consultation with local residents
- Consultation with and input from local Council Members
- Consultation with the Community Planning Steering Group and with local service providers
- Consultation with managers and staff at the local Neighbourhood Housing Office
- Use of independent consultancy to establish non-financial costs and benefits
- Financial modelling

On the basis of this appraisal Option E has been selected as the option which most closely enables the objectives set to be met at an affordable cost profile. This option combines:

- demolition of 675 flats in 9 Multi-Storey blocks, 168 maisonettes, 100 Walk up flats and 6 flats over garages.
- retention and refurbishment of two multi-storey blocks - Sherburn Court which would be designated as Category 2 sheltered housing, and Elmet Towers which could be designated as Category 1 sheltered housing or targeted towards 'mature' residents.
- comprehensive refurbishment of the remaining stock.
- The possibility of a joint venture with the Council's Social Services Department that could help finance a future option for the re-provision of Eastholme Aged Persons Home (APH). This could enable RSLs to build bungalows on the site, the provision of 'extra-care housing' and the creation of more appropriate housing opportunities for the older people displaced by the redevelopment.

## 1.8 Risk Allocation

The proposed contract will aim to transfer the majority of risk to the private sector partner. The key risk transfer areas currently being considered in relation to contractual terms are set out in some detail in the risk matrix included at the end of this Section of the OBC, but, in summary, the PFIO will be expected to carry the following risks:

- Design and construction;
- Land sales receipts meeting estimates;
- Operating costs, covering repair and maintenance and some other housing management functions;
- Keeping homes “available”, i.e. providing output-specified facilities and amenities and providing services to specified minimum standards;
- Achieving incentive payments to estimated levels; and
- Securing an attractive Estate environment and tenant satisfaction.

that the An analysis of the project against government Financial Reporting Standard No. 5 (FRS5) indicates the high significance property related risks are primarily with the PFI Operator, suggesting that property is on the PFI Operators balance sheet and not the Council’s. An estimate of the value of the risks to be transferred to the private sector will be submitted by the end of September 1999.

## 1.9 Financial Appraisal

A financial analysis and appraisal of the various options/routes by which the Council’s objectives might be achieved is important to ensure that the option chosen offers good value for money, compares well with other possible ways of achieving the same objectives, and can enable us to analyse and understand the impact of entering into a PFI contract. An analysis was undertaken of four options for improving the area:

1. **A Do-Minimum Approach** which assumes that stock remaining after demolition of unpopular housing would have to be funded through existing resources.
2. **HRA with Full Investment** - which assumes unlimited investment resources from central government for improving the area.
3. **Voluntary Transfer** which assumes full transfer of ownership of housing stock and of management functions to another provider, who would then finance and implement improvement
4. **HRA PFI Contract** which links the Council with a private sector partner (PFI Operator) who would secure private finance to cover demolition costs, improvement and on-going maintenance over a 30 year period. The Council would pay an annual unitary charge and the stock would return to the Council after the contract period. Housing “people” management would remain with the Council but property management would be transferred to the PFI Operator.

An outline description of each of the options along with a landscape table that sets out the assumptions made under the various scenarios with accompanying comments on a comparative basis, is set out in Section 9. Apart from the “do minimum” option, all three options assume the same stock condition outcomes. Rents will increase for all three full investment options in line with the Council’s rents policy guidelines. The public expenditure comparison of the options is shown at Appendix C1.

The public expenditure comparison of the options is shown at Appendix C1. This includes the public expenditure measures as outlined above, and indicates that the PFI option is preferable under each one. The reasons for this are set out briefly below:

- **Resource Costs:** the outcome is driven by our assumptions of PFI Operator savings on Transfer and HRA Full Investment expenditure and maintenance costs. Note that there are additional Resource Costs of approximately £15.1 million and £9.6 million that should be added to the PFI and Transfer options respectively to ensure comparability with the HRA PSC (Full Investment)
- **Financial Costs:** the difference between PFI and HRA Full investment is as set out above. For Transfer, although overall rent income increases faster than under the HRA and PFI Options, using a discount rate of 8% per annum in real terms reduces their value.

The public expenditure comparisons noted above have yet to be adjusted for public sector risk carry in the HRA PSC/full investment option. This analysis is set out at Section 8 and in Appendix C4. It adds some £3.076 million to the HRA PSC.

The table below compares the resource costs and financial costs of all options adjusted to reflect the additional resource costs and the public sector risk carry as outlined above.

Option	Resource Costs NPV £000	Financial Costs NPV £000
HRA PSC (Full Investment)	61,387	58,011
PFI	53,014	43,000
Transfer	65,814	
- receipt discounted at 8%		60,587
- receipt discounted at 6%		56,474
<b>NPV = Net present Value</b>		

The financial analysis of the options indicates that the PFI contract is preferable over a range of public expenditure measures. The net effect of the scheme on the HRA over the contract term is neutral and the scheme is therefore considered to be affordable.

The NCA bid is for some £17.93 million, compared with the estimated PFI capital expenditure of some £27 million NPV. The HRA's contribution will come from rent and net economies flowing from the scheme of some £9 million, together with estimated decanting costs of £0.5 million which will also be met by the Council.

A report setting out the full implications for the Council and tenants of entering into the proposed contract has been considered by the Council's Executive Board and the Swarcliffe Steering Group. They have given the proposal their full support.

## 1.9 Affordability

An analysis of the affordability of the PFI Contract options has been undertaken internally and verified by external consultants. It has shown that income streams generated from within the PFI area will support the proposed refurbishment and continuing maintenance of the housing stock remaining following demolition of the unpopular housing. It will not require any subsidising expenditure from other parts of the city through the HRA.

The proposed option will deliver the radical transformation needed to improve the area but will require financial and strategic commitment from other service areas under the Community Plan.

The table and bar chart in Appendix C2 shows cash balances being generated in the early years of the contract but offset by losses in later years, thus creating a neutral net effect over the term of the contract.

## 1.11 Market Testing

As part of the development of the proposed PFI contract terms we have held discussions with a range of prospective PFI participants: building companies, property managers and financiers. These have indicated great interest in the proposition and a desire to proceed to more in-depth discussions. Indeed, the market interest is reinforced by our being contacted by many more interested prospective participants than we have been able to see. Key issues to have emerged from these discussions concern the following:



- Transfer of social housing demand risk to the PFI Operator (PFIO) in absolute terms appears to be unacceptable - but risk transfer in relation to the relative popularity of the Estate is more acceptable.
- The proposal to retain 'people management' while including 'property management' in the PFI contract has not met with any objections.
- Concern has been expressed about the degree of uncertainty of the need for future on-going major elemental renewals.

Discussions will continue with prospective PFIOs and financiers and a flexible and pragmatic approach to developing contract terms within the confines of risk transfer requirements will be adopted. We consider that this approach, together with the market appetite already demonstrated, will secure strong interest and competition from the market.

## 1.12 Project Implementation

Following submission of this OBC, and sign off by the Treasury Project Review Group, a Project Board and Team will be established for the procurement period. The Project Board will consist of representatives of the Senior Management Team of the Council and relevant Chief Officers. It will report to the Executive Board of the Council - the primary decision making body of the Council. The Project Team will consist of a minimum of seven officers headed by a Project Manager, who possess between them a mix of appropriate expertise.

The Team will have overall responsibility for progressing the scheme through the procurement process, and will be responsible for briefing and liaison with external advisers, the Residents' panel, Unions and staff. The Team will be appointed by November 1999 and will continue to work jointly with other Pathfinders to develop good practice, to draw on experience of the Public-Private Partnerships Programme (4Ps), particularly during detailed preparation of contract content. A Community Forum with resident representatives will guide the project, while a Residents' Panel will have substantial involvement in the PFI procurement process, shaping fundamental service reviews in the area and in drawing up the Community/ Tenant Compact.

## SECTION 2 PROJECT OBJECTIVES AND SCOPE

### 2.1 Aims and Objectives

- To adopt a PFI solution as a central part of a Community Plan aimed at the physical, social and economic regeneration of the area;
- To address problems of poor housing condition in Swarcliffe and to undertake environmental remodelling to improve the area;
- To boost current and longer-term housing demand in the area;
- To create a safe and secure environment;

- To remove unpopular stock and to replace it with housing for which there is a demand; and
- To create a better mix of housing and residents, and a harmonious and sustainable community.

## **2.2 Project Scope**

- 2.2.1 This presents the outline business case for a Private Finance Initiative to improve fundamentally housing conditions and mix on the Swarcliffe estate. The estate is situated to the east of Leeds and is bounded by the A64 York Road to the north, green belt land to the east, the Outer Ring Road to the west and the Barwick Road to the south. (See Map at Appendix A).
- 2.2.2 It comprises 2,730 Council homes built, between the 1950s and the mid-1970s in a mix of low-rise housing, low-rise flats, maisonettes and multi-storey flats. It has suffered declining demand for housing over recent years and has high stock turnover and levels of empty homes, especially at the core of the estate around Whinmoor Way (See Section 3). However, other parts of the estate exhibit characteristics of stability and buoyant demand and there has been above-average activity under the Right to Buy. In the low rise housing and flats on the estate approximately 50% of properties are owner-occupied under the Right to Buy.
- 2.2.3 The Swarcliffe estate is part of a wider area which is the subject of a Community Plan, and is one of four areas where a Community Planning process is being piloted. This wider area comprises the boundary of the local Neighbourhood Housing Office and straddles two electoral wards, Whinmoor and Halton. It contains 6,200 households in all, and includes the residential areas of Manston and Penda's Fields, south of the Barwick Road.
- 2.2.4 The Community Planning process emerged out of the Council's Vision for Leeds, which sets out among other things to create better neighbourhoods and confident communities. It has community involvement at its heart, and involves a wide range of mechanisms aimed at identifying those issues of most importance to local residents whilst establishing robust and sustainable means of ensuring involvement and participation in the future. It also builds on the active involvement of the range of agencies and service providers operating in the area, with the aim of producing with the community a formal plan which will address social and economic issues as well as physical ones.
- 2.2.5 The PFI is centred on the housing in the main Swarcliffe estate, aims to address issues relating to the built environment and will be complemented by action to be taken under the Community Plan to improve services in line with identified community priorities. The PFI itself is for a Super 'VCT' (Voluntary Competitive Tender) contract over a 30-year period to refurbish fully housing stock remaining after selective demolition and to provide environmental remodelling. The contract will be primarily for full housing refurbishment and continuing repairs and maintenance work, but will also include caretaking and cleaning, security and grounds maintenance. Other housing management services will be retained in-house.

## **SECTION 3 BUSINESS NEED**

### **3.1 Demand for Housing in Leeds**

- 3.1.1 Over the last five years, there have been significant changes to the housing markets of Leeds, and in people's attitudes towards housing and in how they use housing. These have been accompanied by changes to the economy of the city; Leeds has been commercially successful, becoming one of Europe's fastest-growing cities with a rapidly-expanding business and commercial sector, and is now known as a progressive and developing city. However, benefits that have resulted from the economic growth enjoyed by the city have failed to reach all people living there. As a result, a 'two-speed economy' has developed, whereby a substantial decline in traditional manufacturing jobs and the results of significant social change have led to a situation where many residents suffer from severe problems of social exclusion and deprivation.
- 3.1.2 Accompanying the development of this 'two-speed economy' has been the development of a 'two-speed housing market', split between

- areas on the outskirts of the city and some suburbs which enjoy high levels of housing demand, rising house prices, low turnover of social housing, low rates of empty homes, relatively-low crime rates, high-performing schools and low levels of benefit dependency, and
- inner-city areas and peripheral estates, where there is low and falling demand, static or falling house prices, high housing turnover, transient populations, high numbers of empty homes, local schools unable to deliver high levels of attainment, high crime rates and large proportions of people dependent on benefits.

- 3.1.3 Accompanying the development of this 'two-speed housing market' have been changes in people's choices of housing tenure and in which of the various parts of Leeds they want to live in. The reasons for these choices are often complex and linked to different stages in people's life-cycles.
- 3.1.4 Fewer people now view Council or social housing as a permanent housing tenure and many inner urban areas and peripheral housing estates (such as Swarcliffe), where rented housing is often concentrated, have suffered from very poor images linking them with endemic crime, chronic poverty and poor housing quality.

## 3.2 Housing Strategy

- 3.2.1 The Council's Housing Strategy Statement identifies a series of problems in relation to demand for, and supply of, housing in the city of Leeds. It has noted a 'flight' of people from inner urban areas and peripheral Council estates to suburban areas, and of people from suburban areas to villages and small towns situated in the green belt surrounding Leeds. It has also noted changes to people's lifestyles and in how they exert their choices over housing and how that has impacted on demand for housing in the city and in housing market operations
- 3.2.2 A Model of Area Demand has been compiled by the Housing Services Department and combines indicators of housing demand and stock turnover with social indicators relating to crime, benefit dependency and educational attainment. This has identified areas which are in significant decline, which are on the edge of significant decline, which are popular but which also contain small areas with significant problems and those which are very popular. These correspond with the 'two-speed housing market' identified above.
- 3.2.3 Addressing the problems highlighted by the Model of Area Demand and by the development of a 'two-speed economy' and a 'two-speed housing market' will be a key aim of the Vision for Leeds, the Council's Corporate Strategy, the political changes that have recently emerged from the Government's agenda for Modernising Local Government', and the Housing Strategy itself.

## 3.3 Meeting Investment Need and Improving the Dwelling Mix in Swarcliffe

- 3.3.1 The housing stock for the Swarcliffe Neighbourhood Office area was constructed between 1950 and mid 1970s and comprises low-rise housing, low-rise flats and maisonettes and high-rise flats. The construction types vary from traditional houses through various non-traditional types to Pre-Reinforced Concrete (PRC) - constructed houses. The estate has not benefited from any major renovation and refurbishment action since construction, and is in need of investment action.
- 3.3.2 Principal improvements required include the provision of central heating, insulation and security improvements, essential structural repairs to a number of property types, and environmental improvements (environmental redesign for parts of the estate). It is anticipated that the works would be undertaken largely over the first five years of the life of a PFI contract.
- 3.3.3 Provision for element and fixture replacement such as kitchen and bathroom upgrading, rewiring and re-roofing will be required, on a programmed basis over the remaining 25 years of a proposed 30 year investment need profile. The total refurbishment needs for the estate (which represents approximately 3.5% of the Council's total housing stock) are in excess of £45 million but should be compared with the size of the Council's annual capital programme for the whole housing stock which for 1999/2000 has a contract value of approximately £50 million.

### **3.4 Improving Demand for Housing in Swarcliffe**

- 3.4.1 There is a substantial mismatch between housing supply and demand patterns on the estate and an inappropriate dwelling mix which, when combined with perceptions of the area, is leading to continuously reducing demand for housing in the area, stagnant house prices and signs of significant decline .
- 3.4.2 The Model of Area Demand referred to above has identified the Swarcliffe area as being in significant decline, manifested in rapidly falling demand for housing, significantly higher than average numbers of empty homes, very high stock turnover in multi-storey flats and maisonettes, and a deteriorating reputation.
- 3.4.3 Analysis undertaken by DTZ (See Appendix E) has identified a disproportionate amount of multi-storey flats and maisonettes in the area, both of which are largely unpopular. This is reflected in the fact that 88.5% of empty homes are either multi-storey flats or maisonettes located around the Whinmoor Way area. This, in turn, is affecting wider demand patterns for housing in the area, as families are deterred from applying to move there by a fear of being allocated a maisonette or multi-storey flat.
- 3.4.4 Demand has also been affected by overall images of the area acting as manifestations of what people see as the characteristics of a declining council housing estate. The reputation and appearance of the Whinmoor Way area of the estate acts as a severe disincentive to demand for housing in the wider area.
- 3.4.5 There is also evidence of demand from both families and older people being 'choked off'; partly due to the lack of appropriate housing becoming vacant and partly due to the reputation of the area.
- 3.4.6 While there is demand from older people (especially for housing purpose-built for older people), the lack of bungalows and sheltered housing in the area has driven older people requiring or wanting such housing to look outside the area.
- 3.4.7 Houses in general and the family houses in the outer parts of the estate are popular but only 'turn over' very slowly. In this way, demand from families has been 'choked' by the lack of vacancies, by the fear of being allocated to a maisonette or multi-storey flat and by the deteriorating reputation of the area. Accordingly, families who may have wanted to live in this part of the area have been forced away either to other areas with available family-size housing or into other housing tenures.
- 3.4.8 The reports from both Banks of the Wear (Appendix D) and DTZ (Appendix E) have indicated there is a stable population and buoyant demand for housing in the outer part of the estate and for houses in general and the potential to attract new demand. There has been a higher level of sales on the estate under the 'Right to Buy' than in many comparable areas and there is also mid-range market housing surrounding the estate which is popular and which acts as a draw for households in the estate itself.
- 3.4.9 However, there is a clear need for substantial refurbishment of housing and for radical remodelling of the estate if the obvious signs of decline are to be arrested and reversed. The PFI project proposed will aim to deliver the comprehensive refurbishment and radical remodelling needed if demand is to be stimulated over the medium and longer term.

## **SECTION 4      CONSULTATION AND COMMITMENT OF SPONSORS AND USERS**

### **4.1      Context of Community Consultation within the Community Plan**

- 4.1.1 The approach taken towards consultation on the PFI bid should be set in the context of the overall approach that the Council takes towards community involvement and consultation. Leeds has a comprehensive Tenant Involvement Strategy that has been described by the Government Office in recent years as 'leading the field'. It is based on principles of democratic accountability using ballots and elections at local level which give tenants access to funding, information, training and the decision-making process. 23,000 tenants are members of registered groups, and the strategy has been in place since 1993.
- 4.1.2 There is a very active tenant movement in Leeds and there are two tenant management organisations. The two tenants and residents associations operating in the Swarcliffe area have been key partners in the Community Plan Steering Group and will play a major role in the Community Forum and Residents' Panel.

### **4.2      Consultation Programme**

- 4.2.1 A Community Needs Analysis undertaken in the Swarcliffe area in 1994 identified issues regarding attitudes towards the quality of housing and the built environment and of local service provision, some of which remained unresolved at the start of the current consultation process.

4.2.2 The Swarcliffe Community Plan is being forged on the basis of a community consultation exercise led by the local Ward Councillors, supported by Council officers and conducted by independent consultants. The links between the Community Plan and the PFI scheme have been integral, and consultation undertaken has served to support both processes. The Community Consultation Programme has involved four phases:

4.2.3 **Phase 1 (December 1998 - February 1999)** was aimed at collecting baseline data on households living in the area and their views on living in Swarcliffe, Stanks and Manston, along with those of locally-based service providers.

- A newsletter launching the consultation and introducing the consultant team, Banks of the Wear, was issued to all households in December 1998.
- A survey of 400 households living in the area was undertaken by MRUK and analysed by the consultants. It aimed to establish perceptions of the area and what actions would change those perceptions either to make people stay there or to attract people into or back to it.
- Discussions were held with service providers and community organisations in the area to establish their perceptions of service needs and the investment needs of the area.

4.2.4 **Phase 2 (February - May 1999)** aimed to identify the immediate concerns of people living in the area and key issues emerging from the survey.

- A second newsletter, backed by a poster campaign, was issued to all households advertising a range of consultation events.
- An exhibition was prepared for the area and theme-based workshops including a model of the estate were held to enable residents to clearly identify areas about which they were concerned.
- Three 'Drop-in' sessions were held in March and April 1999 in the Manston area south of Barwick Road, the outskirts of the Swarcliffe estate and the area around Whinmoor Way to discuss the concerns of residents in those areas.

A further six 'Drop-in' sessions were held which focused on six themes: the tower blocks, crime and drugs, young people, older people and families, jobs, training and education and transport, traffic, the environment and shopping. Surveys were issued at these workshops seeking views on housing improvement needs and options and recording other issues of concern to residents..

4.2.5 **Phase 3 (June - August 1999)** - was aimed at finalising and solidifying information from the community on their priorities relating to housing improvement, estate facilities and local services

- A leaflet drop and advertising campaign was undertaken to ensure that as many people as possible attended three community consultation events held on 21, 23 and 28 June 1999.
- The three community consultation events/'Drop-in' sessions gave residents the opportunity to examine a display and exhibition outlining various options for redevelopment of the estate and improvements to housing and services, and to discuss these with the consultants and Council officers. Residents were asked to complete surveys on housing improvement and estate redevelopment options, on transport and shopping facilities and on local services. Interest in membership of a Community Forum was also canvassed. Further consultation was also carried out with people most likely to be affected by the various redevelopment options in early July.

4.2.6 **Phase 4 (August 1999 - April 2000)** is focusing on developing action plans relating to housing and service improvement and the formulation of a Community Compact for the area, a central component of which will be a Tenant Compact. First actions will involve establishing a Community Forum, a Residents Panel and Working Groups consisting of Ward Members, service providers and residents organised around the main issues emerging from the consultation programme and reporting to the forum. (See Section 12.4 for details). A copy of the Draft Community Plan is attached as Appendix G.

### 4.3 Support from Ward members

4.3.1 There has been strong and consistent support from the Ward Councillors who represent the Swarcliffe area. A local Ward Councillor has chaired the Steering Group for the Community Plan, while all have provided valuable input to the consultation programme and to developing the options for remodelling and refurbishing the estate. Ward Members will lead the Community Forum and Working Groups.

#### **4.4 Support from stakeholders**

4.4.1 There has been significant support from local stakeholders in the area. Key service providers including Council departments, the Police, health services and the Ridings Housing Association have been active members of the Community Plan Steering group. Service providers have shown their commitment and support by becoming members of a series of Community Plan Working Groups established to consider service issues highlighted by the community. Information is presented below on Community Plan initiatives to date which will complement PFI investment

4.4.2 The Ridings Housing Association submitted a successful application to the Housing Corporation for an Innovation and Good Practice grant to develop proposals for the use of Approved Development Programme (ADP) funds to finance non-housing activity. Ridings are seeking to develop detailed proposals through the working groups to support implementation of the community safety strategy for the area, projects to support older people and young tenants, and the development of a local marketing and promotional strategy.

4.4.3 The Council's Highways Department is consulting on detailed traffic calming proposals formed in response to local concerns and has funding identified to implement these.

4.4.4 Homeowners have been involved through household survey, phase consultation meetings and through the third stage Community Consultation events.

## **SECTION 5 OVERVIEW OF CONTRACT**

### **5.1 Objectives**

5.1.1 The PFI scheme presented in this Outline Business Case needs to be seen within the context of the Council's overall objectives for Swarcliffe, and the development and implementation of a Community Plan for the area. The key objective is to achieve the sustainable regeneration of Swarcliffe by providing homes, an environment and services for current and potential residents across tenures which will keep and attract people into the area

5.1.2 At a city-wide level, the aim of the scheme is to contribute towards securing investment in, and managing the demand for social rented housing in the city. Locally, the aim of the scheme is to secure well-maintained warm homes in an attractive and safe environment to create, in overall terms, an area where people will want to stay throughout their lives.

5.1.3 For the Council housing in the area, this means removing unpopular stock and replacing it with housing for which there is a demand and which provides a mix of tenures. It also means refurbishing the remaining Council housing and improving the external environment of the estate.

5.1.4 The scheme also aims to enable a partnership with the Council's Social Services Department and other housing providers, which could help finance a future option for the re-provision of Eastholme APH and the creating of more appropriate housing opportunities for the older people displaced by the redevelopment.

5.1.5 It is thus intended that the mix of residents will be changed to provide a more harmonious and sustainable community; that the mix of housing will be made more appropriate to housing needs and people's aspirations, and that the opportunities for crime will begin to be designed out of the area.

5.1.6 The PFI contract will provide incentives for the PFI Operator to help achieve these objectives in partnership with the Council, other agencies and the local community.

## 5.2 Contract Outline

5.2.1 Following extensive consultation with residents and potential investors in Swarcliffe, substantial demolition of existing unpopular Council housing will take place. New homes will be re-provided by the private sector, including some replacement social housing where sustainable demand is apparent.

5.2.2 1,781 of the projected 2,730 Council homes will remain and initial architect's drawings indicate that up to 400 new homes could be provided on the 'footprint' of the demolished units. However, the demolished sites will not necessarily be where redevelopment takes place, as the Council's Planning Department has indicated the ability to 'swap' sites within the estate. In this way, the PFI Operator/ other private sector provider can be given the incentive to maximise value and to have its interests geared to improving demand and values in the area.

## 5.3 Services Included in the Contract

5.3.1 While the Council will be responsible for decanting the homes for demolition, the PFI Operator will be responsible for:

- Refurbishing and improving the energy efficiency of the remaining Council homes.
- Managing the repairs and maintenance service.
- Demolishing vacated homes and redeveloping them within the terms of the Council's Output Specification. (These will be set broadly, specifying the amount and mix of the social housing element and requiring mixed tenure re-provision.)
- Grounds maintenance and the caretaking of public open space in the estate.
- Upgrading the external environment, improving defensible space and reducing crime
- Caretaking and cleaning services
- Redeveloping the shopping areas on the estate and the re-provision and management of a small number of shops to serve community needs not covered by nearby major shopping centres.
- Continuing links with the wider community and on-going participation in the Community Plan

## 5.4 Overview of proposed contract terms

### 5.4.1 *Procurement*

At the start of the procurement process, the Council will provide the PFIO bidder with all available technical information pertaining to the property types in the PFI area. The Council shall provide the funding for a stock survey which will be for use as a baseline by PFIO bidders. Information from the survey will be given without prejudicing the Council's risk transfer and will not exonerate the bidders from undertaking their own due diligence and obtaining all other relevant information through their own means.

### 5.4.2 *Demolition and redevelopment*

The Council will prepare a decanting plan for the blocks of flats and maisonettes to be demolished and will be responsible for the phased handover of the vacated blocks to the PFI operator. The Council will specify the number and mix of social housing to be re-provided and the timescale from the handover to demolition and subsequent completion of the redevelopment.

The PFI Operator will be responsible for demolition of the stock but the Council will meet the cost of tenant and homeowner compensation payments. Prior to appointment, the preferred bidder will prepare a master plan for the redevelopment in consultation with the Council's Planning Department, and will be responsible for seeking all detailed planning permissions, road and footpath closures etc.,



for the redevelopment. The PFI Operator will be responsible for securing the redevelopment according to the Council's requirement.

#### 5.4.3 *Refurbishment*

The PFI operator, working with the Council and residents, will be expected to invest in refurbishing the remaining Council housing stock and designing out crime/ improving community safety through external environmental works. Expressed in output terms, works must be undertaken to a specified timetable and delivery plan and are expected to include the standards outlined in the Output Specification contained in Section 6.

#### 5.4.4 *Service Commencement and the Refurbishment Phase*

Only when all retained Council homes have attained the Output Specification will 100% of the unitary charge be paid for the service. Moreover, demolition and the redevelopment of transferred decanted units/ blocks will be set out in an agreed plan and late delivery will be penalised.

It will take time for the PFI Operator to complete the refurbishment works, consequently at contract commencement the PFI Operator will be unable to meet the full Output Specification, but service standards must not fall below current levels. We propose providing the PFI Operator with an incentive to meet the full Output Specification by setting payment in this refurbishment phase at rates that do not fully cover the full pre-refurbishment maintenance costs. Additionally, as the PFI Operator will be penalised for not meeting the refurbishment delivery timetable and plan and the PFI Operator would benefit from expeditious refurbishment by earning the full payment, achieving the lower post-refurbishment maintenance costs and avoiding late delivery penalties.

and The Output Specification sets out the required performance standards in terms of on-going services the maintenance of standards throughout the contract term. Incentives/penalties for achieving specified service standards together with rectification procedures for dealing with services that fall below acceptable levels will be included in the contract.

PFI Tenant and resident representatives will be involved in setting the Output Specification and selecting the successful contractor, and will be included as partners in contract monitoring arrangements. It is envisaged that tenant satisfaction will be included in the performance standards and targets that the provider will need to achieve.

#### 5.4.5 *End of Contract*

there The stock that will be transferred back to the Council at the end of the contract must be in a good state and appropriate for letting to tenants. Towards the end of the contract (perhaps five years before), there will be a joint inspection of the properties and a schedule of further refurbishment works agreed. This will be based on the replacement of building elements that have either reached the end of their useful life or are estimated to do so before the end of the contract.

Appropriate parts of the unitary charge will be set aside equivalent to the value of these works, and at the end of the contract these will only be released to the PFIO if it is agreed that necessary works have been completed.

The cost of outstanding works will be retained by the Council as compensation. This will remove from the Council the risk of needing to renew worn-out elements, and will place this cost/risk with the PFIO. However, the Council will still carry the downstream risk that the renewed elements will need subsequent renewal before their expected life has expired.

## **SECTION 6      OUTPUT SPECIFICATION**

### **6.1      Introduction**

The Output Specification establishes the contract performance standards required to create a popular and attractive estate, including the refurbishment of the homes on the estate. The Output Specification will be developed further by reference to TTF Guidelines and Standards and the standards set by the Housing Corporation, setting details of the services and performance measures as appropriate.

### **6.2      Contract Performance Standards**

#### *6.2.1      Overall Objective*

The overall objective of the project is to create a popular and attractive estate. Therefore, the performance standards set will cover the improvement of thermal performance and the building envelope, the provision of affordable, comfortable, draught-free and healthy living environments for the tenants, improved community safety through the designing out of crime and the improvement of the general appearance of the estate.

#### *6.2.2      Building Envelope*

The building envelope shall resist the passage of moisture to the interior, and shall be maintained, wind- and weather-tight with components being replaced on a life cycle basis. The PFI Operator shall comply fully with all relevant requirements of the Council's Planning Department.

#### *6.2.3      Thermal Performance*

Thermal performance of the dwellings shall be improved to a level of affordable warmth (expressed as maintaining a standard internal warmth within specified energy consumption levels). This will be achieved by the installation of central heating and an appropriately-insulated building envelope (expressed in performance and energy efficiency terms), whilst achieving ventilation levels to meet modern standards.

#### *6.2.4      Kitchens and Bathrooms*

Kitchen and bathrooms shall be provided to modern standards, attaining as a minimum the ten point standard with adequate water, lighting and ventilation provision to meet accepted standards set by the Housing Corporation for Registered Social Landlords.

#### 6.2.5 *Building Services*

Building services shall be brought up to and maintained in a safe modern standard, meeting residents requirements and satisfying all related health and safety legislation.

#### 6.2.6 *Structural Integrity*

All retained properties shall be brought into, and kept maintained in, a good state of structural repair to ensure the long-term safety of the residents as well as the integrity of the structure to satisfy all relevant legislation. The properties shall be repaired to provide a minimum 30-year life.

#### 6.2.7 *Security for Residents*

Reduction of crime on the estate is a strategic objective of the contract. This will be achieved through design measures to meet defensible space criteria (to be agreed and defined after further tenant consultation, discussions with crime prevention officers and review of contractor's proposals), as well as contractor proposals for direct measures, i.e. security systems, guards etc. Individual properties shall be capable of being secured for the protection and safety of occupants to satisfy relevant industry standards.

#### 6.2.8 *On-going Maintenance to Dwellings*

The PFI Operator will maintain the dwellings to RSL/Housing Corporation standards, or other industry standards, in accordance with good practice and measured against set performance criteria (response times, programme, availability of service, quality etc.). Properties shall be maintained in a lettable condition and with due regard to the fitness standards and the Council's Statutory obligations and policies.

#### 6.2.9 *Environmental Improvements*

The layout and access facilities of the Estate shall be reviewed by the PFI Operator and adapted to meet the needs of modern living, particularly improved car access and parking.

A strategic objective will be to create vehicular access to the front or rear of all properties where economically or physically viable, including redesign of the existing 'Radburn' layouts. Increased off-street car parking shall be provided in close proximity to, and be visible from, individual dwellings. Where visible parking is not achievable due to existing constraints, and the PFI Operator demonstrates same to the satisfaction of the Council and residents, protected parking shall be provided.

Street level pedestrian access to shops should be provided, including removal of the existing underpass and implementation of pedestrian road safety measures as appropriate.

#### 6.2.10 *Maintaining the Estate*

Regular and appropriate preventive planned maintenance shall be carried out to ensure the estate, including open common areas, presents an acceptable standard of appearance and is functional, safe to users, clean and in good state of repair.

#### 6.2.11 *Interior of Dwellings*

The interior of the dwellings shall be maintained in a lettable condition. Current Council practice offers the tenant incentives to decorate their property at commencement of their term, and this mechanism will remain. The PFI Operator would be responsible for providing property in good habitable condition ready for simple decoration by tenants following void turnaround or after refurbishment/repair work.

#### 6.2.12 *Property Curtilage*

The PFI Operator shall ensure that dwelling boundaries are correctly demarcated and fenced incorporating access gates.

#### 6.2.13 *Utilities and Other Underground Services*

The PFI Operator is responsible for ensuring that all current and necessary utilities and underground services are provided and operable.

### 6.3 **Asset Register and Condition Survey**

The Council will fund a stock condition survey as part of the procurement phase (See Para 5.4.1). This will then in turn provide a register of assets. The PFI Operator will be responsible for maintaining the register of assets under the terms of the contract. Mechanisms shall be included to establish necessary works that shall be carried out by the PFI Operator prior to return of the stock to the Council. (The contractual terms relating to this are outlined in para. 5.4.5).

## **6.4 Quality Standards**

Acceptable quality standards will be set with reference to industry-recognised standards as well as benchmarking against other social housing providers. The Council will provide details of previous satisfactory specifications as a guide for the PFI Operator. Contractor proposals of a proprietary product will be expected to incorporate warranties in respect of their performance that should, where appropriate, extend beyond the contract expiry date.

## **6.5 Project Delivery Programme**

Prior to signing a contract and as part of the Invitation To Negotiate (ITN), the PFI Operator shall submit a refurbishment programme and an on-going plan for maintaining the stock. This shall be based upon the stock survey and consultation with residents and the Council. It will establish priorities for work items, phasing of improvements, milestones for completion of works in each area (or property type) and other timetabling issues. The PFI Operator will be expected to undertake all necessary refurbishments as identified by the stock survey within the first five years of the programme. The demolition programme shall be linked to, and run in parallel with, the refurbishment programme, the PFI Operator assisting with the decanting of the tenants by refurbishing to meet the project needs.

## **6.6 Redevelopment Sites**

There is potential for new housing to be procured by the PFI Operator on the basis of the Council's requirements for a mix of type and tenure of housing and in line with planning requirements.

## **6.7 Shops**

The PFI Operator will be required to ensure an appropriate (re)provision of shopping facilities on the estate. These might include a Post Office, a chemist, a general store with fresh food, and take-away food outlets.

## **6.8 Community safety**

The PFI Operator will be responsible for upgrading the external environment and in particular for improving defensible space and the reduction of crime through improvements to the 'Radburn' layout of the estate and through providing safer car parking areas. The Council will establish a Community Safety Strategy for the area which the Council is co-ordinating and which will also have contributions from other service providers such as the police, the Social Services Department and Ridings Housing Association. This will be part of the Community Plan and will identify an appropriate contribution from the PFI Operator. The Council will also contribute to reducing car crime and improving safety through installing traffic calming measures.

A timescale for achieving the standard in relation to community safety will be one component of the programme for achieving availability of the service. Targets will be set for crime reduction and security improvement which the contractor's design and security proposals will be expected to achieve, and there will be penalties for non-compliance.

## **6.9 Payment mechanism and Performance Management**

### **6.9.1 Payment Mechanism**

The penalty point system will be applied to each aspect of service provision identified in the output specification, and points will be deducted both within and across service areas. Where service standards are not met within a single service and penalty points are deducted, these will be directly linked to deductions from the unitary payment. Where service standards across service areas are not met and penalty points are deducted these will be multiplied to recognise the effect that a continuation

of factors can have on the quality of life on an estate. The Council will expect all of the unitary payments to be at risk if the service is unavailable. Performance measures will relate to the following aspects of the service.

### **6.9.2 Performance Management**

Key Performance Indicators will be established to measure and track the performance of the PFI Operator together with measures of the corrective action necessary in the event of output failure. Periodic benchmarking exercises would be introduced against approved external organisations such as the Housing Corporation and other RSLs to measure best value. The PFI Operator will be expected to set up, maintain and operate a computerised management system in this regard, possibly linked to existing Council systems, and shall enable monitoring of the PFI Operator's performance by the Council.

The key aims, objectives and strategic outputs of the contract are outlined in Section 2 and the Contract Overview in Section 5. Standards in relation to improvements to the building fabric and facilities are outlined above (Paras 6.2.1 to 6.2.13) The required performance standards will be detailed in the Output Specification and the Contract Terms Document. Further development of standards will be based upon TTF and Housing Corporation Guidelines and Standards and will incorporate the principles of Best Value, continuous improvement and benchmarking to clearly-defined independent standards over the life of the contract. The measurement of the PFI Operator will be as identified in the following paragraphs:

### **6.9.3 Availability**

The PFI Operator will prepare a programme for delivery of properties to the standard set by the Output Specification. The programme will specify a timetable for:

- handover of properties to the contractor for refurbishment
- handover of decanted dwellings and sites to the contractor
- obtaining necessary planning permissions
- redevelopment of sites as set out in the agreed master plan.

The contractor will need to demonstrate that the works carried out comply with all aspects of the Council's specification, and will enable compliance with on-going management, maintenance and service delivery standards.

### **6.9.4 Repairs performance**

The PFI Operator will be required to establish a system for recording reports by tenants of failures to the landlord's fixtures and fittings as defined under the relevant Housing Legislation and the Tenancy Agreement. The contractor will comply with the Council's policies in relation to repairs, repair response times and categorisation of repairs.

The contractor will have a published repairs policy and will ensure that tenants are consulted on repairs policy. It will inform tenants about the policy and procedures used to provide the service. The repairs policy will include target times for emergency, urgent and routine repairs, and a target standard will be set in relation to each category against which performance will be judged and penalties applied for non-compliance. Where the contractor is able to demonstrate that it has not been possible to complete a repair within the target timescale due to circumstances beyond their control, such a repair will not be included in the calculation relating to the payment mechanism.

### **6.9.5 Maintenance standards**

The contractor will have a published plan of future planned preventative maintenance in order to keep properties in a condition which ensures compliance with the standards set in the Output Specification. The plan will be reviewed regularly, including through the use of periodic property surveys, and appropriate action will be taken to ensure that building elements remain serviceable and that the overall appearance of properties is to an acceptable standard. The Council will evaluate the plan and will take view as to whether the contractor is able to meet the specification requirements.

The Council and the contractor will agree a weighting to elements of the plan, to facilitate calculation of the proportion of the plan implemented within the timescale. A minimum and target standard will be set, with penalties for failure to comply.

#### **6.9.6 Repair of empty properties**

Where a vacant property is made available to the PFI Operator for repair prior to reletting, the PFI Operator must ensure it is made compliant with the Output Specification prior to the property's being returned as suitable for reletting.

The PFIO will ensure that the property is available for occupation no longer than 2 weeks after notification by the Council of termination or vacation by the previous tenant. Turnaround times will be 'incentivised'. The PFI Operator will be required to provide detailed analysis of their performance on a quarterly basis in such a way that each individual failure produces a clear audit trail to rectification.

#### **6.9.7 Environmental Services**

Improvement of the estate environment is a vital component in addressing the needs of the estate and includes:

- Grounds maintenance of designated soft landscaped areas within the estate.
- Maintenance and cleaning of hard landscaped and unadopted areas of the estate.

The PFI Operator will be required to manage the open and public space on and around the estate in a manner which ensures a quality environment and contributes to the development of a sustainable community on the estate. For the avoidance of doubt, services in relation to sewers to/on the public highway are not included.

A programme of works to achieve compliance will be agreed as one component of the programme to meet the availability standard and may, in part, be delivered as part of the published planned works programme. Any part of the service being delivered through the planned works programme will be subject to periodic inspection and evaluation for compliance with the agreed programme of work and output specification. Targets will be set for completion of planned work in relation to the programme, and penalties will be incurred for non-compliance.

#### **6.9.8 Tenant involvement**

Tenants will be involved in defining and managing the Output Specification and arrangements will be made for a Residents' Panel to be established, which will report to a Community Forum for the area. The contractor may be required to report directly to the Community Forum and/or the Community Involvement Team in relation to progress, performance and specific issues. The Residents' Panel will provide reports to the Council, which will take into account those reports when making payments to the contractor. The ultimate discretion regarding payment of the unitary charge will remain with the Council.

Targets will be set which ensure the contractor's compliance with standards set out in the Community and Tenant Compacts where such standards relate directly to the service being delivered through the contract, and there will be penalties for non-compliance. The contractor will be expected to put in place suitable procedures for regular feedback on tenant and resident satisfaction in relation to delivery of each aspect of the service. Performance standards in relation to tenant satisfaction will be agreed and penalties incurred for failure to achieve the target standards.

#### **6.9.9 Customer Care**

would A key element of the performance standards expected from the PFI Operator is customer care. It be expected that a survey would be undertaken to provide a benchmark against which to measure performance of the PFIO

## SECTION 7 OPTIONS APPRAISAL

### 7.1 Introduction/General Aims

The overall aims of the project are outlined in Section 2 and in the Contract Overview presented in Section 5. The aims of the options appraisal process undertaken were:-

- To assess the remodelling and refurbishment options in order to ensure sustainable improvements, reduce unpopular housing, deliver a safer and more attractive environment and secure demand growth over the medium and longer terms.
- To ensure that the option chosen reflected the wishes of the local community and Council members
- To appraise the options in order to assess which option was the most affordable and offered the best value for money.

### 7.2 Option Appraisal Summary

7.2.1 The approach taken considered a range of options combining various permutations of demolition and stock retention along with refurbishment and new provision activity.

7.2.2 **Option A** involved the demolition of 615 flats in 8 MSF blocks, 168 maisonettes and 100 walk up flats. Three multi-storey blocks (Sherburn Court, Elmet Towers and Manston Towers) would be retained and the remaining stock would be comprehensively refurbished. There would be re-provision through RSLs and private building.

This option received the support of around a quarter of the local community and would have retained housing used by and popular with older people. The option had high borrowing costs, and while it met the objectives set by the Council it was decided that Option E gave more scope for achieving a better supply mix.

7.2.3 **Option B** involved the demolition of 642 flats in 8 MSF blocks, 168 maisonettes, 100 walk up flats and 6 flats over garages. This would retain the three 'Cook' blocks of flats (Swarcliffe Towers, Elmet Towers and Manston Towers). Again, the remaining stock would be comprehensively refurbished, and there would be some re-provision through RSLs and private building.

This would have secured a radical transformation by removing all multi-storey blocks from the Whinmoor Way 'corridor' and would, as with all the options, have secured comprehensive refurbishment. This was rejected on a number of grounds. Local Council Members expressed substantial concern about the loss of Sherburn Court and consultation with its older residents indicated

significant resistance and unease about demolition. This option did not have a high level of general community support and had very high borrowing costs.

- 7.2.4 **Option C** involved the demolition of all blocks of Multi-Storey Flats, 168 maisonettes, 100 walk up flats and 6 flats over garages – 1,096 in all. Again, the remaining stock would be comprehensively refurbished and there would be some re-provision through RSLs and private building.

This option had the support of between a third and half of local residents, and was the most affordable of all the options. It would have secured a radical transformation of the area and would have achieved the desired mix of dwellings. However, there were significant concerns from Ward Members and local residents in terms of the impact on the older people living in Sherburn Court and Elmet Towers, and in relation to the extent of the housing being lost and the future ability to meet demand. Accordingly, this option was rejected.

- 7.2.5 **Option D** involved the demolition of 615 flats in 8 MSF blocks, 168 maisonettes, 36 walk-up flats and 6 flats over garages. This would have retained three multi-storey blocks (Sherburn Court, Elmet Towers and Manston Towers) but would also have kept more Wimpey 'walk-up' flats. Under this option, less of the remaining stock would be comprehensively refurbished, as the retained multi-storey flats would have been kept outside the PFI bid relying instead on refurbishment through the HRA. There would have been the same re-provision through RSLs and private building as with other options.

This option reflected concerns about the scope for meeting short and medium-term demand, and in relation to the disturbance of rehousing the residents of the flats and maisonettes earmarked for demolition. It was rejected on the grounds that the borrowing costs were too high, that there was doubt over long-term demand for the retained flats and because of concerns from Ward Members and residents over a potentially lower level of refurbishment for the retained flats.

- 7.2.6 **Option E** involved the demolition of 675 flats in 9 MSF blocks, 168 maisonettes, 100 walk up flats and 6 flats over garages. It would retain and refurbish two multi-storey blocks (Sherburn Court, which would be designated as Category 2 Sheltered housing, and Elmet Towers, which could be designated as Category 1 sheltered housing or targeted towards 'mature' residents). Again, as with other options, the remaining stock would be comprehensively refurbished.

Land created through the demolition of two blocks of multi-storey flats could be fed into a joint venture with the Council's Social Services Department that could help finance a future option for the re-provision of Eastholme APH and the creation of more appropriate housing opportunities for the older people displaced by the redevelopment. This could enable RSLs to build bungalows on the site of the APH and provide an 'extra care' housing scheme on the 'footprints' of Swarcliffe Towers, Manston Towers and a site between those blocks owned by the Education Department.

This option commanded the support of local residents and Ward Members, achieved the radical transformation envisaged and the comprehensive refurbishment of retained stock required, and gave scope for creating the mix of housing (especially for older people) that was intended to draw back demand. The costs were also affordable.

### 7.3 Chosen option - redevelopment and refurbishment

- 7.3.1 Following the in-depth and prolonged consultation and analysis referred to above, it was decided that Option E would most effectively enable the Council's objectives to be met and provide value for money.

### 7.4 Appraisal Methodology

- 7.4.1 Appraisal of options for redevelopment and refurbishment of the estate was based upon a combination of factors:

- Consultation with local residents
- Consultation with, and input from, local Council Members



- Consultation with the Community Planning Steering Group and with local service providers, especially managers and staff at the local Neighbourhood Housing Office.
- Use of independent consultancy to establish non-financial costs and benefits,
- Financial modelling

#### 7.4.2 *Consultation*

Effective, representative and robust consultation with local residents, with Ward Councillors and with service providers in the area has helped identify the elements of the proposed programme for refurbishing and re-modelling the estate presented below. This was organised through the consultation programme outlined in Section 4. Follow up consultation was also held with residents of the multi-storey blocks of flats, maisonettes and walk-up flats that were most affected by the various options.

#### 7.4.3 *Consultation with and input from local Council Members*

Potential redevelopment options have been fully discussed with the Ward Members representing the area in order to obtain their support and to enable them to feed the views of their constituents into decisions regarding demolition and redevelopment and priorities for refurbishment.

#### 7.4.4 *Consultation with the Community Planning Steering Group and local service agencies*

Consultation with the managers and staff at the Neighbourhood Housing Office obtained views in relation to the likely impact of various options on local demand, rehousing and management. Consultation with the Community Planning Steering Group (which included representatives of the local tenants' associations) added further local views on the options.

#### 7.4.5 *Appraisal of non-financial costs and benefits*

The Housing Services Department engaged consultants (David Bishop Associates) to appraise the options presented with regard to:

- a) quantifiable non-monetary costs (such as disruption to the estate, lost homes, housing decants and rehousing issues) and benefits (such as improved housing stock, a better match of homes to needs/demand, a net increase in jobs and training places, affordable warmth, improved environment, secure children's play provision and better shopping facilities)
- b) unquantifiable non-monetary costs (such as the impact on local schools and local businesses) and benefits (such as an improved estate layout, improved appearance reduced stigma, improved transport and improvements to services gained through the Community Plan).

#### 7.4.6 *Financial modelling*

The Council used the DETR's model and the '4P's' 'tool-kit' and financial model in preparing this Outline Business Case and to test whether PFI remained the most financially viable option. The Housing Services Department has also built up its own financial models to assess the wider impact on the HRA of undertaking the PFI contract. These models also enabled the financial implications of the project on the rest of the Swarcliffe area, the remainder of the HRA and on the General Fund to be quantified.

## 7.5 **Option Comparison**

The options were based upon the methodology identified above and were then compared against the financial objectives of affordability and value for money and the main qualitative objectives identified in Section 2, namely:

- To address problems of poor housing condition in Swarcliffe
- To create a safe and secure environment
- To undertake environmental remodelling to improve the appearance and amenities of the area
- To boost current and longer-term housing demand in the area
- To remove unpopular stock and to replace it with housing for which there is a demand
- To create a better mix of housing and residents and a more harmonious and sustainable community
- To adopt a PFI solution as a central part of a Community Plan for the area aimed at the physical, social and economic regeneration of the area.

The comparison of these options is shown in the table on page 27.

Comparison of Options

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## **SECTION 8      RISK TRANSFER AND ACCOUNTING ISSUES**

### **8.1      Risk Profile**

It is only by entering into a contract that provides a wider range of services than the immediate improvement and repair of properties that the Council will be able to demonstrate an acceptable element of risk transfer. Transfer of risk to the private sector is critical if the scheme is to be approved. In particular it is necessary to demonstrate that, under the Accounting Standards Board's requirements in applying FRS5 to the contract, the "asset" is on the PFI Operator's balance sheet, not the Council's.

The key risk transfer areas currently being considered in relation to contractual terms are set out in some detail in the risk matrix included at the end of this Section of the OBC, but, in summary, the PFI Operator will be expected to carry the following risks:

- Design and construction;
- Land sales receipts meeting estimates;
- Operating costs, covering repair and maintenance and some other housing management functions;
- Keeping homes "available", i.e. providing output-specified facilities and amenities and providing services to specified minimum standards;
- Achieving incentive payments to estimated levels; and
- Securing an attractive Estate environment and tenant satisfaction.

### **8.2      Risk Carry**

To help gauge the public sector's value for money from the contract, we must value the risks that would be retained by the public sector under the HRA full improvement Public Sector Comparator (PSC) but would be transferred to the private sector under the PFI proposal. The value of these risks is then added to the cost of the HRA PSC in the value for money assessment described in Section 9. The risks involved are:

- Refurbishment costs
- Maintenance costs; and
- Land Sales receipts.

The quantified analysis and underpinning assumptions are shown at Appendix C4. It has been based upon a three-point estimate of each component assuming that they are independent. The amount of risk carried by the PSC is some £3.076 million and this is taken into account in the Value for Money assessment in the next Section.

An estimate of the value of the risks to be transferred to the private sector will be submitted by the end of September 1999.

### 8.3 FRS5 and Accounting Issues

The following presents a matrix of risk transfer assessing non-separable services associated with the property under the Government's Financial Reporting Standard No. 5 (FRS5).

#### FRS5 Assessment - 1. Qualitative Indicators

Feature	Proposed Terms	Comments
<b>Termination for Operator default</b>	The intention is to use standard TTF terms so that there will not be any guarantee that lenders will be paid out in the event of such termination.	The evidence is that the property is an asset of the Operator.
<b>Nature of the Property</b>	The PFIO will determine the nature of the refurbishment within the constraints of the Output Specification. While these constraints will include not demolishing and rebuilding the homes, the PFIO has a high degree of freedom in determining the nature and phasing of the refurbishment works.	The evidence is that the property is an asset of the Operator.
<b>Nature of the Operator's finance</b>	Early discussions with prospective bidders indicate that equity or subordinated finance will be part of the overall finance structure	The degree of equity finance needs to be further explored, but at this stage there is no evidence that the property is an asset of the purchaser.

Overall, the evidence is that the property is likely to be on the Operator's balance sheet and not the Council's.

#### FRS5 Risk Assessment - 2 Quantitative Indicators

Risk	Significance	Allocated to			Comments
		Council	PFIO	Shared	
<b>Demand</b>	Low	X			<p>In the short to medium term, the removal of the unpopular stock that is blighting the estate, together with refurbishment works to the remainder, will secure the popularity of the remaining Council-owned housing, in which there is already low turnover. There are currently 27 voids in the stock to be retained or 1.5%. Therefore the level of empty homes would become similar to popular green belt or suburban areas with high demand and there would be a significant excess of demand over supply of vacancies. Right To Buy activity may increase in the retained stock, which already has seen sales activity higher than the city average.</p> <p>In the longer term there is evidence in DTZ's report that housing demand in East Leeds is likely to remain stable or improve as a result of population and household growth projections and local economic development.</p> <p>In the future the Council will use a number of tools to manage demand for social housing and to guide investment decisions. The Council's Investment Strategy incorporates an approach to geographical targeting whereby investment decisions and needs are continuously reviewed in the light of stock investment costs, patterns of housing demand and social trends to establish viability and value for money.</p>

			Flexible use will continue to be made of the Council's allocations policy to manage fluctuations and variations in demand coupled with the promotion and marketing of empty housing.		
Risk	Significance	Allocated to			Comments
		Council	PFIO	Shared	
<b>Demand (Continued)</b>	Low	X			<p>The Council's Investment and Asset Management strategy will determine, in the unlikely event of a severe collapse in demand for social housing, whether to adopt action to reduce the stock of housing for which there is no demand or to maintain and/or protect investment in areas of high demand. The Council's policies accept that this may mean restricting investment in low demand areas to demolition and essential repairs to protect remaining tenants, while long term plans are made in the context of the overall investment strategy. Allocations policy will again be used flexibly to support the Investment and Asset Management strategies and efficiently manage that demand which does exist.</p> <p>For Swarcliffe these policies and strategies have long term implications. Within the proposed PFI contract, the Estate's stock will be "available", meaning that it will be well maintained in an attractive environment. These benefits will be maintained for the duration of the PFI contact without the Council needing to invest in the Estate other than to pay the contractually committed PFI charge. In overall value for money and asset management terms, therefore, any significant fall in social housing demand in the wider East Leeds area will be managed within these policies.</p> <p>Taken together with the fact that after the demolitions have taken place, Swarcliffe's stock will be less than 3% of the Council's total, the extent of demand risk is negligible.</p>
<b>Third Party revenue - land sales (including shop areas)</b>	High		X		<p>The PFIO will have decanted blocks handed over to it and will have responsibility for their demolition. The PFIO will negotiate with the Planning Department to agree an equivalent area of land for housing development. The PFIO will then either develop the land itself or else dispose of it for redevelopment, retaining any surplus receipts.</p>
<b>Nature of the Property</b>	High		X		<p>The PFIO will determine the nature of the refurbishment within the constraints of the Output Specification. While those constraints will involve not demolishing and rebuilding the homes, the PFIO has a high degree of freedom in determining the nature and phasing of the refurbishment works.</p>

FRS5 Risk Assessment - 2 Quantitative Indicators

Risk	Significance	Allocated to			Comments
		Council	PFIO	Shared	
<b>Penalties for under-performance (continued)</b>	High		X		<p>The PFIO's performance will be measured and rewarded /penalised on a range of housing repair and management factors, including void turnaround and tenant satisfaction. The intention is to set the extent of such incentives/penalties in line with the current Contract Structure Test (i.e. 20% of expected performance being at risk).</p> <p>The PFIO is also at risk in the refurbishment and operational phases through non-availability of the refurbished stock to specified performance standards. The non-availability of the improved heating/thermal performance for sustained periods would also be penalised to compensate the Council for loss of the improved rental income.</p> <p>The PFIO will be responsible for re-servicing void properties within specified timescales. Rent losses for late availability will be penalised, while faster turnaround will provide an incentive based on the additional rent income.</p>
<b>Changes in costs - Repair and Maintenance</b>	High		X		<p>The risk of cost increases stemming from inflation or building element failure or deterioration is the PFIO's risk. The cost of repair and maintenance after initial refurbishment is also the PFIO's and the quality of the refurbishment will have a significant bearing upon it. Completing repairs to specified timescales will be included in the performance incentive/penalty regime.</p>
<b>Changes in costs - Caretaking &amp; Security</b>	Low		X		<p>The extent to which on-going revenue costs are incurred will be highly dependent upon the design of the refurbishment work, in particular the redesign of the Radburn layout areas. These costs are the PFIO's risk. Vacant block security costs will be the PFIO's risk following handover by the Council.</p>
<b>Changes in costs - Tenancy management</b>	Low	X			<p>The cost of tenancy management in the remaining stock is already relatively low. Some minor savings may arise as a result of reduced complaints in respect of disrepair and reduced lettings following improved popularity on refurbishment and removal of the unpopular housing stock.</p>

**FRS5 Risk Assessment - 2 Quantitative Indicators**

Risk	Significance	Allocated to			Comments
		Council	PFIO	Shared	
<b>Residual Value Risk</b>	High	X			<p>The residual value risk will be the Council's, as the stock will revert to the Council's control once the contract has terminated. The risk will be assessed on the basis of likely variations in the Existing Use Value – Social Housing, to be used for the Council's balance sheet under Resource Accounting.</p> <p>To help restrain this risk and to ensure that the stock that will revert to the Council at the end of the contract is in a good state and appropriate for letting to tenants, the following measures will be taken.</p> <p>Towards the end of the contract (perhaps five years before) there will be a joint inspection of the properties and a schedule of further refurbishment works agreed. This will be based on the replacement of building elements that have either reached the end of their useful life or that are estimated to do so before the end of the contract.</p> <p>Appropriate parts of the unitary charge will be set aside equivalent to the value of these works, and at the end of the contract these will only be released to the PFIO if it is agreed that necessary works have been completed.</p> <p>The Council will retain the cost of outstanding works as compensation. This will remove from the Council the risk of needing to renew worn-out elements and will put this cost/risk with the PFIO. However, the Council will still carry the downstream risk that the renewed elements will need subsequent renewal before their expected life has expired.</p>
<b>Obsolescence</b>	Not Applicable				

The high-significance property-related risks are primarily with the PFIO, suggesting that the property is on the PFIO's balance sheet, not the Council's.

**8.4 Risk Transfer Matrix**

Activity	Risk	Risk Borne by PFI Contractor	Risk Borne by LA
Land/Property Acquisition - development/sale of decanted blocks	<ul style="list-style-type: none"> <li>Land Value</li> </ul>	⇒ Risk associated with value of land	
Planning Permission	<ul style="list-style-type: none"> <li>Design Not Complying With Planning Requirements</li> </ul>	⇒ Cost of redesign ⇒ Delay in receiving revenue payment if failure to meet programme dates ⇒ Reduced revenue payment for failure to meet programme dates	
	<ul style="list-style-type: none"> <li>Unreasonable Or Vexatious Objections</li> </ul>	⇒ Delay in receiving revenue payment	⇒ Failure to meet programme dates without compensation
Design	<ul style="list-style-type: none"> <li>Costs</li> <li>Poor Interpretation Of Specification</li> </ul>	⇒ Any costs in excess of budget ⇒ Cost of redesign ⇒ Delay in receiving revenue payment if failure to meet programme dates ⇒ Reduced revenue payments/delay in receiving revenue payments associated with failure to comply with Output Specification ⇒ Reduced revenue payment for failure to meet programme dates	
	<ul style="list-style-type: none"> <li>Latent Defects</li> </ul>	⇒ Future remedial costs arising from latent defects in design	
	<ul style="list-style-type: none"> <li>Discriminatory Changes Of Law</li> </ul>		⇒ Failure to meet programme dates and compensation to contractor ⇒ Increased unitary charge
	<ul style="list-style-type: none"> <li>General Changes Of Law</li> </ul>	⇒ Delay in receiving revenue payments if failure to meet programme dates ⇒ Increased costs	⇒ Failure to meet programme dates and possible compensation to contractor ⇒ Possible increased unitary charge
	<ul style="list-style-type: none"> <li>Changes In LA Requirements</li> </ul>		⇒ Failure to meet programme dates without compensation ⇒ Potentially-increased revenue payments if design requirements are more costly
	<ul style="list-style-type: none"> <li>Life Expectancy</li> </ul>	⇒ Cost of future works to prolong life expectancy. ⇒ Reduced revenue payments associated with failure to meet target standards	
Activity	Risk	Risk Borne by PFI Contractor	Risk Borne by LA
Construction/	<ul style="list-style-type: none"> <li>Labour And</li> </ul>	⇒ Any costs in excess of budget	



<b>Refurbishment</b>	<ul style="list-style-type: none"> <li>Materials Costs</li> <li>• Site/Building Conditions</li> <li>• Site Safety and Security</li> </ul>	<ul style="list-style-type: none"> <li>⇒ Any costs in excess of budget</li> <li>⇒ Any costs in excess of budget</li> </ul>	
<b>On Site Period</b>	<ul style="list-style-type: none"> <li>• Project Management</li> </ul>	<ul style="list-style-type: none"> <li>⇒ Delay in receiving revenue payment if failure to meet programme dates</li> <li>⇒ Reduced revenue payment for failure to meet completion dates</li> </ul>	
	<ul style="list-style-type: none"> <li>• Industrial Action (following guidance from TTF)</li> </ul>	<ul style="list-style-type: none"> <li>⇒ Delay in receiving revenue payment if failure to meet programme dates</li> <li>⇒ Reduced revenue payment for failure to meet completion dates</li> </ul>	
	<ul style="list-style-type: none"> <li>• Materials Supply</li> </ul>	<ul style="list-style-type: none"> <li>⇒ Delay in receiving revenue payment if failure to meet programme dates</li> <li>⇒ Reduced revenue payments for failure to meet completion dates</li> <li>⇒ Costs in excess of budget if alternative supply is more costly</li> </ul>	⇒ Failure to meet programme dates without compensation
	<ul style="list-style-type: none"> <li>• Delayed handover Of Buildings To The Contractor</li> </ul>	⇒ Delay in receiving revenue payment if failure to meet programme dates	⇒ Failure to meet programme dates without compensation
	<ul style="list-style-type: none"> <li>• Exceptionally Adverse Weather</li> </ul>	⇒ Delay in receiving revenue payment if failure to meet programme dates	⇒ Failure to meet programme dates without compensation
	<ul style="list-style-type: none"> <li>• Vandalism/Theft Of Materials</li> </ul>	<ul style="list-style-type: none"> <li>⇒ Delay in receiving revenue payment if failure to meet programme dates</li> <li>⇒ Cost of making good/replacement and reduced revenue payment for failure to meet programme dates</li> </ul>	⇒ Failure to meet programme dates without compensation
	<ul style="list-style-type: none"> <li>• Industrial Action By A Supplier, Transporter Or Manufacturer Of Materials</li> </ul>	⇒ Delay in receiving revenue payment if failure to meet programme dates	⇒ Failure to meet programme dates without compensation
<b>Demand</b>	<ul style="list-style-type: none"> <li>• Inability of LA To Provide Tenants</li> </ul>	⇒ Cost of securing properties	⇒ Loss of rental income
	<ul style="list-style-type: none"> <li>• Inability of PFIO To Dispose of Property</li> </ul>	<ul style="list-style-type: none"> <li>⇒ Loss of sales receipt</li> <li>⇒ Reduced revenue payment from LA</li> <li>⇒ Costs of securing properties</li> </ul>	
<b>Activity</b>	<b>Risk</b>	<b>Risk Borne by PFI Contractor</b>	<b>Risk Borne by LA</b>
<b>Finance</b>	<ul style="list-style-type: none"> <li>• Cost Of Finance</li> </ul>	⇒ Cost of finance in excess of	

		budget	
	• Changes In Taxation	⇒ Increases in management/ maintenance costs from changes in taxation	
	• RPI		⇒ Increased revenue payments as inflation increases
<b>Real Cost Increases In On-going Expenditure</b>		⇒ Increases due to deficiencies in original design or specification	⇒ Increases following agreed benchmarking/market testing exercises
<b>Housing Management</b>	• Void Management	⇒ Reduced revenue payments associated with failure to meet target standards ⇒ Compensation to LA for loss of rent	⇒ Loss of rent on properties while vacant ⇒ Loss of allocations and cost of alternative housing
	• Repairs and Maintenance Service	⇒ Reduced revenue payments associated with failure to meet target standards	
	• Grounds Maintenance	⇒ Reduced revenue payments associated with failure to meet target standards	
	• Client/Tenant Satisfaction	⇒ Reduced revenue payments associated with failure to meet target standards	
	• Popularity of Estate	⇒ Reduced revenue payments associated with failure to meet target standards	
	• Right To Buy	⇒ Adjustment to unitary charge to reflect savings from reduction in dwelling numbers	⇒ Loss of rental income (offset by capital receipt and reduced payments)
	• Industrial Action	⇒ Reduced revenue payments associated with failure to meet target standards	
	• Disrepair and Environmental Litigation	⇒ Reduced revenue payments associated with failure to meet target standards ⇒ Compensation to LA for costs stemming from litigation	
	• Vandalism Detailed discussions will be needed at negotiation	⇒ Cost of repair/making good	⇒ Cost of repair/making good
<b>Activity</b>	<b>Risk</b>	<b>Risk Borne by PFI Contractor</b>	<b>Risk Borne by LA</b>
<b>Planned Maintenance/ Cyclical</b>	• Planned Maintenance Costs	⇒ Any costs in excess of budget	

<b>Maintenance</b>			
	<ul style="list-style-type: none"> <li>Planned Maintenance Programme</li> </ul>	⇒ Reduced revenue payment associated with failure to meet target standards	
	<ul style="list-style-type: none"> <li>Latent Defects</li> </ul>	⇒ Costs of remedial action ⇒ Reduced revenue payments associated with failure to meet target standards	
<b>Utilities</b>	<ul style="list-style-type: none"> <li>Costs (Communal Lighting only)</li> </ul>	⇒ Increases in cost of supply in excess of the general rate of inflation	
	<ul style="list-style-type: none"> <li>Continuity Of Supply</li> </ul>	⇒ No risk as anticipate that the supplier would have to compensate for failure	
	<ul style="list-style-type: none"> <li>Failure Of Internal Supply</li> </ul>	⇒ Cost of remedial work ⇒ Decanting costs if failure makes properties unfit for occupation	
<b>Litigation</b>	<ul style="list-style-type: none"> <li>Tenant abuse/vandalism</li> </ul>	⇒ Costs not recovered from tenants	⇒ Cost of litigation and possible compensation to PFIO arising from failure to take effective proceedings for possession.
	<ul style="list-style-type: none"> <li>Environmental Protection Act - property detrimental to health</li> </ul>	⇒ Cost of compensation to tenant and litigation ⇒ Cost of compensation to Council for loss of rent income	⇒ Decant cost ⇒ Loss of use of property

## SECTION 9. FINANCIAL APPRAISAL

### 9.1 Introduction

A financial analysis and appraisal of the various options/routes by which the Council's objectives might be achieved is important for two key reasons:

1. Value for money: the comparison seeks to ensure that the option chosen offers good value for money and compares well with other possible ways of achieving the same objectives. This part of the appraisal examines overall value for money for the public sector.
2. Impact on the Council: it is essential to analyse and understand the impact on the Council of entering into a PFI contract. For housing schemes, this means examining the range of changes that impact upon the HRA over the contract term and beyond, and the ability of the HRA to sustain any adverse effects. This part of the analysis seeks to ask whether the proposed PFI scheme is affordable to the HRA.

## 9.2 Value for money

In considering the value for money offered by PFI schemes, it is normal practice to construct a public sector comparator (i.e. the effect of the public sector's undertaking the scheme under 'traditional' methods). The resulting public sector cash flows are then compared with those stemming from the PFI scheme on a net present value basis (to place them on a comparable footing).

Social housing is different. Not only does an existing private finance route already exist, namely voluntary housing transfer (VHT or LSVT), but financial appraisals of voluntary housing transfer involve a more sophisticated financial analysis, including appraisal of a range of public expenditure effects, comparing them with a stock retention comparator. In effect there are two PSCs.

The DETR has developed a financial analysis framework for PFI. It involves a comparison of:

- constrained investment in the HRA using traditional methods – what may be regarded as a the 'do minimum' or base case;
- full investment within the HRA, funded through 'traditional' means, what we have called the HRA Full Investment case;
- full investment funded by the private sector following stock transfer; and
- full investment funded through a PFI contract against Resource Costs and Financial Costs.

The full investment options are also measured against the constrained investment case in order to assess the additional cost of full investment. The measures are 30-year net present values using the public sector discount rate of 6% per annum in real terms.

## 9.3 The Options and Assumptions

Set out below is an outline description of each of the options considered, including the 'do minimum' comparator. The table at para. 9.3.1 sets out the assumptions made under the various scenarios, with accompanying comments on a comparative basis.

Apart from the 'do minimum' option, all options assume the same stock condition outcomes. There are, however, some differences in the assumed relative efficiency of the various providers of the investment and revenue-based services which have been developed with the help of advisors commissioned specifically to undertake a PFI Operators' view of the contract.

### **9.3.2 'Do Minimum'**

This option provides the base case against which other options are assessed in terms of their impact upon the HRA. Initially 2,730 homes remain within the HRA, but the 949 multi-storey flats, maisonettes and walk-up flats identified for demolition under Option E, the preferred option identified through the Community Planning process, and that have become increasingly unpopular, are assumed to be demolished over 15 years. Decanting and demolition costs are involved. The remaining 1,781 homes stay within the Housing Revenue Account, but the Council has limited investment resources available to maintain them in lettable condition. Some essential costs are assumed to be met from capital rather than revenue budgets.

There are limited savings in management stemming from reduced caretaking and security costs as multi-storey blocks are demolished, but 87% of maintenance costs (the building works element) relating to the demolitions is saved.

### **9.3.3 HRA with full investment**

The extent of initial demolitions and refurbishment is set out in Section 7 . The costs of refurbishing the properties remaining has been assessed by the Council, and the details are set out at Appendix C3.

Again Details of savings in management and maintenance costs are set out in the Table above in 9.3.1. limited savings in management are made as the 'people' part of housing management is retained by the Council, although these now extend beyond the 'do minimum' savings to include part of the cost of supervision and administration of repairs. The savings have been assessed from a detailed consideration of the budgets concerned. In this as in all full investment options, we have assumed that there are no reductions in recharges from the General Fund.

As in the PFI case rents are assumed to grow in line with guideline levels together with an increase for improvements in accordance with the Council's policies. This is to increase rents on properties which have benefitted from comprehensive improvement on a sliding scale from £2.50 to £7.00 according to the size or type of property and the scale of improvements. Specific examples of rent increases following improvement are shown in the table below:

Estate	Scheme	Average Rent (before improvement)	Average Rent (after improvement)	Rent Increase Range	Average Rent Increase
Halton Moor	Estate Action	£32.44	£38.92	£5.97 - £6.99	£6.48
Belle Isle North	Estate Action	£32.07	£38.39	£5.97 - £6.99	£6.32

The table shows that increasing rents in Swarcliffe following improvement by an average of £6.30 per week is in line with current policy and reasonable when compared to similar schemes where properties have benefitted from comprehensive improvement. There is room for these rents to be implemented within Rent Rebate Subsidy thresholds, so the HRA benefits fully from them (after void and bad debt losses.)

#### 9.3.4 HRA PFI Contract

The PFI contract itself will bring about charges from the PFI Operator to the HRA, together with PFI subsidy from Central Government. The PFI charge to the HRA has been developed using the 4Ps model, which simply annuitises the PFIO's projected costs.

The notional credit approval (NCA) sought for the scheme is calculated by reference to the Net Present Value (NPV) of the PFI Operator's investment cash flow net of capital receipts stemming from disposal of the demolished units' sites, and amounts to some £17.93 million. Note that the NPV of the PFIO's capital expenditure totals some £27 million; this is offset by more than £9 million of HRA contributions, mainly from the rent increase, to produce the £17.93 million NCA.

FPD Savills has reviewed the investment and on-going maintenance requirements of the stock from a PFIO's perspective. On considering the likely cost efficiencies, they have assessed an average saving in the order of 20%

In order to model the DETR's stated method of delivering PFI subsidy, we have projected the HRA consolidated interest rate over the proposed 30 year contract term. Projected reductions, as a result of new borrowings being at lower rates, produce significant costs and interest rate exposure for the HRA that are carried by Government in General Fund PFI schemes, and will make the long-term consequences of the HRA PFI contracts more difficult to afford.

We have considered changes in the HRA consolidated rate of interest (CRI) over the contract term in our base case, and concluded that these may be minor comprising 0.5% reduction from year 11 onwards. We have undertaken a sensitivity analysis on this projection to test the affordability of the scheme. This has comprised modelling a 2% reduction in the HRA CRI phased in evenly over the contract term. On our base projections, the scheme would need an additional £70,000 of indexed annual savings from within the HRA, should this arise.

The PFI charge to the HRA is calculated using a PFI Operator cost of capital of 7% per annum (p.a.) in real terms and on that basis repays initial investment over the assumed 30-year contract period. That is, the PFI provider's profits are assumed to be included in the cost of capital and investment, management and maintenance budgets. We consider that 7% pa real is appropriate from analysis of the PFI Operator's projected expenditure profile, which involves significant front-loading as homes are brought up to output standard with more modest on-going management and maintenance requirements.

We have nevertheless also considered the consequences of a possible increase of the PFIO's real cost of capital, if the effective discount rate increases from 7% to 8% per annum in real terms. The equivalent indexed annual saving required to offset the increased HRA costs is approximately £80,000 per annum, which will again be contained within the HRA.

As the Council will be retaining 'people based' housing management functions, there will be a range of related costs retained within the HRA, together with of diseconomies of scale on repair and maintenance costs. These cannot be accommodated easily in the DETR model, and must be taken into account separately in comparing Resource Costs between the options. Their NPV amounts to some £15.1 million.

We have assumed that the Government would not provide any extra subsidy to help meet these costs (as is usually the case with the comparable effects of partial housing transfers). We have also assumed that the City Council would not implement further rent increases (with corresponding Housing Benefit costs) to pay for them. These diseconomies must therefore to be contained within the HRA and there is no need to make any adjustments to the Financial Costs calculated by the model.

### 9.3.5 Voluntary housing transfer

Under transfer we have assumed that major building works and on-going maintenance cost the same as under the HRA full investment option. However, we believe that these could well be more than this, reflecting inter alia the ballot offer that would be need to be made to tenants. Overall rents for tenants transferring include the improvement increase that would apply under the HRA improvement option and increase by 2% per annum in real terms. This reflects the RPI +1% per annum regime for rents under transfer and the fact that properties relet to new tenants will have rent levels at approximately 25% above the HRA's. As the improvement rent increase would be phased in - as in the HRA options - this assumption leads to an overstatement of the Tenanted Market Value (TMV) and corresponding understatement of the financial costs.

The transfer option gives a TMV of -£2.1 million using a 8% per annum real discount rate, and +£2.0 million using 6% (calculated within the DETR model and exclusive of VAT).

The same level of HRA diseconomies in maintenance costs arises as in the PFI option, but there are less management costs remaining in the HRA as all management functions are undertaken by the new landlord. We have assessed the remaining HRA cost to be about 50% of Swarcliffe's budget, meaning that approximately £10 million Net Present Value needs adding to the Resource Costs calculated in the DETR model.

## 9.4 Public expenditure comparison and Risk Carry

9.4.1 The public expenditure comparison of the options is shown at Appendix C1. This includes the public expenditure measures as outlined above, and indicates that the PFI option is preferable under each one. The reasons for this are set out briefly below:

- Resource Costs: the outcome is driven by our assumptions of PFI Operator savings on Transfer and HRA Full Investment expenditure and maintenance costs. Note that there are additional Resource Costs of approximately £15.1 million and £9.6 million that should be added to the PFI and Transfer options respectively to ensure comparability with the HRA PSC (Full Investment)
- Financial Costs: the difference between PFI and HRA Full investment is as set out above. For Transfer, although overall rent income increases faster than under the HRA and PFI Options, using a discount rate of 8% per annum in real terms reduces their value.

9.4.2 The public expenditure comparisons noted above have yet to be adjusted for public sector risk carry in the HRA PSC/full investment option. This analysis is set out at Section 8 and in Appendix C4. It adds some £3.076 million to the HRA PSC.

9.4.3 The table below compares the resource costs and financial costs of all options adjusted to reflect the additional resource costs and the public sector risk carry as outlined above.

Option	Resource Costs NPV	Financial Costs NPV
--------	--------------------	---------------------

	£000	£000
HRA PSC (Full Investment)	61,387	58,011
PFI	53,014	43,000
Transfer	65,814	
- receipt discounted at 8%		60,587
- receipt discounted at 6%		56,474

## 9.5 Affordability

An analysis of the affordability of the PFI Contract options has been undertaken internally and verified by external consultants. This has shown that income streams will support the proposed refurbishment and continuing maintenance of the housing stock remaining following demolition of the unpopular housing. It will not require any subsidising expenditure from other parts of the city through the HRA.

The proposed option will deliver the radical transformation needed to improve the Estate but will require financial and strategic commitment from other service areas under the Community Plan. The table and bar chart in Appendix C2 shows cash balances being generated in the early years of the contract, but offset by losses in later years thus creating a neutral net effect over the term of the contract.

## 9.6 Summary of financial analysis

The financial analysis of the options indicates that the PFI contract is preferable over a range of public expenditure measures. The net effect of the scheme on the HRA over the contract term is neutral and the scheme is therefore considered to be affordable.

The NCA bid is for some £17.93 million, compared with the estimated PFI capital expenditure of some £27 million NPV. The HRA's contribution will come from rent and net economies flowing from the scheme of some £9 million, together with estimated decanting costs of £0.5 million which will also be met by the Council.

A report setting out the full implications for the Council and tenants of entering into the proposed contract has been considered by the Council's Executive Board and the Swarcliffe Steering Group. They have given the proposal their full support.

# SECTION 10. MARKET TESTING

## 10.1 Bankability

10.1.1 As part of the development of the proposed PFI contract terms we have held discussions with a range of prospective PFI participants - building companies, property managers and financiers. These have indicated great interest in the proposition, and a desire to proceed to more in-depth discussions. Indeed the market interest is reinforced by our being contacted by many more interested prospective participants than we have been able to see.

10.1.2 We have provided and discussed papers outlining overall contract objectives, key features and terms, and risk transfer proposals. While there are clearly a number of areas where more detailed discussions and negotiations need to be pursued, a number of major issues have emerged.

1. Transfer of social housing demand risk to the PFI in absolute terms appears to be unacceptable - unsurprisingly, however, risk transfer in relation to the relative popularity of the Estate is more acceptable.
2. Our proposal to retain 'people management' while including 'property management' in the PFI contract has not met with any objections. Indeed some prospective participants - but not RSLs - have welcomed this. Clearly there are areas where people and property management interact, for example in instances of vandalism or tenant abuse, that will need close attention in negotiating contract terms. However, given potential diseconomies of scale in the HRA, and the efficiency of



our tenancy management arrangements, we believe that this division of responsibility will deliver value for money to the City Council.

3. Concern has been expressed about the degree of uncertainty of the need for future on-going major elemental renewals. This underlines the need for thorough and reliable (i.e. P.I.I. - backed) surveys based on a comprehensive understanding of the actual stock to be included in the contract and of how building elements perform under varying maintenance regimes. Research that the DETR has been pursuing recently may help to develop this understanding and to underpin the survey product' that will be required.

10.1.3 We intend to pursue discussions with prospective PFIOs and financiers, and to adopt a flexible and pragmatic approach to developing contract terms within the confines of risk transfer requirements. We consider that this approach together with the market appetite already demonstrated, will secure strong interest and competition from the market.

## **SECTION 11. PROPOSED CONTRACT: KEY TERMS AND CONDITIONS**

### **11.1 Overview**

11.1.1 The Council's Department of Legal Services has considered the content of the main Project Agreement to be drafted for inclusion with the Invitation To Negotiate (ITN) and negotiated with the eventual preferred bidder. The following paragraphs contain an overview of the main terms together with comments on the housing-specific issues which will need to be incorporated.

11.1.2 It can be seen that the terms drawn up are based where possible on the guidance issued by the Treasury Taskforce on Standardisation of PFI Contracts, and it is intended the eventual contract will closely follow that guidance. It should be noted that the Council will continue to have duties/ obligations to its tenants and the Project Agreement will need to reflect those duties and obligations, and ensure appropriate apportioning of risk/responsibility in relation thereto.

### **11.2 Key Terms**

#### **Heads of Terms – General**

1. Definitions/ Interpretation
2. Conditions Precedent
3. Term
4. Representatives and Liaison
5. Information Warranties
6. Service Commencement (to include provisions on late Service Commencement and delays)

7. Design and Construction/Refurbishment
8. Services to be provided (to include provisions/ schedules on Availability, Maintenance, Quality and continuous Improvement/ Best Value), Licence to access land and premises to carry out services.
9. Performance Monitoring
10. Monthly Charge (with schedule to include calculations and payment mechanism)
11. Communication/organisation/co-operation between the parties
12. Variations to Services/Specifications
13. Changes in Law
14. Price Variations
15. Sub-contractors and Employees (to include provisions about TUPE where applicable)
16. Assignment
17. Commercial Rights/Income
18. Change of Control
19. Force Majeure
20. Default and Termination/Compensation on Termination
21. Funder Step In Rights
22. Expiry of Service Period/ Surveys and Inspections/Sinking Fund
23. Information Obligations
24. Indemnities, Guarantees and Contractual Claims
25. Set Off
26. Insurance
27. Confidentiality
28. Intellectual Property Rights
29. Dispute Resolution
30. Authority Rights of Step in

31. Data Protection
32. Public Relations and Publicity
33. Waiver
34. Severability
35. Counterparts
36. Notices
37. Relevant Discharge Terms
38. Governing Law
39. Maladministration
40. Council's Role
41. Contractor's Records
42. Interest on Late Payments
43. Continuing Obligations
44. Liquidated and ascertained damages

### **11.3 Schedules**

- A Output Specification    General  
    Building/demolition  
    Dwelling requirements  
    Service requirements including maintenance to reflect specifications produced
- B Calculation of Unitary Charge/Payment Mechanism /Deductions
- C Connected agreements/Agreed Form Agreements
- D Employees

## 11.4 HRA specific variations

- 11.4.1 **Contractor's management obligations** - The contract provisions will make clear the roles and responsibilities and allocation of risks between the Council and the Contractor. In particular, specific provision will be required to ensure that, whilst the relationship between the Council and its tenants will remain, and the Contractor will effectively be an agent of the Council for those purposes, effective risk transfer is achieved.

In addition, provisions will be inserted to deal with the consequences of tenant management under the provisions of the Housing Act 1985. This may include termination rights depending on the extent of proposed tenant management.

- 11.4.2 **Allocation of tenancies** - The Council has statutory duties in relation to its allocation policies and in relation to homeless allocations, and it is likely therefore that the authority will retain all aspects of decision-making. However, the contract will need to establish clear lines of communication and responsibilities between the parties to enable allocations to be administered properly.
- 11.4.3 **Housing-related policies** - Provisions will need to be inserted in the contract dealing with any other Council policies etc. which currently apply and whether or not they should continue to apply either in the short term or long term, together with any changes to them. Most of those policies will largely have been produced under duties of the authority under the Housing Act, and therefore, again, will need to continue to be applied to the accommodation managed by the eventual contractor.
- 11.4.4 **Consultation** - Provision will be made to ensure continued information provision to tenant representatives and tenant consultation (in particular the new Government proposals for Tenant Participation Compacts), with respective roles and responsibilities made clear.
- 11.4.5 **Tenant Rights** - These include security of tenure, the right to succeed, the right to exchange, the right to compensation for improvements, the right to buy (see below) and the right to repair. The contract will need to ensure these rights are preserved.
- 11.4.6 **Proceedings/litigation** - Consideration needs to be given as to which party will be responsible for taking/defending the following types of proceedings, and allocation of risks for failures/damages etc. awarded in such proceedings:
- possession proceedings to ensure vacant blocks for demolition
  - possession proceedings for breach of tenancy conditions, particularly for estate nuisance or damage to properties;
  - complaints under the Environmental Protection Act;
  - proceedings by tenants for damages for failure to repair etc..
- 11.4.7 **Right to Buy** - Clearly, some properties will already have been purchased. Consideration needs to be given to how to deal with those properties within a new contract and new arrangement, particularly where the Council as landlord has retained responsibility for any aspect of repair, which will especially be the case in relation to flats and maisonettes.

For tenants the right to buy will remain, and a number of properties may be removed from responsibilities under the contract as time progresses. These may become significant and the contract will need to provide for possible adjustments to the contractor's responsibilities, or to adjustments to the Unitary Charge (possibly with or without some form of compensation from the authority). There are knock-on issues such as service charges for those properties which continue to be maintained, and the limited possibility that tenants may wish the Council to repurchase their dwelling.

- 11.4.8 **Treatment of land surplus to requirements** - The contract will detail in what circumstances and under what arrangements any land surplus to requirements will be disposed of to the Contractor. Careful provision will be needed to ensure the disposals are permitted under the Housing Act 1985,

whether falling under the General Consents or requiring specific Secretary of State consent in each case.

## **11.5 Payment Mechanism**

11.5.1 There will be a separate payment mechanism covering the period within which the output specification standards are being reached. Once all properties comply with the standards set by the output Specification, payment in full will commence, subject to the contractor's meeting performance standards and the full services being available. The payment in total will be at risk should the service be unavailable. A scoring system for the payment mechanism will be calculated, setting out incentives and penalties in relation to achievement of service standards and availability. (See Section 6.9 for more detail).

## **11.6 PFI and Best Value**

11.6.1 Concern has been expressed by both local authorities and prospective PFI Operators on changing standards over the long-term. Freezing standards gives some certainty to the PFI Operator but does not reflect the expectation that standards will increase over the medium to long term, if not the short-term.

11.6.2 If standards are set in relation to external benchmarks, for example those set by the Housing Corporation, then this introduces uncertainty for the PFI Operator whilst giving some comfort to the local authority and tenants. The introduction of Best Value in particular raises concerns, as there will be considerable emphasis on achieving improved standards on a continuing basis.

11.6.3 The recent changes to capital finance regulations (SI 1852 1999) appear to offer a potential solution to this dilemma. PFI payments can be profiled in any way that is mutually acceptable to the parties, provided that they do not allow the PFI Operator to pass its risks back to the Council. In particular the regulations allow for re-benchmarking of both payments and standards at specified periods.

There will be tenant and resident representatives on the area Community Forum and its working groups. These will aim to develop and monitor a Community Plan which will ensure that services to the area are delivered in line with Best Value and reflect the priorities expressed by tenants and residents. The Community Plan will be underpinned by Community Best Value Compacts and a Tenant Compact which set out agreed service standards. The Residents' Panel (See 11.5.11 above) will monitor progress of the contract against the Community Plan.

11.6.4 Using this facility would appear to enable Best Value to be achieved within PFI contracts. The contract would allow for periodic (perhaps five-yearly) benchmarking against standards such as those produced by the Housing Corporation. The payment would be indexed against the costs of delivering those standards, benchmarked against the upper quartile (for standards) and lowest quartile (for costs) of RSLs.

## **SECTION 12 PROJECT MANAGEMENT, TIMETABLE AND APPROVAL MECHANISMS**

### **12.1 Project Management**

12.1.1 Up to submission of the Outline Business Case, the project has been managed by a Steering Group chaired by the Head of Finance of the Housing Services Department, who reports to the Director and Senior Management Team of the Housing Services Department. The Steering Group members include:-

- i) Housing Services staff with experience of project and programme management, accounting and financial analysis and appraisal, technical knowledge, estimating experience, management of the service to residents including negotiation of external and internal contracts, performance monitoring, research and analytical skills.
- ii) Legal services staff with experience of preparation of OBCs and PFI procurement.
- iii) Central Financial Services staff with experience of corporate financial issues and of assessing overall costs and benefits to the Council of PFI procurement.

12.1.2 The Steering Group has been advised and assisted by external consultants in relation to the following:-

- 1) Financial analysis, particularly option appraisal and affordability and risk transfer issues
- 2) Analysis of future demand and housing market assessment
- 3) Stock condition update
- 4) Validation of costs
- 5) Consultation with residents on options developed following a community audit
- 6) Some aspects of option appraisal and selection
- 7) Calculation of PFI charge

The Steering Group has also drawn on the experience of other Pathfinders and on the assistance of the '4Ps' in the development of OBC.

12.1.3 Following submission of this OBC and sign-off by the DETR Project Review Group, a Project Board and Team will be established for the procurement period. The Project Board will consist of representatives of the city Council's Senior Management Team and the Chief Officers within the relevant specialist areas associated with a project of this type. Membership will include:

- Executive Director - Community Services Group
- Chief Executive
- Executive Director (Finance)
- Director of Housing Services
- Director of Leeds Development Agency

The Project Board will report to the Executive Board, which has cross-party representation and is the primary decision-making body of the Council.. It will determine the parameters within which the project is delivered and will control project delivery by monitoring progress, costs and quality. It will approve the Output Specification, evaluation criteria and any deviations to the plan, and will oversee each stage of the PFI process up to the awarding of the contract. It will ensure Council Departments respond and fully support the project team, and will promote the project within the Council. It will oversee liaison with Ward Members.

The Board will have a range of delegated powers to take decisions necessary to allow the project momentum to proceed unchecked.

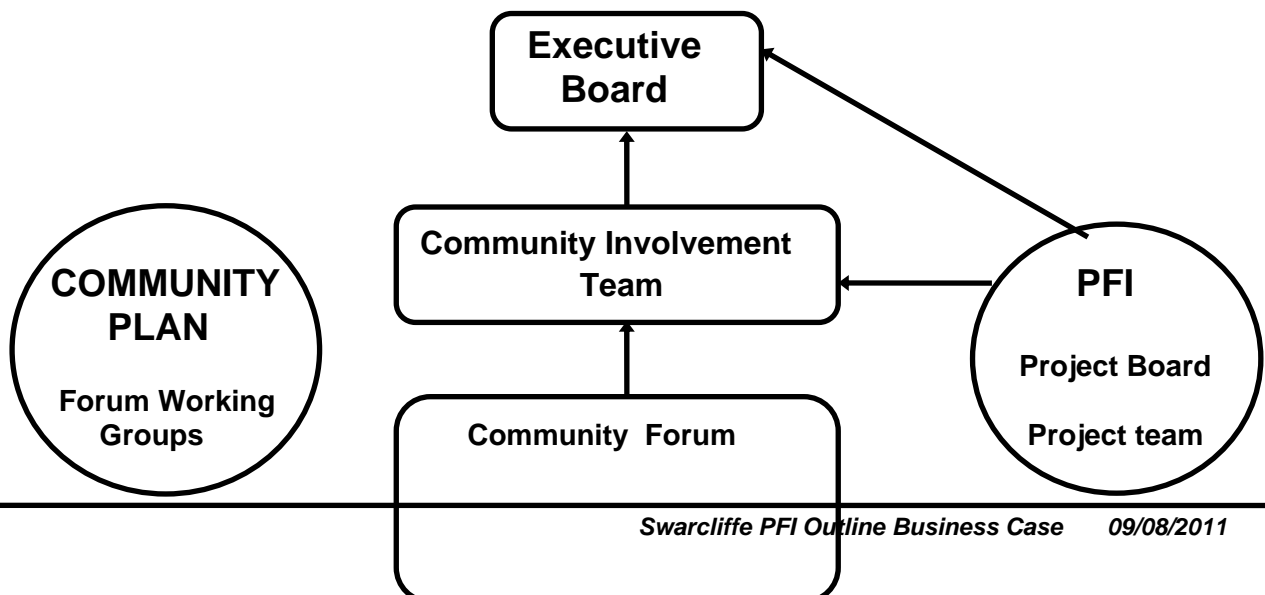
12.1.4 The Project Team will consist of a minimum of seven officers headed by a Project Manager, who have between them expertise, including experience at a senior level, of project management and PFI procurement, design/technical expertise, financial expertise, housing management and service provision, and monitoring performance targets and service standards. It will also include representatives of the community.

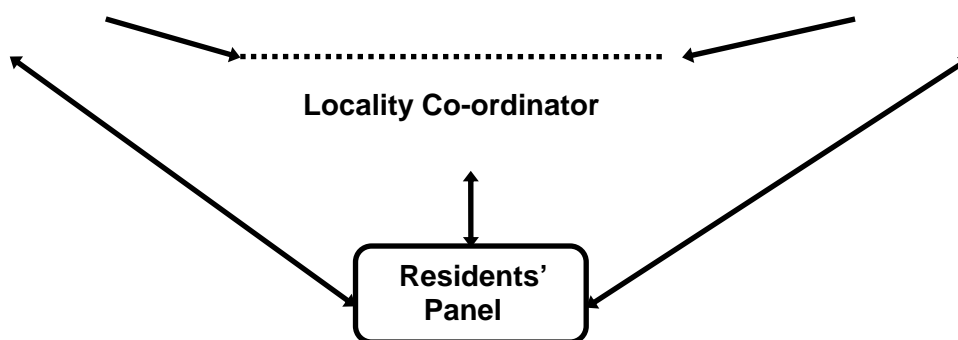
12.1.5 The Team will have overall responsibility for progressing the scheme through the procurement process and for the day-to-day administration of the project and will be responsible for procurement, briefing and liaison with external advisers (legal, financial and technical), consultation with the wider community via the Residents' panel and liaison with the Community Plan Working Groups, the Community Forum, Trades Unions and staff.

The Team will be appointed early in the procurement stage and will continue to work jointly with other Pathfinders to develop good practice to draw on experience of the '4Ps' - particularly during detailed preparation of contract content.

## 12.2 Reporting Structure

The Project will link with the overall political structure of the Council and will be complemented by the delivery structure for the Community Plan. The diagram below describes reporting arrangements:





## 12.3 Budgetary Provision

12.3.1 The Council has identified a budget provision of £700,000 to cover costs incurred for the procurement period in respect of staffing, consultants' (external and internal) fees, information production, advertisements and publicity, planning consents, acquisitions/repurchases/compensation payments, and the costs of Consultation through procurement period. The Council is also prepared to cover, in advance, the costs of a stock condition update which will be used by the selected PFI Operator. These costs will be re-couped as part of the contract costs.

## 12.4 Consultation during the Procurement phase

### 12.4.1 *Swarcliffe Community Forum*

In September 1999 a Community Forum for Swarcliffe will be established, with membership drawn from local residents, Ward Councillors and locally-based service providers. It will have a working group for each of the following service themes identified during earlier consultation with local residents:

- Housing, Environment and Transport
- Community Safety
- Learning, Leisure and Employment
- Services for Young People
- Services for Older People
- Information, Advice and Support
- Marketing and Publicity

The PFI Project Team will liaise with the Housing, Environment and Transport Working Group and will report to the Community Forum. An Action Plan, ensuring Best Value principles are employed, will be developed to ensure a fully-operational Community Plan is in place by April 2000. A copy of the draft Community Plan is attached as Appendix G.

### 12.4.2 *Residents' Panel*

Residents will be recruited to work closely with the Project Team. A Residents' Panel will have substantial involvement in the PFI procurement process, shaping fundamental service reviews in the area and in drawing up the Community/Tenant Compact. The panel will be established following the formal establishment of the Community Forum in September 1999.

## 12.5 Timetable

PRG sign off	October 99
Executive Board - approve procurement commencement and Project Board and Team appointments	November 99

Appoint Project Team	End November 99
Recruitment and induction training for residents' panel	November /December 99
Consultation and involvement of residents' panel	On-going throughout procurement period
Establish pre-information notice in OJEC	End November / early December 99
Develop Planning 'Statement of Support' and/or approve planning briefs	November 99
OJEC notice published	End December 99/Early January 2000
Complete Information Memorandum	End December 99
Open Day	End January 2000
Deadline for receipt of Expressions of Interest and pre-qualification questionnaires	Early March 2000
Interviews and longlist/shortlist	March / April 2000
Complete invitation to negotiate	May 2000
Issue ITN and full contract terms (4 bidders)	June 2000
Commission and receive results from stock condition survey	June - September 2000
Issue clarifications/contractor briefing days	July - August 2000
Receive bids	October 2000
Evaluation / negotiation of bids	November 2000 - January 2001
Seek Best and final offer (2 bidders)	February - April 2001
Select Preferred Bidder	May 2001
Negotiate with Preferred Bidder	May-Aug 2001
Exec Board final approval	Early September 2001
Award and sign contract	Early October 2001
Construction/refurbishment period commences	October 2001
Phased full service commencement	From Spring 2002



Completion of improvements / commencement of full service	By April 2007
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A Critical Path Analysis of this timetable is shown below at 12.6.

**Critical Path Analysis**

## Critical Path Analysis

## **12.7 Approval mechanism**

### *12.7.1 Statutory processes*

A number of sites have been identified for potential redevelopment. It is intended that these will be handed over to the PFI Operator on a phased basis once the tenants have been rehoused. This will take place during years 1 - 5 of the contract.

There are also open space areas, garage and shop sites which have development potential and which the PFI Operator will be responsible for maintaining. Discussions held with the Planning Services Department prior to the submission of this OBC have indicated that rationalising of sites and boundaries could be negotiated in order to increase their attractiveness. The sites (except Eastholme APH) are all in the ownership of the former Housing Committee. The redevelopment requirements of the area in the early years of the contract do not warrant seeking planning approval prior to contract commencement for housing use of all vacant sites and other sites.

It is envisaged that in principle discussions will be held with the Planning Services Department. Outline Planning Approval and clear planning guidance would be provided to bidders which will establish the development potential and limitations which could be used to meet longer-term new provision requirements in line with the Output Specification.

plan Consultation required on a statutory basis with tenants and residents will be undertaken throughout life of the project under S105 of the Housing Act, and incorporated into the wider resident consultation for the project.

### *12.7.2 Approval Route*

The Expression of Interest was approved initially by the Council's Housing Committee and Community Services Committee. The approach taken to formulating this Outline Business case was approved by Ward Members and members of the Steering Group on 27 July 1999, and this OBC was approved by the Council's Executive Board on 8 September 1999. A copy of the report is attached as Appendix F.