

<b>Item No.</b> 8.	<b>Classification:</b> Open	<b>Date:</b> 20 July 2010	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Aylesbury Private Finance Initiative Housing Project – Submission of the Interim Outline Business Case (IOBC)	
<b>Ward(s) or groups affected:</b>		Faraday	
<b>Cabinet Member</b>		Cabinet Member for Regeneration and Corporate Strategy	

## **FOREWORD – CLLR FIONA COLLEY, CABINET MEMBER FOR REGENERATION AND CORPORATE STRATEGY**

1. This administration is fully committed to the regeneration of the Aylesbury estate and to the aspirations in the Area Action Plan for a high quality and successful neighbourhood to meet the needs of this and future generations.
2. To achieve this, we need to take full advantage of all possible funding streams, including through our successful Expression of Interest for a Private Finance Initiative (PFI). We are required to submit our Interim Outline Business Case for our PFI application by the end of July 2010.
3. Cabinet agreed on June 15 to amend the scope of this business case to include two sites, 1b and 1c, which were originally to have been taken forward through a separate procurement process. We also asked officers to consult with local residents affected by this change and to feed back their views to this meeting.
4. The report confirms the change in sites to be taken forward in the Interim Outline Business Case and sets out the implications in terms of phasing and funding and the views of local residents. The suggested changes to the phasing should significantly reduce the financial risks and increase the likelihood of the regeneration programme moving forward.
5. I have fully considered the report from officers, which commences at paragraph 13 below, and am putting forward the following recommendations:

### **RECOMMENDATIONS**

That the Cabinet agrees:

6. To confirm the redevelopment strategy for the delivery of new homes and associated infrastructure on sites 1b, 1c, 8 and 9 that requires that sites 8 and 9 (formerly part of phase 3) are brought forward.
7. To the submission of the Interim Outline Business Case (IOBC) for a Housing Revenue Account (HRA) based Private Finance Initiative (PFI) Project in partial support of the delivery of social rented homes and associated infrastructure on Aylesbury sites 1b, 1c, 8 and 9.
8. To recommend that the Leader of the council delegate approval to the Cabinet Member for Regeneration and Corporate Strategy to approve the final version of the IOBC to be submitted to the HCA.
9. To proceed with the preparation of an Outline Business Case (OBC,) subject to an acceptable outcome from the HCA's review of the IOBC.

10. In principle, to the procurement approach of delivering intermediate and private for sale homes and associated infrastructure also located within sites 1b, 1c, 8 and 9 in line with the ability of the market to absorb these facilities.
11. That in parallel with the above actions, alternative delivery vehicles for the sites comprising phase 2 and the remainder of phase 3 are explored further.
12. That officers report back to cabinet for a decision on the rehousing and purchasing the property interests of relevant leaseholders and on progress on the IOBC prior to its submission.

## **BACKGROUND INFORMATION**

13. The Aylesbury Regeneration Programme currently comprises five phases (1a, 1, 2, 3 & 4) as shown in Appendix 1. Phase 1a is currently under construction – L&Q was the successful tenderer and is responsible for this work.
14. The council was successful with its Expression of Interest to the Homes and Communities Agency (HCA) early in 2008 for Private Finance Initiative (PFI) credits. This Expression of Interest was based on the council retaining ownership of the new homes and as a result the project falls within the scope of the council's housing revenue account (HRA).
15. The Expression of Interest proposed to use a single supplier to redevelop homes in phases 2 & 3 of the Aylesbury Regeneration Programme and comprised the demolition of 1,100 existing dwellings and the development and management of 1,094 new homes (410 social rental homes, 138 intermediate dwellings, and 546 homes for sale).
16. The social rental homes of phases 2 & 3 were intended to be developed using funds provided under the government's Private Finance Initiative (PFI) where a supplier will design, build, manage and maintain the new housing under a 30-year fixed-price Project Agreement. The council would own these homes once they are built and would pay a unitary charge to cover the supplier's costs of providing and managing this housing. This unitary charge is funded from the PFI credits, management and maintenance allowances received under the council housing revenue (HRA) account, and additional revenue contributions from council resources. The current plan is for all the social rental units to be made available for before 2019. Some of the key features of this arrangement are set out below:
  - If the supplier fails to make any accommodation available then the council can reduce the value of the unitary charge to reflect this service failure. (There is no payment made until a home has reached practical completion).
  - The supplier will be responsible for collecting all rents, including any arrears, and for passing these sums on to the council immediately.
  - If the supplier's management and maintenance of the social housing falls below the standards set by the council then the council can reduce the value of the unitary charge to reflect any service deficiencies.
  - Repeated poor performance (in the extreme) can give the council the right to terminate the contract.
17. Aspects of the housing management service would be periodically compared with the quality and cost of comparable housing management services elsewhere and steps taken to ensure that the service provided to residents remain in line with benchmarks; although this may give rise to an increased cost to the council.
18. At the end of the 30-year contract period the council can either elect to:

- Manage the social units itself
  - Appoint a new housing management supplier
  - Reappoint the existing housing management supplier at that time.
19. The provision of the intermediate dwellings and housing for sale will be wholly funded by the developer and procured at the same time as the PFI social rental homes using a Development Agreement. The timeframe for delivering the new intermediate homes and homes for sale is likely to be provided over a longer period (2014 – 2020), compared with the PFI homes, given that the provision of the majority of these housing units is driven by the state of the housing for sale market and the ability of developers to build and sell new accommodation. There will be key milestone events set out in the Development Agreement and if the developer fails to meet them then the council can elect to stand-down the developer and procure another to complete the work.
20. The detail of the contract structure (how the Project Agreement and Development Agreement interact) is currently being developed and will be reported to Cabinet in the latter half of 2010. However, the current thinking is that the Project Agreement and the Development Agreement will be free-standing contracts that will be governed by an overarching contract that will control and regulate all development activities. This approach will allow the council to manage and interface with the developers of the social homes for rent and the intermediate homes and homes for sale through a single point of contact irrespective of the number of organisations involved in the delivery of these homes.
21. In order to manage the potential financial risk to the council during the regeneration project and to avoid tax payers funding £16,000 discounts that are exempt from repayment, the council has issued Initial Demolition Notices under the Housing Act, 2004, as amended by the Housing and Regeneration Act 2008, to tenants in phases 2 & 3. If tenants were allowed to exercise their right to buy and become leaseholders and the council was to buy back these properties then it would be liable for funding 'home loss' payments and the buying out of these leasehold interests.
22. In October 2010 the executive considered two reports to take the Aylesbury Regeneration Programme forward:
- The first report addressed Phase 1 of the development and the executive agreed to take the sites comprising this phase forward on the basis of a developer selection process utilising a panel procured by the HCA and deficit funding from the HCA in the form of social housing grant (SHG);
  - The second report considered the PFI award for Phases 2 & 3 (See Appendix 1) and for redevelopment of these sites to follow on from Phase 1 as the Aylesbury PFI Housing Project. In addition, the executive agreed for council officers to prepare an Interim Outline Business Case (IOBC) to be submitted to HCA in July 2010 as part of its case for obtaining Private Finance Initiative (PFI) credits to part fund the implementation of Phase 2 & 3.

## **INTERIM OUTLINE BUSINESS CASE**

23. The IOBC considers several options for delivering the residents' and council's vision for the Aylesbury Estate, as set out in the Aylesbury Area Action Plan, including:
- Option 1 - Do nothing
  - Option 2 - Refurbishment to a Decent Homes standard;
  - Option 3 - Refurbishment to a Decent Homes plus standard and to meet Aylesbury-specific requirements'

- Option 4 - Mixed tenure redevelopment in line with the council's planning objectives for the Aylesbury Estate.
24. Using evaluation criteria based on the aspirations set out in the AAP and the council's political priorities each option was scored on its ability to deliver the latter. Assuming that reasonable 'pass/fail' standard at this stage is a score of at least 50% of the available score it would seem that options 1, 2 and 3 fail to meet this standard. Option 4 (redevelopment) scored 91% when assessed against with the projects objectives in this analysis.
25. The HCA require that the IOBC addresses the following;
- An options appraisal which considers alternative routes to HRA PFI to achieve Aylesbury's regeneration, e.g. land disposal, stock transfer, National Affordable Homes Programme and should also specifically consider whether a non-HRA PFI could be delivered at a lower overall cost
  - A market assessment of whether the PFI programme can achieve the private sales envisaged in the Expression of Interest
  - Soft market testing to assess the overall developer interest in private sales
  - Soft market testing to assess the extent to which private finance will be available
  - The council's capacity and commitment to underwrite costs in four key areas; leaseholder acquisitions, demolition, infrastructure tariff, procurement costs, unitary charge
  - Its requirement for the value for money considerations to be from the perspective of PFI deal and not necessarily from the perspective of The delivery of the intermediate homes and housing for sale, i.e. the council should choose the supplier offering the best PFI solution irrespective of how attractive its proposal for providing intermediate homes and homes for sale.
26. It should be noted that the information above has been prioritised by the HCA for the interim OBC.

## **CHANGE OF PFI SITES**

27. In June 2010 the council's cabinet agreed that officers should include sites 1b & 1c, comprising Bradenham, Arklow, Chiltern and Chartridge, in the mix of sites to be developed using PFI monies so that the council could address the:
- HCA's requirement for the council to stay within a £181m affordability envelope
  - Loss of a £20m cross subsidy from the housing for sale to the social rent homes
  - Effective management of its infrastructure tariff. This is a payment levied on developers based on the size of housing units being provided. Any draw-down from these funds should only occur when there are sufficient monies to pay for relevant works, such as new public transport, road improvements, etc. – otherwise the council could find itself having to fund these works and recouping the expenditure later
  - Risk of the development of sites 1b & 1c phase 1 being delayed and as a result of:
    - losing the potential to obtain SHG as a result of the government curtailing the availability of these funds
    - impacting on the council's ability to commence work on Phase 2 & 3 because developers are inclined to require contractual provisions restricting other developments in the nearby area until a large proportion of their works are completed
  - High cost to the council of buying out the leasehold interests of existing leaseholders in Phase 2 & 3.

28. A summary analysis of the best mix of sites is included as Appendix 2. This analysis suggests there would a lower risk of failure and greater certainty of submitting an IOBC that is acceptable to the HCA if the council was proceed with sites 1b, 1c, 8 & 9. A summary of the blocks comprising these sites and the rehousing impact on residents is set out below in Table 1.

**Table 1: Blocks & Sites (Rehousing Programme)**

<b>Block</b>	<b>No. of Homes</b>	<b>Site</b>	<b>Referencing Begins</b>	<b>Rehousing Starts</b>	<b>Rehousing Finishes</b>
Bradenham (42-256)	215	1b	2009	2010	<b>2012</b>
Chartridge (1-105)	105	1b	2009	2010	<b>2012</b>
Arklow House (1-28)	30	1b/1c	2009	2011	2012
Chartridge (106-149)	44	1c	2009	2010	2012
Chiltern (1-172)	172	1c	2009	2011	2012
Taplow (1-215)	215	9	<b>2011 (was 2015)</b>	<b>2012 (was 2016)</b>	<b>2014 (was 2018)</b>
Northchurch (1-76)	82	9	<b>2011 (was 2016)</b>	<b>2012 (was 2017)</b>	<b>2014 (was 2018)</b>
East Street (184-218)	12	8/9	<b>2011 (was 2016)</b>	<b>2012 (was 2017)</b>	<b>2014 (was 2018)</b>

29. While the council has already approved the rehousing of residents in Bradenham, Arklow, Chiltern and Chartridge, it will need to commence the same process for Taplow, Northchurch and East Street (184 – 218) residents. Appendix 3, sets out details of the proposed rehousing programme for these blocks. If the recommendations contained within this report are agreed then a further report on rehousing will be presented to cabinet later this year.

30. In addition, the bringing forward the development of Taplow results in the council having to find alternative premises for several services based there, including the:

- Taplow Neighbourhood Office
- Medical Centre
- Heath Centre
- Pharmacy

31. Table 2, overleaf, summarises the key changes to housing numbers of this change.

32. Appendix 4 sets out the broad cost implications changing the mix of sites/blocks to be redeveloped under the Aylesbury PFI Housing Programme. In summary, the net impact of the revisions to the Aylesbury PFI Housing Project on the council's maintenance budget would be an increase in the cost of maintaining the blocks comprising Phase 2 and part of Phase 3 in the region of up to £2.37m.

**Table 2: Summary of the Change to the Numbers and Types of Homes being Provided**

	Sites	Existing Social Housing Units (1)	Existing Lease Holders (2)	Proposed Social Housing (3)	Proposed Intermediate Housing (4)	Proposed Housing for Sale (5)	Total New Housing (3+4+5)
<b>Expression of Interest</b>							
Phase 2	4a	19	11	80	26	105	
Phase 2	4b	299	70	79	26	105	
Phase 2	5	133	15	85	28	113	
Phase 3	6	194	37	65	21	84	
Phase 3	8	10	2	23	8	31	
Phase 3	9	264	33	81	27	111	
	<b>Total</b>	<b>919</b>	<b>168</b>	<b>410</b>	<b>136</b>	<b>548</b>	<b>1094</b>
<b>Revised Aylesbury PFI Housing Project</b>							
Phase 1	1b	262	25	129	41	138	
Phase 1	1c	249	30	162	55	172	
Phase 3	8	10	2	15	8	31	
Phase 3	9	264	33	54	27	111	
	<b>Total</b>	<b>785</b>	<b>90</b>	<b>360</b>	<b>131</b>	<b>452</b>	<b>943</b>

33. The revised scheme:

- will deliver a minimum of 360 new homes funded under the PFI compared with the 410 homes contained in the council's original Expression of Interest to the HCA
- can be contained within the HCA's £181m affordability envelope.

### **COST IMPLICATIONS**

34. The PFI credits will not cover all of the costs associated with the programme. The indicative costs of the scheme to the council are outlined below, these cost assessments have been carried out for the purposes of the IOBC and subject to progression of this, will be re-examined for full OBC stage.

**Table 3: Budget Scheme Costs.**

Cost Heading	Cost £m
Leasehold acquisitions	12.5
Demolition	11.2
CPO enquiry costs	0.3
Procurement costs	4.0
<b>Total</b>	<b>28.0</b>

35. These costs will be contained within the council's Housing Investment Programme and a range of funding sources have been identified to meet these costs as they arise. This position will be reviewed continually in the context of other pressures on the programme.
36. Assessments indicate that there is likely to be a net revenue cost of £1.25m to the HRA in 2010/11, and a similar pattern is seen in the subsequent years leading to the intended financial close date for the PFI in 2014/15. This calculation includes allowances for the cost of essential repairs, sanitising and welding units, the council's rehousing delivery team and site security. These calculations indicate that the cost of statutory tenant home loss and disturbance payments falling on the HRA and associated with the proposed PFI sites will be in the region of £3.4m in total over the period to 2014. These will need to met from existing HRA budgets and earmarked resources.
37. Under the current PFI calculation an ongoing revenue contribution to the unitary charge arises, which in an HRA PFI scheme falls on the HRA. The value of this is expected to be in the order of £171,000 per annum at April 2010 prices for the duration of the PFI contract. This estimated cost will not commence before 2016 at the earliest and HRA budget plans will need to take account of this pressure.
38. In addition to the above, there is also supporting infrastructure identified for the sites on which the PFI scheme is proposed. This infrastructure covered in IOBC and has been costed and will be funded via a combination of charges levied on the preferred supplier (developer) for the sites, via the PFI credits and via other sources the council identifies as eligible for funding it as the scheme progresses. At this time these sources cannot be identified specifically because the detailed design of the proposals is still to be fully developed.
39. The financial assessment undertaken as part of the PFI evaluation has indicated that based on current values, a residual deficit of £4.7m emerges in the PFI option which still has funding to be applied. While this is a significant sum, it constitutes 3% of the income available for the scheme and market factors (for example the values achievable on for sale units) may move the assessment to a breakeven or surplus position. As the scheme moves toward financial close, the council will need to be able to manage the deficit and will seek to do so wherever possible with external funding sources and the support from the HCA as the sponsoring Agency for the scheme
40. Full information on the financial implications arising out of the Aylesbury PFI Housing Project for the council are set out in the draft IOBC referred to as a confidential background paper.

## **KEY ISSUES**

41. While cabinet is being requested to approve the submission of the IOBC, it is not being requested to make any financial commitment toward implementing the Aylesbury PFI Housing Project at this stage – over and above what is already committed to funding the buying out of leaseholder interests. Should the IOBC be approved by the HCA then an Outline Business Case (OBC) will be submitted to cabinet later this year for approval to be sent to the HCA for approval. It is at this meeting of the cabinet when the detailed financial implications for the OBC will be presented for approval. However, in order for the council to be in a position to make this submission work must continue on developing the OBC while the council awaits the HCA's decision on its IOBC.
42. The HCA has indicated that the council's IOBC should specifically consider whether a non-HRA PFI could be delivered at a lower overall cost. In most instances, however, non-HRA PFI schemes have lower costs because the homes are retained in the ownership of the supplier; and as a consequence a non-HRA approach has the potential to deliver more social homes for rent.

43. While the council has made a policy decision to progress the Aylesbury PFI Housing Project on a HRA basis, and it is for this reason a detailed financial comparison is not included in the IOBC, the non-HRA option could deliver up to 35 more social homes for rent. However, the non-HRA approach is a riskier option to the council compared with the HRA based approach. This is because of the potential impact on the council General Fund of having to fund any ongoing revenue commitments to the Aylesbury PFI Housing Project if it were based on a non-HRA approach (see Appendix 5).
44. Initial Demolition Notices have historically lasted for five years. More recently, Initial Demolition Notices can be issued for seven years and these notices are in place for:
  - Wendover (241-471)
  - Foxcote (1-30)
  - Padbury (1-25)
  - Ravenstone (1-81)
  - Winslow (1-30)
  - Wolverton (152-192)
45. However, the above Initial Demolition Notices are due to expire before the above blocks will be redeveloped based on the revised composition the Aylesbury PFI Housing Project. In order to ensure that no right-to-buy discounts are issued on the above properties it is important for new Initial Demolition Notices to be reissued on or before their expiry. This requires special dispensation from the Secretary of State for Communities and Local Government in order for these notices to run concurrently. Otherwise, the council would not be in a position to issue a new Initial Demolition Notice for five years and any suspended right-to-buy applications may have to be completed once a valid Initial Demolition Notice is not in place.
46. The cabinet agreed to consult the residents on the possible changes to the phasing and timing of the Aylesbury Regeneration Programme. The full results of this consultation will be reported to the cabinet on July 20, 2010. A further consultation on the outcome from this cabinet meeting is planned to take place during September 2010. The results from this second consultation will be included in the report to cabinet later on in 2010 when permission is sought to submit the council's OBC to the HCA (subject to the council's IOBC being approved by the HCA).

### **Policy implications**

47. The essential features to recognise here are set out in the:
  - The Aylesbury Action Plan (published December 2009)
48. This change improves the opportunity for the council to arrive at an affordable IOBC and a solution that is more deliverable compared with the original sites comprising Phase 2 & 3.
49. Given the potential imbalance between homes for sale and social housing if the council was to amend the composition of the Aylesbury PFI Housing Project then this has the potential to compromise the Aylesbury Action Plan by delivering approximately 100 fewer homes for sale. This shortfall, however, could be addressed through the relocation of Ellison House on site 1b freeing up additional development land to increase the overall number of homes for sale.



## **Community Impact Statement**

50. Residents living in Taplow and Northchurch will require rehousing sooner than indicated to date while residents living in Wendover, Wolverton, Brockley, Ravenstone, Albany Road (140), Foxcote, Padbury and Winslow will be delayed compared with what would have occurred if the council was to have left the composition of the Aylesbury PFI Housing Project unchanged, i.e. comprising phases 2 & 3.

## **Resource Implications**

51. The resource implications include the council's cost of preparing the IOBC increasing as a result of the additional time and resources need to develop the additional option of changing the scope of the Aylesbury PFI housing scheme. This additional cost is expected to be of the order of £20,000 and will be contained within existing budgets.

## **Consultation**

52. Residents and business have been updated on the progress of the Aylesbury Regeneration programme and the possible changes to the rehousing timeline by way of a newsletter issued on June 24, 2010 and were invited to attend a drop-in session on the changes. The purpose of this consultation is to obtain views and comments on the possible changes to the council's rehousing plans should it choose to amend the scope of the Aylesbury PFI Housing Project. This process involved:

- Distributing a newsletter to all residents, businesses and other types of enterprise based on the estate
- Holding a drop-in session for Aylesbury residents at Thurlow Lodge Community Hall on Wednesday July 07, 2010, between 11:00hrs and 20:00hrs to meet council staff to discuss and note any queries, views and comments residents may have
- Visiting meetings of the local tenants and residents associations on the Aylesbury Estate
- Giving residents 23 days to respond to the proposed changes from the date the new bulletin was delivered on Friday June 24, 2010.

53. Thirteen people attended the drop-in session held on July 07, 2010, at Thurlow Lodge between 11:00 & 20:00hrs. In addition to some general questions about possible rehousing dates, visitors passed on several other comments to council officers at this event, including:

- Whether the "right to buy scheme" will be applicable to new council owned properties built under the PFI project?
- Information on what assistance residents can expect to receive before, during and after being rehoused.
- Three Taplow and one Northchurch residents who confirmed their approval to their blocks being brought forward
- What arrangements are being put in place for rehousing arrangements residents with carers.

54. Several leaseholders and asked about the overall progress in implementing the Aylesbury Action Plan and what support they can expect from the council's assisted rehousing process. A few leaseholders commented that as pensioners nearing 80 years of age they would rather not have to move at all but were not so against moving that they wouldn't engage with the process.

55. For information, up to July 08, 2010, the council had not received any written comments from residents about the potential changes to the scope of the Aylesbury PFI Housing Project.
56. In addition to attending the drop-in session, residents also had the opportunity to contact the council and/or CREATION Trust directly in writing, in person and/or by telephone to have their views and comments recorded. As indicated in paragraph 46 further consultation is planned before council officers bring the OBC to cabinet for approval.
57. A full analysis of the results of this consultation will be reported to the cabinet meeting.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Communities, Law & Governance**

58. Section 105 Housing Act 1985 requires the council to consult with its secure tenants on matters of housing management, which in the opinion of the council as landlord represents a new programme of maintenance, improvement or demolition, or a change in the policy or practice of the authority and is likely to substantially affect either secure tenants as a whole or a group of them. The potential impact of the proposals on the existing rehousing phasing plan engages this statutory consultation requirement.
59. The report sets out the consultation that has taken place and further consultation planned. The report confirms that officers will report back to cabinet later on in 2010 for a decision on the rehousing phasing arrangements.
60. There are no adverse legal implications arising from the report.

### **Finance Director**

61. The Finance Director notes the potential costs and risks of this project and considers that the risks in total are not disproportionate for a project of this size and scale. The way in which the IOBC is constructed seeks to minimise these risks and make best use of the resources being offered by the HCA.
62. Provision will be required in future revenue and capital programmes to ensure that the resources are in place to enable delivery within the prescribed time frame. The major element of capital investment required to vacate the sites for 1b and 1c are already set aside within the Housing Investment Programme.

## **BACKGROUND DOCUMENTS**

<b>Background Papers</b>	<b>Held At</b>	<b>Contact</b>
Aylesbury Action Plan	Regeneration and Neighbourhoods Dept.	Julie Seymour 0207 525 0508
Cabinet report June 15, 2010: Proposed Amendment to Interim Outline Business Case for Aylesbury Estate PFI	Regeneration and Neighbourhoods Dept.	Geri McLeary 0207 525 4904
Draft Interim Outline Business Case (commercially confidential paper)	Regeneration and Neighbourhoods Dept.	Geri McLeary 0207 525 4904

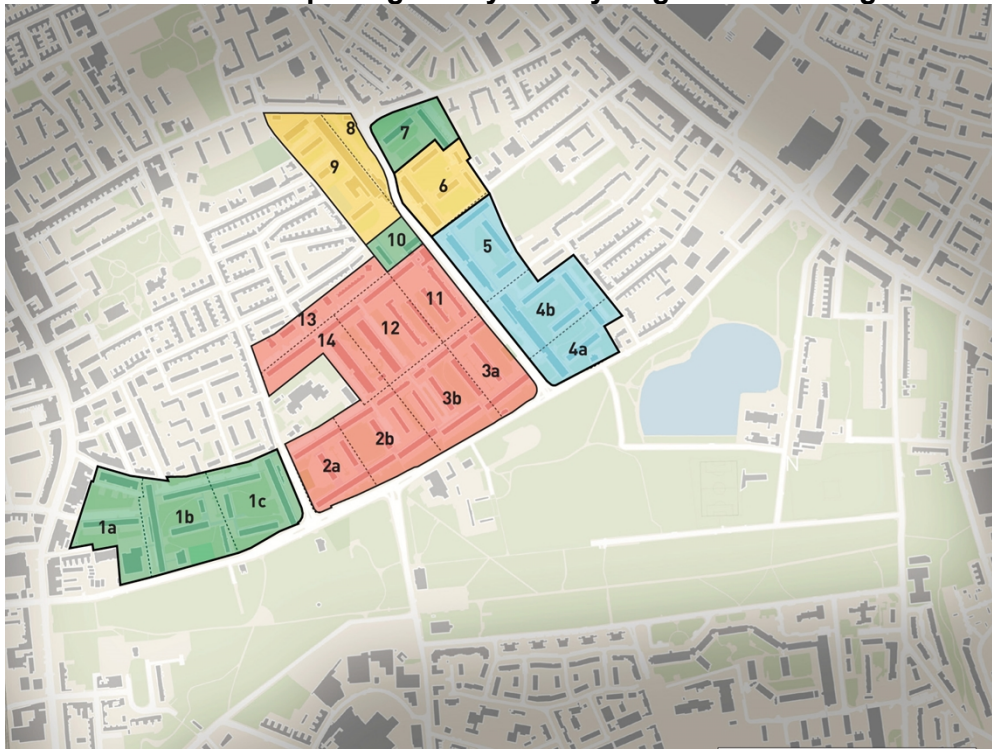
## APPENDICES

No.	Title
Appendix 1	Sites Comprising the Aylesbury Regeneration Programme
Appendix 2	Why Use Sites 1b, 1c, 8 & 9?
Appendix 3	Proposed Rehousing Programme
Appendix 4	Cost Implications of Changing the Aylesbury PFI Housing Project
Appendix 5	Comparison of the PFI Outputs based on HRA and Non-HRA Approaches

## AUDIT TRAIL

<b>Cabinet Member</b>	Cabinet Member for Regeneration and Corporate Strategy	
<b>Lead Officer</b>	Richard Rawes, Strategic Director of Regeneration and Neighbourhoods	
<b>Report Author</b>	Geri McLeary, Aylesbury Regeneration Programme Director	
<b>Version</b>	Final	
<b>Dated</b>	July 12 2010	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Strategic Director of Communities, Law & Governance	Yes	Yes
Finance Director	Yes	Yes
<b>Date final report sent to Constitutional/Community Council/Scrutiny Team</b>	12 July 2010	

**Appendix 1: List of Sites Comprising the Aylesbury Regeneration Programme**



**Phases Comprising the Aylesbury Regeneration Programme**



## Appendix 2: Why Use Sites 1b, 1c, 8 & 9?

### Background

1. It is the council's ambition that the Aylesbury Estate deliver a significant change in its tenure mix to create a sustainable community as described in the Aylesbury Area Action Plan (AAP); the AAP is the blueprint for all future development in the Aylesbury Estate, including the delivery of sites comprising the Aylesbury Private Finance Initiative (PFI) Housing Project .
2. The council's PFI Expression of Interest (EOI) to the Homes and Communities Agency (HCA) for the Aylesbury PFI Housing Project was submitted in 2008. The EOI was based on developing the sites comprising Phases 2 and 3 of the Aylesbury Regeneration Programme because at that time the council believed these sites were most closely aligned with the HCA's PFI requirements and the anticipated timings set out in the AAP. The key assumptions on which the EOI was based were that the:
  - council's vision for each phase would be delivered by engaging a single developer that would deliver a mixed tenure scheme in line with the requirements of the AAP; and
  - provision of private for sale units would cross subsidise the development of the social rented units to the value of around £20m.
3. In October 2009 the executive considered two reports to take the Aylesbury Regeneration Programme forward:
  - The first report addressed Phase 1 of the development and the executive agreed to take the sites comprising this phase forward on the basis of a selection process utilising a developer panel procured by the HCA;
  - The second report considered the PFI award for Phases 2 & 3 and for the redevelopment of these sites to follow on from Phase 1.
4. The executive agreed for council officers to prepare an Interim Outline Business Case (IOBC) to be submitted to HCA in July 2010 as part of its case for obtaining Private Finance Initiative (PFI) credits to part fund the implementation of Phase 2 & 3. The sites currently comprising Phases 2 & 3 are expected to deliver approximately 410 social housing units, 136 intermediate units and 548 units for sale. The PFI project would deliver the social housing.
5. Since the executive decision, work has continued on a number of streams in taking the project forward. Key outcomes of this work have been:
  - an independent review by Grant Thornton of the scheme financing and risks
  - clarification of the project timescales and financial/technical requirements for the PFI, including discussions with other authorities that have taken forward housing PFI schemes
  - some delays in the setting up of the HCA developer panel and detailed discussions with the HCA on matching the use of this panel with the council's procurement processes
  - some recent and fundamental reductions in available HCA funding arising from the recent government spending review.
6. These factors have led to the need to reassess the project in terms of timing and potential funding sources, to minimise the risks to the project and ensure the production of a robust IOBC for the PFI.

## Key considerations

7. Subsequent to the submission of the Aylesbury PFI EOI the HCA emphasised that any assumed cross subsidy from the homes for sale to homes for rent must be underwritten by the council. Since then the local property market and economy have declined to the point where the £20m subsidy is unlikely to be achieved.
8. The HCA has also imposed a three year limit on the council to procure a supplier to provide the Aylesbury PFI homes. The next stage of the PFI process requires the council to submit an Interim Outline Business Case (IOBC) in July and then an Outline Business Case (OBC) in December 2010. If the OBC is approved in 2011 then the council must demonstrate that the construction of the social rented homes to be funded by PFI will commence before the end of 2014.
9. In the light of the above, there are major risks in progressing the current phasing proposals, in terms of both funding and phasing. The substantial reduction in available funding from the HCA could leave the remaining Phase 1 sites with a financial deficit which, together with the high upfront costs of leaseholder buybacks for Phases 2 and 3, would make the programme unaffordable. In terms of phasing, the above issues have delayed the marketing and delivery of the Phase 1 sites, which in turn impact on the deliverability of Phases 2 & 3. There are two key issues:
  - Phases 2 & 3 are dependent on Phase 1 sites being completed in order to decant existing residents from the later phases.
  - On the advice of Savills, market conditions are such that around 100 of each type of property unit (i.e. 100 houses and 100 flats) could be sold per annum. The convergence of Phase 1 with Phases 2 and 3 would mean that these numbers are greatly exceeded, with a consequent likely loss of developer interest in the scheme.
10. In order to manage these risks and ensure that PFI funding is not compromised, council officers looked again at the composition of the PFI scheme to see if it was possible to reduce the risks associated with the project.

## Master Planning

11. The council's planning advisers for the Aylesbury Estate, Urban Initiatives Limited, reviewed the mix of tenure within the above the sites comprising Phases 2 & 3 and sites 1b and 1c to inform the how the PFI scheme could work alongside the development of intermediate housing and homes for sale. This work, in conjunction with work done the council's financial advisers, Grant Thornton, concluded that better value could be delivered to residents and the council sites if 1b & 1c and sites 8 & 9 taken from Phase 3 comprised the Aylesbury PFI Housing Project. The rationale for this conclusion was that these sites:
  - delivered a lower and more affordable acquisition cost compared with the cost of acquiring leaseholder interests on Phases 2 & 3 (see Table 1)
  - have the potential of delivering a similar number of homes if they are cleared of all current uses
  - would allow the Aylesbury Estate to be developed in a wave moving across the site toward the south-east and as a result maximise the value of the sites bordering Burgess Park – thereby increasing the potential for a cross subsidy to be obtained to support the delivery of more homes for social rent
12. It should be noted that the HCA has provided a firm indication that sites 7 and 10 (part Phase 1), should be eligible for Social Housing Grant (SHG) to assist in the delivery of these sites. (The HCA is participating in the early stages of the procurement work for

developing these sites). Procurement work has not commenced on sites 1b and 1c and given the state of the national economy and the prospect of further cuts in public spending these sites may not be treated as favourably by the HCA for SHG moving forward.

### **Deliverability and affordability**

**Table 1: Summary Comparison between the Old and the New Aylesbury PFI Housing Project**

	<b>Phases 2 and 3</b>	<b>Sites 1b, 1c, 8 and 9</b>
Tenanted units	919	785
Leasehold units	168	90
Estimated cost of leasehold acquisitions	£23.50m	£12.50m
Estimated demolition cost	£11.20m	£11.20m
Estimated maintenance costs	£11.03m	£13.40m
Total estimated costs	£45.73m	£37.10m

13. In summary under the phasing proposed were the alternative sites to be developed, the number of leasehold acquisitions required would be less than in the former proposal with an associated cost also estimated to be less for sites 1b, 1c, 8 and 9 and therefore anticipated to be more deliverable. Funding sources have been identified to meet the up-front costs shown above associated with progressing the proposed sites.
14. In addition, the rehousing requirement for sites 1b, 1c, 8 & 9 is substantial but more favourable and should be manageable when taking into account the rehousing requirement on other neighbouring regeneration schemes.

### **Conclusion**

15. Overall sites 1b, 1c, 8 & 9 have the potential to make the Aylesbury PFI Housing Project more deliverable and affordable and it is recommended that they form the basis of the IOBC and OBC.



## Appendix 3: Revised Rehousing Programme

# Aylesbury re-housing timeline - possible changes

The possible changes are set out in the following table. This table shows some tenants being re-housed earlier in blocks such as Taplow, Northchurch and East Street (184-218). Rehousing in parts of other blocks, such as Bradenham, and Chartridge, Wendover and Wolverton, etc., is being put back

Block	Number of units	Site	Registration begins	Re-housing / leaseholder buybacks begin	Re-housing / leaseholder buybacks finish
Missenden (300-313)	14	10	2009	2010	2011
Wolverton (1-59)	59	7	2009	2010	2011
Bradenham (42-256)	215	1b	2009	2010	New 2012 (was 2011)
Chartridge (1-105)	105	1b	2009	2010	New 2012 (was 2011)
Arklow House (1-28)	30	1b/1c	2009	2011	2012
Chartridge (106-149)	44	1c	2009	2011	2012
Chiltern (1-172)	172	1c	2009	2011	2012
Taplow (1-215)	215	9	New 2011 (was 2015)	New 2012 (was 2016)	New 2014 (was 2018)
Northchurch (1-76)	82	9	New 2011 (was 2016)	New 2012 (was 2017)	New 2014 (was 2018)
East Street (184-218)	12	8/9	New 2011 (was 2016)	New 2012 (was 2017)	New 2014 (was 2018)
Wendover (1-36,73-116,157-200)	124	6	New 2012 (was 2014)	New 2013 (was 2015)	New 2015 (was 2017)
Wolverton (60-125)	66	6	New 2013 (was 2014)	New 2014 (was 2015)	New 2015 (was 2016)
Brockley House (1-14)	15	6	New 2013 (was 2014)	New 2014 (was 2015)	New 2015 (was 2016)
Wendover (37-72, 117-156, 201-240)	116	5	2013	2014	2015
Wolverton (126-151)	26	5	2013	2014	2015
Wolverton (152-192)	41	5	New 2013 (was 2012)	New 2014 (was 2013)	New 2015 (was 2014)
Wendover (241-471)	237	4a/4b	New 2014 (was 2011)	New 2015 (was 2012)	New 2017 (was 2014)
Ravenstone (1-81)	81	4a/4b	New 2014 (was 2011)	New 2015 (was 2012)	New 2017 (was 2014)
Albany Road (140)	-	4a	New 2015 (was 2011)	New 2016 (was 2012)	New 2017 (was 2014)
Foxcote (1-30)	30	4a	New 2015 (was 2011)	New 2016 (was 2012)	New 2017 (was 2014)
Padbury (1-25)	25	4b	New 2015 (was 2011)	New 2016 (was 2012)	New 2017 (was 2014)
Winslow (1-30)	30	4b	New 2015 (was 2011)	New 2016 (was 2012)	New 2017 (was 2014)
Lees House (1-12)	12	13	2017	2018	2019
Soane House (1-35)	35	13	2017	2018	2020
Missenden (1-299)	299	11/12/14	2017	2018	2020
Michael Faraday House (1-105)	105	11/12	2017	2018	2020
Inville Road (51-67)	9	13	2018	2019	2020
Chadwell House (1-8)	8	13	2018	2019	2020
Darvel House (1-8)	8	13	2018	2019	2020
Calverton (1-31)	31	2b/3b	2020	2021	2023
Danesfield (1-31)	31	3b	2020	2021	2023
Emberton (1-35)	35	3a/3b	2020	2021	2023
Gaitskill House (1-66)	66	2b/3b	2020	2021	2023
Gayhurst (1-162)	162	2a/2b	2020	2021	2023
Hambledon (1-20)	20	2b	2020	2021	2023
Latimer (1-141)	141	3a/3b	2020	2021	2023
Albany Road (198-202)	4	3a	2021	2022	2023



## Appendix 4: Cost Implications of Changing the Aylesbury PFI Housing Project

### Background

1. A planned preventative maintenance programme has been devised for the existing Aylesbury Estate stock, working to a budget of approximately £14m, over the period 2010/11 to 2021/22 and is intended to include all phases 1, 2, 3 & 4 within its scope. The budget is laid out in Table 1 below.

**Table 1 Budget for Aylesbury Estate Planned Maintenance Costs £m.**

District heating repairs	Roofing	Communal and bin chute repairs	Paving/Roadways	Lighting	Lift works	Electrical repairs
£2.34	£2.44	£6.14	£0.78	£0.36	£1.25	£0.77

2. The figures in Table 1 assume that necessary works up to 2021/22 would be carried out.

### Original PFI proposal

3. The original Aylesbury PFI Housing Project comprised phases 2 & 3. The blocks comprising these phases were to be demolished and the sites cleared ready to be handed over to the council's preferred PFI supplier by April 01, 2014. Table 2 (below) shows the impact on the Aylesbury Estate's planned maintenance costs if Aylesbury PFI Housing Project was to proceed as originally configured. This work assumes that the costs associated with maintaining the buildings on sites comprising Phases 1 & 4 are incurred as planned and no costs are incurred on sites comprising Phases 2 & 3 fall after 2014/15.

**Table 2 Planned Maintenance Costs if the Composition of the Aylesbury PFI Housing Project is Unchanged £m.**

District heating repairs	Roofing	Communal and bin chute repairs	Paving/Roadways	Lighting	Lift works	Electrical repairs
£2.34	£1.91	£4.07	£0.78	£0.21	£0.98	£0.77

4. This represents a total forecast saving against the original maintenance budget of £3.07m broken down per Table 3.

**Table 3 indicative savings against budget £m (Table 1 minus Table 2).**

District heating repairs	Roofing	Communal and bin chute repairs	Paving/Roadways	Lighting	Lift works	Electrical repairs
nil	£0.58	£2.07	nil	£0.15	£0.27	nil

### Revised (Re-Phased) Aylesbury PFI Housing Project

5. Under the revised proposal the Aylesbury PFI Housing Project would comprise sites in Phase 1 and Phase 3 (1b & 1c and 8 & 9, respectively) will be utilised instead of using all of the sites in Phases 2 & 3. The expected maintenance costs associated with this course of action are shown in the Table 4 below.

**Table 4: Planned Maintenance Costs for the re-phased Revised Aylesbury PFI Housing Project £m.**

District heating repairs	Roofing	Communal and bin chute repairs	Paving/Roadways	Lighting	Lift works	Electrical repairs
£2.34	£2.27	£5.68	£0.78	£0.29	£1.25	£0.77

6. The above costs are based on the assumption that work will be incurred up to 2013/14 when the PFI sites are handed over to the council's preferred supplier and the remainder, i.e. the sites comprising Phase 2 and the residue of Phase 3, continue to be maintained up to 2021/2. Table 5 (below) sets out the net Impact Revised Aylesbury PFI Housing Project on the headline Aylesbury Estate Planned Maintenance Budget (Table 1)

**Table 5: Indicative Savings Delivered by the Revised Aylesbury PFI Housing Project £m (Table 1 minus Table 4).**

District heating repairs	Roofing	Communal and bin chute repairs	Paving/Roadways	Lighting	Lift works	Electrical repairs
nil	0.17	0.46	nil	0.07	nil	nil

7. The net impact the revisions to the Aylesbury PFI Housing Project on the council's maintenance budget would be a reduction of £0.70 million; this compares unfavourably with the £3.07m saving that would have been achieved if the scope of the Aylesbury PFI Housing Project was left unchanged. The net increase in the cost of maintaining the blocks comprising Phase 2 and part of Phase 3 is expected to be in the region of up to £2.37m (i.e. £3.07 less £0.70).

## Appendix 5: Comparison of the PFI Outputs based on HRA and Non-HRA Approaches

There are two key determining factors that have influenced the council's decision to progress the Aylesbury PFI Housing Project based on using its Housing Revenue Account (HRA):

- It is council policy to build more council houses; and
- There must be no risk to the council's general fund of any unforeseen expenditure.

While the size of the HRA has not been a determining factor in driving the council's decision to progress a HRA based PFI project, it does have the secondary benefit of being capable of funding the revenue implications arising from the Aylesbury PFI Housing Project. While the council recognises that a non-HRA based PFI project has the scope to deliver approximately 10% more council homes for the same level of PFI Credits, it can only do so if the scheme can be funded by its general fund.

A summary of the differences between a HRA and Non-HRA Based PFI Schemes is set out below.

Feature	HRA	Non-HRA
Land ownership	Remains with Council	In effect Passed to Service Provider(1)
Landlord	Tenants are Council Tenants	Tenants are Tenants of Service (2)
Rent setting	Council rents must harmonise with the Government's Target Rent over the [4] years	Service Providers' 'Target Rent' payable from day one of each tenancy
Cash Received by Council	PFI Credits  Rents  Management and Maintenance allowances. Rent clawback by Government still applies.	PFI credits
Cash Received by Service Provider	Unitary Charge from Council	Unitary Charge from the council plus rents and services charges.
Demand Risk for Council Homes	Remains with Council	Rests with the Service Provider
Risk Associated with Rent Collection	(3) Service Provider	Service Provider
Council's Exclusive Right to Nominate Tenants for Empty Homes During Contract Period	Yes	Yes
Council's Exclusive Right to Nominate Tenants for Empty Homes Outside Contract Period	Yes	Yes, the RSL enters into a nominations agreement separate to the PFI contract. (4)
Residual Value of the New Homes at the End of the Contract Period	Remains wholly with Council	Service Provider but the Council would Benefit From any 'Super-Profit' (overage) Should Property Prices Rise Unexpectedly (5)

<b>Feature</b>	<b>HRA</b>	<b>Non-HRA</b>
(6) Impact on HRA	<p>Management and Maintenance Allowances continue to be received</p> <p>Major repairs allowance is lost, funded within PFI credits.</p>	<p>Allowances Received from all Properties Demolished and the Land Transferred are Lost to the council</p> <p>No Rental Income</p> <p>A Lower Number of Dwellings Fund the Remaining Debt and Fixed Overhead Costs Within HRA.</p>
Issues Arising of Any Land Transfer	None	<p>The council must seek a direction from the Secretary of State under Section 74(3)(d) of the 1989 Act to take the property out of the HRA (this assumes will still be required for Housing Purposes)</p> <p>Potential Impact on the General Fund as a result of the loss of debt subsidy from the HRA, which would need to be scoped were appropriation to occur.</p>
Impact on the council's General Fund	Nil	All costs would be charged to the General Fund
Unitary Charge	Likely to be Higher Compared with the Non-HRA Funding as a Result of the council Receiving Rental Income for the Council Properties	Likely to be Compared With a HRA Approach Because the Service Providers Benefits from the Properties Having a Residual Value at the End of the Contract Period and Lower Processing Costs as a Result of the Service Provider Retaining the Rental Income Throughout the contract Period.
PFI credits	Fewer Homes for the Same Quantum of PFI Credits Compared with the Non-HRA Approach	More Homes for the Same Quantum of PFI Credits Compared with the HRA Approach

### Notes

1. Usually on a long lease, minimum 99 years.
2. RSL as landlord is not mandatory, but has been the landlord vehicle in all closed Non-HRA projects to date.
3. Council may retain the housing management/rent collection role in an HRA project, but contractual issues with bidders and through payment mechanism.
4. Can be set at anything between 0% and 100%, and will affect residual value.
5. New HCA draft guidance issued January 2010, under market testing.