

Wiltshire Council

Social Housing PFI Project

Final Business Case

16 November 2011

31 May 2012

This version of the approved final business case, excluding appendices, is for publication on the council's website. In updating the document a small amount of commercially sensitive information has been removed and a number of typographical errors have been corrected, as indicated in the text.

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7	DCLG housing PFI model with PSC VfM	Appendix 7.1 (DCLG model) Appendix 7.2 (VfM calculation)
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INTRODUCTION

This report and the accompanying financial, legal and other documentation comprise the final business case (FBC) for Wiltshire Council's Non-HRA PFI Project with Silbury Housing Limited (SHL). SHL is a special purpose vehicle (SPV) 100% owned by Sarsen Housing Association, with Persimmon Homes/Westbury Partnerships and Barclays Bank as non-equity investing consortium members.

The project is to provide 350 new social rented homes in two phases. These homes are intended to be located on 10 sites within the west of Wiltshire, with half of the sites being provided by the Council and the remaining half by the private sector. The PFI homes will be built to Code for Sustainable Homes (CSH) Level 3 and Lifetime Home standards. SHL will be responsible for managing and maintaining the developments, with Sarsen acting as the landlord of the homes for the 20 year (from service commencement) contract period. During this time the Council will have 100% nomination rights, stepping down to 75% after project expiry.

This is a single bidder procurement following the withdrawal of a second bidder prior to the submission of detailed solutions in early 2009. The deterioration in the funding market from late 2008 led to delays as affordability issues were resolved and key project milestones were rescheduled for a number of reasons, including due to the resolution of certain site issues. Following the change in government and HCA/DCLG's value for money (VfM) review of housing PFI projects this FBC is now submitted for approval.

Both Wiltshire Council and SHL are committed to achieving financial close on the first phase of 242 homes during December 2011. This is of paramount importance to maintaining Council/contractor support for the project, including that of Persimmon Homes/Westbury Partnerships as a significant land provider and the construction sub-contractor. The key target dates for reaching financial close of the project are summarised in Table 1 below:

Table 1: Key target dates for financial close

Milestone	Date
Submission of revised contract and derogations to HCA	17/8/11
Submission of FBC to HCA	7/11/11
Approval of FBC by DCLG Investment Sub-Committee	15/11/11
Approval of contract/derogations by HCA/DCLG/IUK	16/11/11
Submission of FBC to Treasury (HMT)	16/11/11
Treasury Approval Point (TAP) approval by HMT	14/12//11
Financial close	16/12/11

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This FBC is submitted on the basis that it substantially meets the project objective set out in the approved Outline Business Case (OBC) dated February 2006. There are a number of key issues in relation to the project, including the following:

Persimmon land

145 homes are to be provided on private sector land that would otherwise be used for open market sale housing – specifically land owned by Persimmon, which will be purchased at market value (phase 1 £9.2m + phase 2 £6.5m = £15.7m) by SHL.

It was a clear objective at OBC stage to provide approximately half of the homes on private sector land i.e. the intention was always that the project would deliver new social housing on land not subject to nil subsidy s106 affordable housing requirements (via the planning system) nor local authority land and, thus, the project would provide a net increase in land available for social housing, within Wiltshire.

It has been challenging for the Council to deliver this objective while demonstrating VfM, as is detailed in section 3.2. The Council has paid particular attention to demonstrating the reasonableness of the Persimmon land price and this has been achieved through a robust process of negotiation and parallel assurance both from independent advisers, King Sturge, and through benchmarking of the build up of project costs.

Single bidder

This is now a single bidder procurement. Further details of how the Council has satisfied itself that the benefits of competition have, nevertheless, been delivered through a robust challenge of SHL's costs and proposals are set out in section 3.2.

Phased approach

The project is proposed to be delivered in two phases: a first phase of 242 homes and a second phase of 108 units. Phase 2 is programmed to close two years after financial close of phase 1, with the Council serving an authority additional phase change notice (confirming the second phase sites) within 18 months of the phase 1 financial close. This is based on a realistic assessment of the time needed to ensure that the phase 2 sites are ready for development.

This approach and the reasons behind it are set out in sections 2.3, 3.2 and 5.5. While it is regrettable that the second phase sites cannot be brought forward to close with phase 1, the Council is confident of delivering the remaining 108 units once financial close has been achieved on the first phase, and will continue to work with the bidder to achieve a tighter timescale for this.

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The structure and content of the Council's FBC submission follows guidance issued by HCA during September 2011 and is in accordance with *DCLG briefing note: 7 September 2011 (updated v3)*.

This FBC is provided in electronic format only. A hard copy, excluding appendices, is available upon request.

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1 STRATEGIC CASE

1.1 Vision and objectives

1.1.1 This project was started by West Wiltshire District Council (WWDC) in late 2003 with the key objective “to significantly reduce the level of unmet housing need within West Wiltshire, by achieving a step-change in the provision of affordable housing in the district”. The specific target was “to deliver at least 400 new affordable rented homes by December 2011”¹

1.1.2 In April 2009 WWDC merged with four other councils to form Wiltshire Council. The need for affordable housing has not diminished as a result of this change and affordable housing remains a top priority for the new Council. Based on the current housing shortfall across Wiltshire and the need for more affordable homes, meeting the project objective is even more important now than at OBC stage.

1.1.3 Due to affordability considerations the project has been reduced from 400 to 350 homes to be delivered in two phases, but other objectives envisaged at OBC stage of providing good quality homes together with a ‘one stop shop’ service are provided for in the proposed contract with SHL.

1.2 Supporting a strategic approach to housing

1.2.1 At OBC stage the strategic case for the project was based on the Council’s increasing shortfall in the supply of new affordable homes combined with the affordability gap faced by households seeking to purchase a property on the open market within the WWDC area. At FBC stage the strategic case is unchanged i.e. there remains substantial unmet housing need and an unsustainable affordability gap for those seeking to purchase homes across the whole of Wiltshire.

Corporate priority

1.2.2 Affordable housing is a top Wiltshire priority. As stated in the Wiltshire Council Business Plan 2011-15:

“Wiltshire has an impressive record of creatively delivering new affordable homes. However, our delivery always falls short of a massive need. So at a time when it is increasingly difficult to deliver affordable homes through conventional routes, there is significant reassurance that Wiltshire is on the threshold of delivering the only affordable Housing PFI scheme in the South West.”²

¹ Market Brief (November 2006), page 11

² Wiltshire Council Business Plan 2011-2015 Final version, page 68

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- 1.2.3 The PFI project is a pivotal element of the Council's strategy to enable the development of 450 new affordable homes each year. Failure to meet this ambition would put increased pressure on other services, such as homelessness, the care service and health.

Strategic framework

- 1.2.4 The strategic framework for delivery of the corporate priority for affordable housing is provided by the forthcoming Wiltshire Core Strategy and Housing Strategy. Wiltshire's Core Strategy, itself a key component of the Local Development Framework, will describe the long-term vision and objectives for planning in Wiltshire.
- 1.2.5 The Housing Strategy, currently emerging from consultation, sets out the Council's approach to delivering housing services and meeting housing need in Wiltshire over the next five years. It has at its core the vision "to ensure that there is an adequate supply of good quality housing of all types and of all tenures, delivered to address the needs of people in Wiltshire."

1.3 Meeting housing need

Housing need and supply

- 1.3.1 The Council has recently commissioned Fordham Research to carry out a Strategic Housing Market Assessment (SHMA) to give the authority a comprehensive understanding of its housing market area in order to inform our strategic enabling role into the future, and to provide robust and credible evidence of the need for housing within the housing market area.
- 1.3.2 This Wiltshire-wide SHMA is currently in draft format and presents the following calculation (see Table 2 overleaf) of net annual need (i.e. the number of households who lack their own housing or who live in unsuitable housing and who cannot afford to meet their housing needs in the market) in Wiltshire:
- 1.3.3 We expect the final report to confirm an annual shortfall in the supply of new affordable homes of 3,862 units across Wiltshire. By way of comparison, at OBC stage, the annual shortfall for the former West Wiltshire area – covering approximately one quarter of Wiltshire – was 380 units. It can, therefore, be seen that the unmet need for affordable housing has risen steeply during the intervening period, thus strengthening the strategic case for this PFI project.

Table 2: Calculation of net annual housing need

Element	Number of homes
Current need	1,173
Current supply	889
Net current need	283
Future need	5,077
Future supply	1,498
Net future need	3,579
Total net annual need	3,862
Total gross annual need	6,250
Total gross annual supply	2,388
Total net annual need	3,862

Source: Draft Wiltshire Strategic Housing Market Assessment, Fordham Research 2011

1.3.4 Wiltshire’s choice based letting system (Homes 4 Wiltshire) operates an open housing register through which all members of the public are able to apply for housing. Applicants who apply to join the register are banded according to their housing need, if any. As at July 2011 there were a total of 14,969 households on the housing register, of whom 8,613 were recognised as being in need of affordable housing.

1.3.5 To put this into context the supply of new social rented homes over the last four years – representing the peak in the previous government’s investment in affordable housing – has been as shown in Table 3 below:

Table 3: Number of new social rented homes provided across Wiltshire

2007/8	2008/9	2009/10	2010/11
434	423	362	453

1.3.6 Even at these peak levels of supply, there has still been substantial unmet need. With the current squeeze on public finances, a moribund open market housing sector and the introduction of HCA’s new ‘affordable rent’ product, the PFI is now the critical means of delivering new social rented homes in Wiltshire.

Housing affordability

1.3.7 House prices in Wiltshire are higher than in many areas of the country. In the fourth quarter of 2010 the median house price in Wiltshire was

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£205,000, 8.5% higher than the South West median (£189,000) and 12.6% above the England average (£182,000).³

1.3.8 Affordability ratios are calculated by dividing house price by annual workplace-based earnings. Using median house prices and median earnings, Wiltshire had a median affordability ratio in 2010 of 8.3 (i.e. annual earnings x 8.3 = house price).⁴

1.3.9 However, the lower quartile ratio, based on lower quartile house prices and earnings, better reflects the affordability of the market for first time buyers and those on lower incomes. Table 4 shows the lower quartile ratios for Wiltshire in comparison to those of England and the South West:

Table 4: Ratio of lower quartile house price to lower quartile earnings 2002-2010.⁵

	2002	2003	2004	2005	2006	2007	2008	2009	2010
England	4.72	5.23	6.28	6.82	7.15	7.25	6.97	6.28	6.69
South-West	6.37	7.11	8.18	8.58	8.51	8.94	8.75	7.63	8.17
Wiltshire	7.19	8.03	8.84	8.50	8.76	9.16	8.58	8.09	8.57

1.3.10 It can be seen (from Table 4 above) that Wiltshire is comparatively less affordable than the South West as a whole. Even with the recent flattening out of house prices, the affordability of starter homes has only improved slightly upon the position as at OBC stage (2006) and is still worse than at expression of interest stage (2003).

1.3.11 If an earnings multiplier of 3.5 is assumed in order to secure a mortgage, then based on the median gross annual wage of Wiltshire residents in 2010 (£20,146), the most an average Wiltshire resident would be able to afford is just £70,511.⁶ In essence, home ownership remains out of reach for the vast majority of lower income households in Wiltshire, hence why the provision of new affordable homes through the PFI is such a priority for the Council.

³ Department of Communities and Local Government: Median House Prices Q4 2010.(582)

⁴ Department of Communities and Local Government: Median House Prices Q4 2010 / ONS Annual Survey of Hours & Earnings 2010.(577)

⁵ HM Land Registry House Prices 2010 / ONS Annual Survey of Hours & Earnings 2010 (576).

⁶ Annual gross income, median average, of all employees resident in Wiltshire (2010) – Source: ONS Annual Survey of Hours and Earnings 2010 (8.7a)

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1.4 Summary of project outputs

1.4.1 In summary terms:

- the project will deliver 350 new social rented homes, of which 242 units will be provided in the first phase and a further 108 in phase 2. This a reduction of 50 units from the 400 homes approved at OBC stage;
- these homes will achieve CSH Level 3 and meet Lifetime Home standards;
- the Council will have 100% nomination rights for the full period of the PFI contract, stepping down to 75% thereafter (for the remainder of the leases or in perpetuity for the freehold sites) as set out in the OBC;
- the PFI contractor will be incentivised through potential financial deductions to meet the specified service standards;
- the homes will be owned and operated by Sarsen Housing Association (as landlord/sub-contractor to SHL), a locally based SME; and
- the Council will have the option to acquire the assets upon termination/ expiry of the contract or to benefit from a potential overage share.

1.4.2 The project outputs and commentary are set out in greater detail at section 2.4 of this FBC.

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2 ECONOMIC CASE

2.1 Overview

2.1.1 The key objective of the project is to significantly reduce the level of unmet housing need within west Wiltshire by achieving a step-change in the provision of affordable housing. This section reviews and updates the options for meeting the Council's objective within an overall VfM solution.

2.1.2 Wiltshire's OBC was approved in March 2006, resulting in a maximum PFI credit allocation of £83m to procure the provision of 400 good quality affordable rented homes and services for a 30 year contract period. During the procurement process this has been reduced to 350 homes for a 22 and a half year contract period, with a credit allocation of £77m.

2.2 Option appraisal approach adopted at OBC and revised at FBC

2.2.1 At OBC stage the Council considered the following four options for meeting the project objective:

- The 'do minimum' option – continue the Council's existing housing enabling policies
- Large-scale Housing Corporation funded development programme
- Large-scale Council funded development programme
- Large-scale PFI funded development programme

2.2.2 Qualitative analysis at the time demonstrated that a large-scale PFI funded development programme was the only option that had realistic prospects of being fundable and deliverable, and of achieving the required step-change in the provision of affordable housing. This was, therefore, the Council's preferred option.

2.2.3 A large-scale Council funded development programme was identified as the Public Sector Comparator (PSC), even though it was only a theoretical option. The 'do nothing' option was excluded from the OBC stage option appraisal on the basis that the Council already did more than was required to meet its statutory obligations for provision of affordable housing. Further details of the options are set out in Table 5 overleaf:

Table 5: Options for meeting the project objective

Option		Commentary
Option 1	'Do minimum'	<p>The 'do minimum' option is a continuation of the Council's policies for enabling the provision of affordable housing. In other words, to maintain the status quo.</p> <p>The Council's S.106 policy requires developers to provide 30% affordable housing in urban areas (on sites of 25 units and above) and 50% in the villages (on all sites), on a nil subsidy basis, via RSLs.</p> <p>RSLs also provide affordable homes through multiple mixed funded schemes using Housing Corporation Social Housing Grant (SHG), RSL loans and capital funding from the Council. These are provided over an extended time period, with the homes being developed, owned, managed and maintained by one of six RSLs in the Council's preferred development partnership.</p> <p>The Council provides a proactive housing advice service to prevent customers from becoming homeless and providing temporary accommodation where appropriate. It also provides an effective housing needs service to ensure that affordable housing is allocated to those in greatest need, using choice based lettings.</p>
Option 2	Large-scale Housing Corporation funded development programme	<p>Provision of a substantial number of affordable homes over a relatively short time period, through a large-scale Housing Corporation SHG funded development programme, with the dwellings being developed, owned, managed and maintained by a single RSL or consortium of RSLs.</p>
Option 3	Large-scale Council funded development programme	<p>Provision of a substantial number of affordable homes over a relatively short time period, through a large-scale Council funded development programme, with the dwellings being developed, owned, managed and maintained by the Council or an external housing provider. This</p>

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		option is the Public Sector Comparator (PSC).
Option 4	Large-scale PFI funded development programme	Provision of a substantial number of affordable homes over a relatively short time period, through a large-scale PFI funded development programme, with the dwellings being developed, owned, managed and maintained by a single PFI contractor under the terms of a PFI services contract with the Council.

2.2.4 The above options remain current, save that the Housing Corporation has since merged with English Partnerships to form the HCA. The Council continues to do more than is required merely to meet its statutory duties to provide affordable housing and, therefore, the 'do nothing' option remains excluded.

2.2.5 A further qualitative analysis of these options has been carried out FBC stage, based on the original criteria as set out in Table 6 below. In this analysis the key success criteria have each been given equal weighting and have been scored from 1 (low) to 5 (high).

Table 6: Option appraisal assessment criteria

Key success criteria	Description
Needs suitability	Provision of accommodation of the required size, type, quality and location to meet the identified housing need in the district (county).
Supply impact	Provision of affordable homes on a sufficient scale and within a timescale to have a significant impact on the identified housing need in the district (county).
Funding availability	Availability of sufficient capital and revenue funding to deliver the required number of homes within the required timescale.
Service standards	Provision of housing management and maintenance services to the standards expected by the Council.
Deliverability	Likelihood of the required homes and services being provided based on the land supply in the district (county), market interest and available funding.

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2.2.6 The results of this further analysis, as summarised in the Table 7 and with the supporting information provided in Appendix 3.1, demonstrate that the PFI funded programme remains as the Council's preferred option. In reality, given the condition of the housing market and the pressures on public finances, this is the only option that has realistic prospects of being fundable and deliverable within the foreseeable period.

2.2.7 While the Council funded development programme is still identified as the PSC, this would be neither fundable nor deliverable under current circumstances and, therefore, remains a theoretical option only.

Table 7: Summary of option appraisal scores at FBC and OBC

Options	Key success criteria/scores FBC stage/(OBC stage)					
	Needs suitability	Supply impact	Funding availability	Service standards	Deliverability	Total
Option 1 – 'do minimum'	3/5 (3/5)	1/5 (1/5)	1/5 (1/5)	3/5 (2/5)	1/5 (1/5)	9/25 (8/25)
Option 2 – Housing Corporation/HCA funded programme	3/5 (4/5)	5/5 (3/5)	1/5 (1/5)	3/5 (3/5)	1/5 (1/5)	13/25 (12/25)
Option 3 – Council funded programme	5/5 (5/5)	5/5 (3/5)	1/5 (1/5)	5/5 (5/5)	1/5 (1/5)	17/25 (15/25)
Option 4 – PFI funded programme	5/5 (4/5)	5/5 (5/5)	5/5 (5/5)	4/5 (4/5)	4/5 (3/5)	23/25 (21/25)

2.3 Scheme development post-OBC

2.3.1 Wiltshire's OBC was endorsed by Project Review Group in March 2006. The project has been in procurement for more than five years and has inevitably been subject to some change during that period. A summary of material changes to the scope of the project, as originally envisaged at OBC stage, is set out in Table 8 overleaf.

Table 8: Summary of changes to project scope since OBC endorsement

November 2006	Adjustment of the EcoHomes rating (see OBC page 69) from 'Excellent' to 'Very Good' (now CSH Level 3) in order to align this with Housing Corporation requirements and due to the ineligibility of enhanced standards for PFI credit support.
November 2006 and November 2008	<p>Adjustment of the 'housing supply requirement by unit type' (see OBC page 67) to reflect current and projected housing need. Revisions to the 'housing supply requirement by location' (see OBC page 68) to reflect land supply and planning issues within west Wiltshire, including with regard to the deliverability of rural homes.</p> <p>It was always anticipated that the housing supply requirements would be kept under review during the procurement and that flexibility would be required in terms of the location of the sites (see OBC page 67).</p>
September 2008	Removal of the requirement for a 15 unit 'virtual Foyer' scheme (see OBC page 23 etc.), due to recognition that this was too small to achieve financial viability and that a county-wide solution would be preferable. Our requirement for young person's accommodation is now being fulfilled from outside of the project, but all PFI tenancies will be open to 16 and 17 year olds.
November 2009	Agreement reached to reduce the overall size of the project from 400 homes to 350 units and for the PFI credit allocation to remain unchanged at £83m in order to offset the increase in funding costs since late 2008. Further details and explanation, including on a quantified basis, are set out in the paragraphs which follow this table.
November 2009	Agreement also reached for the project to be delivered on a phased basis, due to planning and timing issues, with 242 homes being delivered in the first phase and the balance to be brought forward in a further phase, post-phase 1 financial close. Further details and explanation regarding the procurement implications are set out in the paragraphs which follow this table.
October 2010	Confirmation that the rents to be charged for the 15 units of temporary accommodation will be market rents (up to Local Housing Allowance) in order to achieve a VfM solution for the management of these units and to align with general practice for such accommodation. This is provided for within the definition of "Agreed Rent" in the Project Agreement.

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	It was always anticipated that differential rents may apply to the temporary accommodation units (see OBC page 60 etc.).
July 2011	Reduction in the contract period (see OBC page 90 etc.) from 30 years (from financial close) to 20 years (from full service commencement) in order to achieve a targeted reduction in PFI credit of at least 5%.

2.3.2 Several of the above changes are 'evolutionary rather than revolutionary' i.e. they have arisen during the course of fine tuning the Council's requirements in order to provide a deliverable, VfM project that meets local needs.

2.3.3 However, two issues are of significance. Firstly, the project's affordability was affected by the deterioration in funding terms in late 2008 and this has necessitated a reduction in size from 400 to 350 units. Secondly, planning issues required the substitution of some of the original sites planned for the project and a two phased approach to the procurement. Further explanation and details of these issues are set out below.

Reduction to 350 homes

2.3.4 In late 2008, adverse movements in funding terms meant that the project became significantly unaffordable, as evidenced by the priced bids received from SHL at ISDS stage in January 2009 and shown in Table 9 below:

Table 9: Financial model comparison

Financial models (all 400 units)	Funding terms used	Unitary charge (£'000s)	Unitary charge affordable?
1. Grant Thornton shadow tariff Model	July 2008	6,200	Yes
2. Bidder ISDS model	January 2009	7,937	No
3. Bidder post-negotiation model	July 2009	7,037	No
4. Bidder post-negotiation model	July 2008	6,001	Yes

2.3.5 It can be seen that, following negotiations with the bidder after receipt of their ISDS bid, almost £1m per annum was removed from the unitary

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charge (UC) (by comparison of models 2 and 3 in Table 9).
 Furthermore, had funding remained at July 2008 terms, the post-negotiation bidder model would have been affordable (as per model 4 in Table 9).

2.3.6 The respective funding terms for July 2008, January 2009 (ISDS bid) and July 2009 (post-negotiation model) are set out in Table 10 below:

Table 10: Funding terms comparison

	July 2008	January December 2009	July 2009
Participation	100%	100%	100%
Arrangement fee	200 bps	210 bps	210 bps
Commitment fee (% of applicable margin)	125%	50%	50%
Margin during construction			
- Senior debt 1	80 bps	250 bps	250 bps
- Senior debt 2 (RV)	80 bps	250 bps	260 bps
Margin after construction			
- Senior debt 1	85 bps	230 bps	245 bps
Years 1 - 10	90 bps	240 bps	260.bps
Years 11 – 20	95 bps	260 bps	275 bps
Years 21 +			
- Senior debt 2 (RV)	95 bps	235 bps	255 bps
Years 1 - 10	95 bps	250 bps	270 bps
Years 11 – 20	95 bps	275 bps	285 bps
Years 21 +			
Equity bridge	80 bps	175 bps	175 bps
MLAs	10 bps	2 bps	
Credit spread	15 bps	30 bps	
Minimum DSCR	1.160	1.170	1.17
Minimum LLCR	1.180	1.185	1.20
Agency fees			
- Construction	£20,000	£20,000	
- Operations	£15,000	£15,000	

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2.3.7 In order to resolve this affordability issue it was agreed to down-size the project from 400 to 350 units with the PFI credit allocation of £83m remaining unchanged. This reduction in the scope of the project was approved by the Council's Cabinet on 24 November 2009 (see Appendix 27.1 and 27.2 for the report and minutes respectively).

Two phase project

2.3.8 At the same time as the project was reduced to 350 units for affordability reasons, agreement was also reached to adopt a phased approach as a result of two private sector sites being refused planning permission for the PFI units. This change was also approved by Cabinet on 24 November 2009.

2.3.9 Thus the FBC proposal is for 350 homes to be delivered in two phases, with 242 units being provided in the first phase and a further 108 in phase 2. The Council and its previous legal advisers, McClure Naismith, have undertaken a full analysis of the procurement risks associated with the suggestion of a phase 1 only project, whether or not only on Council provided land – see Appendix 32.1 for the procurement advice.

2.3.10 In summary, this would constitute a material departure from the project OJEU notice and would, therefore, expose the Council to an unacceptable risk of procurement challenge. This concern does not, however, extend to the phased 350 home project on both Council and private sector land. In view of the significance of this issue the Council confirms that it would not, under any circumstances (i.e. whether due to factors inside or outside of the Council's control), be able to enter into a single phase contract for 242 units.

2.4 Revised table of outputs

2.4.1 The final scope of the project at FBC stage is summarised in Table 11 below. This reflects the anticipated position at financial close:

Table 11: Summary of final scope of the project

Site name	Location	Ownership	Number of units
Phase 1			
Broad Street	Trowbridge	Council	31
Hillside	Warminster	Council	33
Leigh Park R1D	Westbury	Persimmon	25
Leigh Park R11	Westbury	Persimmon	28

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Manor School	Melksham	Sarsen	51				
Paxcroft Mead	Hilperton	Council	18				
Victoria Road	Warminster	Persimmon	32				
York Buildings	Trowbridge	Council	24				
		Sub-total (Council)	106				
		Sub-total (SHL)	136				
		Sub-total (phase 1 overall)	242				
Phase 2							
East Trowbridge	Trowbridge	Persimmon	60				
Southview Farm	Trowbridge	Council	48				
		Sub-total (phase 2)	108				
Total							
Phase 1			242				
Phase 2			108				
		Total	350				
Reserve site							
Margaret Stancomb School	Trowbridge	Council	18				
Type/ number of units	1 bed flat	2 bed flat	2 bed bung- alow	2 bed house	3 bed house	4 bed house	Total
Phase 1	18	65	13	96	40	10	242
Phase 2	21	14	0	53	17	3	108
Total	39	79	13	149	57	13	350
%	11.1	22.6	3.7	42.6	16.3	3.7	100
<ul style="list-style-type: none"> • 100% of units to achieve CSH Level 3 • 100% of units to meet Lifetime Home standards (in order to reflect Wiltshire's demographics and to ensure people will want to live in the homes for the contract period, thus mitigating against the possibility of low demand for the project) 							
<ul style="list-style-type: none"> • 100% nomination rights for 20 years from full service commencement • 75% post-contract nomination rights 							
<ul style="list-style-type: none"> • 335 (95.7%) general needs units at social housing rents (target rents) • 15 (4.3%) units of temporary accommodation at market rents (Local Housing Allowance) 							

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<ul style="list-style-type: none">• 154 (44%) units on Council provided sites at nil cost• 51 (15%) units on contractor provided sites at nil cost (this is the Manor School site, where the Council will recycle the £1.1m capital receipt from Sarsen as a capital contribution to the project – see section 4.5 for further details)• 145 (41%) units on contractor provided sites at market value)
<ul style="list-style-type: none">• 139 (39.7%) units on brownfield sites• 295 (84.3%) units using modern methods of construction

Post-contract nomination rights

- 2.4.2 The Council confirms that, in accordance with the September 2010 Non-HRA Guidance, it has secured 100% nomination rights to the 350 homes for the duration of the contract. There will be a separate Nomination Agreement per site – these will run with the land (either via the 125 year leases for the Council provided sites or as an encumbrance against the title of the contractor provided sites) and not, therefore, be co-terminus with the contract (except in the case of authority default or where the Council elects to take (back) the assets).
- 2.4.3 Furthermore, all allocations to the 335 general needs units will be made through the Council's choice based lettings system (Homes 4 Wiltshire), to which all Wiltshire registered providers including Sarsen subscribe. Allocations to the 15 units of temporary accommodation will be managed by the Council's housing options team, which supports homeless households.
- 2.4.4 Also in accordance with the Non-HRA Guidance, the Council has considered its options for securing nomination rights during the term residue i.e. the post-contract period. In its approach to this matter the Council has recognised the potential impact on residual value (RV) of an overly high requirement (bearing in mind the fact that the project has sought to optimise RV) and the experience from past projects that authorities tend to impose post-contract nomination rights at a lower level and/or for a limited period.
- 2.4.5 At OBC stage the Council indicated that it would require 75% post-contract nomination rights. Following commercial discussions with the bidder it has been established that, were this requirement to be increased, there would be a detrimental impact on the affordability of the project.
- 2.4.6 In its priced bid at ISDS stage SHL indicated that, rather than allowing higher nomination percentages to erode its RV offer (as would normally be the case), it will hold its RV sum, but would introduce a premium on the UC. Were the Council to require 100% post-contract nomination rights (as opposed to the 75% stated in the OBC), this would cause the UC to increase by in excess of £200,000 per annum.

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2.4.7 By way of further explanation, the project RV position i.e. Sarsen underwriting a tranche of debt based on the forecast value inherent in the assets beyond the PFI term, is based on the following assumptions:

- 100% of the units will be retained as general needs social rented housing, managed and maintained to equivalent standards to those required under the PFI contract, with total forecast future rental income minus all forecast future costs (including lifecycle) over the remaining useful life of the units discounted back to a base date of project expiry; and
- notwithstanding Sarsen's stated position and full intention to retain 100% of the units as social housing within its core business, there is flexibility to dispose of up to 25% of the units (subject of course to consent by the Tenant Services Authority or replacement body, due to Sarsen being a registered provider) to bridge any shortfall in RV upon project expiry.

2.4.8 In the Council's assessment the probability of any disposals being required is remote. Furthermore, since all affordable housing allocations in Wiltshire come through the Council, the reality of the situation is that we expect Sarsen to look for the Council to provide nominations to 100% of the homes during the post-contract period, irrespective of the 75% figure across the Nomination Agreements.

2.4.9 The Council, therefore, expects to receive the benefit of 100% nomination rights, but without paying any premium (in excess of £200,000 per annum) on the UC. Consequently, in the context of Wiltshire's project, 75% post-contract nomination rights (as per the OBC) are considered to represent the best VfM solution.

Benefits realisation

2.4.10 The Council is essentially procuring the supply of nomination rights to good quality, well managed and maintained homes and, importantly, given the limited land availability in Wiltshire, procuring the supply of half of these homes on private sector land. The benefits of the project will, therefore, begin to flow as soon as contracts are signed and the private sector land becomes available for social housing – and will then follow from service commencement in respect of the first completed homes throughout the contract period and into the post-contract period.

2.4.11 The anticipated ramp up of completed units is set out in Schedule 15 of the contract. This will form the baseline against which SHL's delivery of homes ready for occupation will be measured. There are longstop dates within the contract by which SHL must achieve certification of availability in respect of certain cumulative numbers of units, or face contractor default. The Council will not be paying for units that are yet to become available or that become available ahead of schedule.

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2.4.12 15 of the units will be used as temporary accommodation and, thus, benefits will accrue from both the provision of permanent housing and a reduction in the use of bed and breakfast type accommodation. These will be quantifiable and cost saving – see the benefits realisation plan at Appendix 24.1 for further details.

2.4.13 In addition the Council expects quantifiable and qualitative benefits to accrue from the creation of sustainable communities, with residents housed in good quality, well designed homes and supported by good management and maintenance standards into the future – see the Output Specification at Appendix 28.1 and 28.2, which sets out these standards.

2.4.14 At OBC stage the Council set an indicative target of providing 25 construction apprenticeships for the 400 home project, although it was acknowledged that further work was required in order to confirm an appropriate target that could be realistically achieved.

2.4.15 Through negotiation with SHL and its building contractor, Westbury Partnerships has confirmed that it will offer two apprenticeship opportunities per site i.e. 20 apprentices for the 350 home project. The total anticipated number of directly employed (by Westbury Partnerships) jobs and training places during the construction of the 350 homes is set out in Table 12 below:

Table 12: Employment and training outputs over the construction period

Job/training places	Number in total/per site	Number of sites	Total number of jobs/training places
Project/contract manager	1	N/A	1
Forklift driver	1	10	10
Labourer	1	10	10
Assistant quantity surveyor	1	N/A	1
Site manager	1	N/A	1
Assistant site manager	1	N/A	1
Apprentices	2	10	20
Total			44

2.4.16 Westbury is in the process of awarding the individual construction sub-contract packages, and the Council confirms that the anticipated total number of jobs and training places at sub-contract level will be included within a baseline assessment for the whole project, to be provided within three months of financial close.

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2.4.17 With regard to the operational period, the following outputs (as set out in Table 13 below) will be generated by SHL and Sarsen from the full 350 home project:

Table 13: Employment outputs over the operational period

Organisation	Full time equivalent posts
SHL	1 x SPV manager
Sarsen Housing Association	1 x Sarsen contract manager 1 x helpdesk coordinator 1 x housing officer 1 x housing assistant 0.5 x PFI administrator 1 x caretaker
Total	6.5

Benefits realisation plan and baseline assessment

2.4.18 The Council's benefits realisation plan at Appendix 24.1 summarises the benefits expected as described above, including cash releasing (cost saving) targets and qualitative benefits, and the targets which the Council intends to monitor. Specific targets will be set in the baseline assessment that will be developed, in conjunction with the bidder, in the immediate implementation period and forwarded to HCA/DCLG within three months of financial close.

Design standards and environmental issues

2.4.19 All eight sites in phase 1 of the project now have full planning permission. We are confident that the completed developments will have a high degree of 'kerb appeal' and that the dwellings will be 'tenure neutral' in their appearance.

2.4.20 With the focus on lifecycle costing and maintaining the availability standards over the life of the contract, the quality of the built product reflects design considerations which aim for longer term value and efficiencies, thus ensuring that the developments will have a long life-span as popular and attractive places in which to live. This is reflected in the substantial level of RV offered by the bidder, as discussed in section 3.3.

2.4.21 All sites and dwellings will achieve compliance with the (former) Housing Corporation's Design and Quality Standards (DQS) (April 2007), including the recommended standards in Annex 2 of the DQS (apart from future loft conversions).

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2.4.22 The PFI homes will achieve CSH Level 3, including compliance with Building Regulations, and incorporate a number of environmentally sustainable features such as low water consumption fittings and energy efficient lighting.

2.4.23 In addition, all of the units will be built to Lifetime Home standards. The Council does not consider this to be an additional cost to the project, rather an approach to the design of the units which means they are suitable (and adaptable) for a wide range of occupiers, taking into account mobility needs etc, within acceptable space standards that have been benchmarked against other housing PFI projects. Given the ageing profile of Wiltshire residents this is necessary to mitigate the risk of future low demand.

2.5 Quantitative and qualitative assessment of value for money

2.5.1 The Council has completed the FBC stage VfM and optimism bias (OB) assessment for both the PFI and PSC options in accordance with Annex 2 of the *HM-Treasury Major Project Approval and Assurance Guidance Implications for DCLG PFI Projects in Procurement – TAP DCLG briefing note: 7 September 2011 (updated v3)*.

DCLG financial model

2.5.2 In accordance with this guidance we have used the VfM quantitative assessment tool contained within the DCLG housing PFI financial model to generate the NPV of the PSC, which has then been compared with the NPV of the PFI option calculated outside of the DCLG model.

2.5.3 A workshop was held on 23 September 2011 to consider the movement in OB from OBC to FBC stage. This involved the Council together with its technical (Mott MacDonald) and financial (Grant Thornton) advisers. Following this workshop, OB has been applied in the VfM assessment, as set out in Table 14 overleaf.

2.5.4 The completed VfM assessment (adopting the methodology prescribed in Annex 2 of the *DCLG briefing note: 7 September 2011 (updated v3)*) is shown at Appendix 6.1. The OB figures within this VfM assessment are set out in Table 14, with supporting text provided in Appendix 12.8 (Advisory Template 4).

2.5.5 It is noted that the OB percentages applied at OBC stage, and used in this assessment, are relatively low when considered alongside the upper bands for other projects of this type. It has, however, always been the intention of the Council with its advisers to use robust cost estimates and this, coupled with the standard build nature of the project assets, is the justification for the OB percentages assumed within the project.

Table 14: Optimism bias adjustment applied in the VfM assessment

Optimism bias	OBC stage		FBC stage	
	PFI option	PSC option	PFI option	PSC option
Pre-financial close (FC)	9.00% (Capex) 10.00% (Opex) 9.00% (Lifecycle)	9.00% (Capex) 10.00% (Opex) 9.00% (Lifecycle)	No OB applied for phase 1 (242 units) due to cost position and December 2011 FC date. Reduced OB applied for phase 2 (108 units) as per PSC option 6.11% (Capex) 8.20% (Opex) 6.00% (Lifecycle)	6.11% (Capex) 8.20% (Opex) 6.00% (Lifecycle)
Post-FC	No OB applied to the PFI because the contract price would be set at FBC stage and this would not change.	9.50% (Capex) 10.50% (Opex) 9.50% (Lifecycle)	No OB applied due to risk of cost overruns transferred to PFI contractor.	9.50% (Capex) 10.50% (Opex) 9.50% (Lifecycle)
Commentary				
<p>The starting point for OB (i.e. the PSC option at OBC stage) was set at 75% of the Upper Bound for Standard Buildings as contained in HMT's Supplementary (Green Book) Guidance i.e. 18.5%, with regard to which:</p> <ul style="list-style-type: none"> • the 18.5% was spread over pre and post-FC; • the pre-FC OB at FBC stage has been reduced from that at OBC stage, reflecting better knowledge of costs from the PFI procurement; • for the PFI option this is only applied to phase 2 (108 units); and • mitigating factors for the individual OB elements are contained within the completed DCLG Model (Appendix 7.1). 				

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2.5.6 The completed VfM quantitative assessment tool (spreadsheet) is attached as Appendix 7.1 and the separate VfM calculation at Appendix 7.2. This second spreadsheet indicates a VfM percentage of 7.74%. In other words the cost of the PSC option would have to be reduced by 7.74% in order to achieve cost neutrality with the PFI option and, therefore, the PFI solution provides project VfM.

Treasury Stage 3 assessment

2.5.7 In addition to the above quantitative assessment of project VfM, the completed Treasury Stage 3 qualitative VfM assessment is set out at Appendix 4.1 of this FBC. It is acknowledged by the Council that there are a number of key issues in relation to this project, of which Persimmon land, single bidder and phased approach are discussed in the Stage 3 assessment. The key strands this assessment are summarised and discussed below:

2.5.8 Market failure: Prior to commencing the procurement, the Council undertook significant soft market testing which demonstrated a high level of interest in the project, particularly from housing associations. Market feedback has been used throughout the procurement, including to 'stress test' the Council's shadow bid model assumptions and to generally inform project development.

2.5.9 The project attracted strong initial market interest – 50 expressions of interest were received following publication of the OJEU notice and a successful bidders' day was held, with over 25 organisations attending. It is significant that, while the requirement for at least 50% of the sites to be provided by the private sector was acknowledged as a risk, no major concerns were raised by the market. Five potential bidders specifically indicated that they would be prepared to utilise existing land holdings and/or were land banking for the project.

2.5.10 Following the strong initial interest there was a limited market response at PQQ/ISOS stage. Two responses were received from strong bidders covering all aspects of the project, including with deliverable approaches to meeting the land requirement. One of these bidders withdrew from the procurement shortly before the deadline for submission of a priced ISDS bid and, in discussions with DCLG, it was decided to continue to progress the project.

2.5.11 Given the early market interest in the project, the single bidder situation could not have been reasonably foreseen by the Council. The Council's procurement approach, both prior to and since the ISDS submission, has achieved optimal VfM from the final solution. The Council also considers that, with the added scrutiny of the project brought about by its single bidder status, the VfM of this solution is equivalent to that which would have been achieved through a procurement which included competition throughout.

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2.5.12 Efficient procurement process: The single bidder procurement and certain (e.g. site related) issues directly associated with the project, combined with the wider economic climate (e.g. affordability implications of adverse movements in debt terms) have caused the procurement to be delayed. However, the Council has ensured that the bidder's costs have not been allowed to escalate unduly, while also committing significant resources itself to the project in order to deliver the most efficient procurement possible.

2.5.13 Risk transfer: Irrespective of the challenges faced by the project, the Council and SHL have negotiated a scheme that remains suitable for delivery through the PFI and which provides optimal risk transfer (e.g. around RV) to ensure best VfM.

2.6 Conclusion on VfM

2.6.1 As can be seen from above, both the qualitative and quantitative VfM assessments demonstrate that the PFI option continues to offer improved VfM over the PSC option, at FBC stage as it did at OBC.

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3 COMMERCIAL CASE

3.1 Overview

- 3.1.1 The unique feature of Wiltshire's Non-HRA project, as agreed at OBC stage, is that it will and must increase the supply of affordable housing land within the former WWDC area in order to meet the project objective (albeit that the Council now manages its affordable housing supply on a county-wide basis). This has meant that the market response was limited to those organisations that were capable of providing private sector land for half of the homes.
- 3.1.2 Since 2008 the Council has been negotiating the project with a single bidder, SHL – an SPV 100% owned and controlled by Sarsen Housing Association. Sarsen is a locally based SME, part of the Aster Group and one of Wiltshire's preferred development partners.
- 3.1.3 The Council is confident that, following robust and detailed negotiations, SHL's bid provides good and acceptable VfM. This FBC supports a commercially viable project to deliver 350 much needed affordable homes, while providing good VfM for the public purse.

3.2 Procurement process

Competition at key stages

- 3.2.1 The OJEU contract notice was issued in November 2006, under the EU competitive dialogue procedure. There was good early interest in the project with more than 50 expressions of interest received and over 25 organisations attending the bidders' day. This was in line with the soft market testing undertaken at OBC stage which indicated good interest in the project and, while the requirement for at least 50% of the sites to be provided by the preferred bidder was acknowledged as a risk, no major concerns were expressed by the participants.
- 3.2.2 Four potential bidders said they would be prepared to utilise existing land holdings and/or would actively land bank for the project, and a fifth indicated that they were at the early stages of land banking. Further interest from private sector home builders showed they might be interested in supplying land depending on the state of the housing market.
- 3.2.3 The Council's research at OBC stage demonstrated that there was a forward land supply for 6,412 new homes in the former WWDC area over the anticipated delivery period of the project. A prudent view was taken that, even if all of the sites with current planning permission and half of the allocated housing sites were no longer available by financial close, there would still have been enough land for approximately 3,000 units. On this basis the Council was confident that bidders would be

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able to provide the land for at least 200 units and that a competitive procurement process was, therefore, likely.

- 3.2.4 In January 2007 pre-qualification questionnaire/invitation to submit outline solutions (PQQ/ISOS) responses were received from two bidders:
- West Wiltshire Homes Partnership (WWHP) – a joint venture between West Wiltshire Housing Society, Jephson Homes Housing Association and EG Carter and Co; and
 - SPS Homes – a consortium comprising of Sarsen Housing Association, Somer Community Housing Trust, Persimmon Homes and Barclays Bank.
- 3.2.5 At this stage it was acknowledged by some potential bidders that land banking had become more of an issue for them than was originally anticipated and, in particular, they had concerns regarding the risks of acquiring the land within the time constraints of the PFI procurement.
- 3.2.6 However, following evaluation of the above submissions the Council was confident that it had two good bidders – sufficient to ensure strong competitive tension. Both bidders were invited to submit detailed solutions and the Council's ISDS documentation was issued in November 2007.
- 3.2.7 Regrettably in March 2008 WWHP withdrew from the procurement, prior to submission of detailed solutions, leaving SPS as the sole bidder. At this point the Council undertook a detailed assessment of the options for going forward with the project, as attached at Appendix 36.1. Agreement was subsequently reached with DCLG (May 2008) to continue the procurement, subject to robust demonstration of VfM, and anticipated more efficient and faster procurement.
- 3.2.8 The Council took external legal advice on the impact of the Public Procurement Regulations 2006 on the withdrawal from the competitive dialogue procedure of one of the two bidders invited to submit detailed solutions. The Regulations require, in respect of the competitive dialogue procedure, that the contracting authority shall ensure the number of bidders invited to participate in the final stages of dialogue is sufficient to ensure genuine competition.
- 3.2.9 We were advised that it was not possible to satisfy the “genuine competition” requirement with only one bidder and, therefore, the Council needed to abandon (in legal terms) the competitive dialogue that it was engaged in and to either re-advertise the contract under a new procedure or continue negotiating the terms of the contract with the remaining bidder on the basis of the negotiated procedure without prior publication of a contract notice.

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3.2.10 After careful consideration the Council concluded that, of these two options, continuing the procurement under the negotiated procedure was likely to bring the project to a successful conclusion more quickly and with greater certainty than re-advertising the contract. Both SPS and WWHP were notified of this change (to the negotiated procedure) in July 2008 and no objections were received.

3.2.11 Changes within the Sarsen-led consortium have been as follows. In October 2008, Somer withdrew and was replaced by Barclays Private Equity (BPE) (and the bidder became SPB Homes). BPE ceased to be part of the consortium in August 2010 and Sarsen is now the sole equity investor in the SPV (SHL). Persimmon Homes/Westbury Partnerships (land provider and construction sub-contractor) and Barclays Bank (senior lender) remain as non-equity investing consortium members. At the time of each change, the bidder's viability has been reviewed and confirmed.

3.2.12 The negotiated procurement route in response to SHL as sole bidder has been reflected in the Council's approach to tender evaluation, which has involved a rigorous analysis of the elements of SHL's bid to drive down costs, and deliver efficiency savings and VfM against a continuous benchmarking process. This is set out in detail in the following paragraphs.

VfM of funding solution

3.2.13 In order to ensure the VfM of the funding solution the Council, in conjunction with the bidder, has addressed this in three stages by:

- isolating the impact of adverse movements in the funding market;
- running funding competitions; and
- benchmarking terms continuously, including up to financial close

as is set out in some detail under the following two sub-headings:

Isolating adverse movements in the funding market and funding competitions

3.2.14 As stated above, SHL's ISDS model in January 2009 was unaffordable. This was despite them having run a funding competition in late 2008 in response to the increasing terms being seen in the PFI market, and put in place a funding club of Nationwide Building Society, Nord LB and SMBC.

3.2.15 In order to establish that the affordability problems were due only to the deterioration in the funding market, and to provide a stable platform and clarity of finance cost changes during negotiations with the bidder, the Council requested SHL to run ISDS models using its July 2008 funding terms i.e. before the deterioration in market conditions. This is summarised in Table 9 in section 2.3 above.

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- 3.2.16 With the gradual return of confidence to the PFI market in late 2009, SHL ran a second funding competition involving six funding institutions and selected Barclays as senior lender to replace the club of three banks at ISDS stage. Although Barclays and RBS offered comparable pricing through this competition, Barclays was selected on the basis of its greater experience of delivering Non-HRA projects and, in particular, its participation in the Brent housing PFI project which featured a phased approach similar to Wiltshire's.
- 3.2.17 As set out above, a formal funding competition was carried out to identify the best available terms, with Barclays and RBS showing similar terms. Barclays' greater experience in the housing PFI sector was a material factor in deciding to proceed with them as funder, subject always to ongoing benchmarking of terms against alternative lenders with the right to call a subsequent funding competition retained by the bidder and/or the Council in accordance with Treasury guidance.
- 3.2.18 Barclays' terms are being and will be kept under review up to financial close in order to ensure that they continue to offer VfM. This ongoing review and challenge has resulted in further improvements as follows:
- 3.2.19 Removal of the need for an equity bridge from the funder and replacement with direct funding of the sub-debt by Aster Group (Sarsen's parent company): This attracts the same coupon as an equity bridge during construction and 12% during operations. This change has had the following impact (as set out in Table 15 below):

Table 15: Benefit of removal of equity bridge

	Nominal (£'000s) benefit	Estimated UC benefit (£'000s)
Arrangement fees (2.1%)	156	12
Commitment fees (0.88% p.a.)	37	3
Letter of credit cost	465	37
Total	658	52

- 3.2.20 Improvement of the funding term margins since August 2011 as set out in Table 16 overleaf: Details of the final funding terms are set out within the completed DCLG financial proforma 1b, attached as Appendix 12.1.

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Table 16: Funding term improvement since August 2011

	August 2011	Latest	UC impact (£'000s)
Commitment fee	125bps	120bps	
Interest rate margin – tranche A and B (construction)	250bps	240bps	
Interest rate margin – tranche B (operations years 1-10)	250bps	245bps	
Overall UC impact			25

The approach to driving best VfM up to financial close

3.2.21 SHL's financial advisers, PKF, are benchmarking the terms provided by Barclays by way of comparison with similar Non-HRA projects, in order to ensure consistency of pricing. Since there are no recently closed housing PFIs this is being done by reference to three current Non-HRA projects that are at or near appointing preferred bidder. This work has been ongoing since ISDS submission and will continue up to financial close in December 2011.

3.2.22 The benchmarking process is also being challenged by the Council's financial advisers, Grant Thornton, with specialist input from J C Rathbone Associates, based on their current experience of the PFI market. Such dialogue will continue up to financial close and any further funding term improvements will be incorporated into the financial close financial model.

3.2.23 The principal debt terms being benchmarked are:

- arrangement fees;
- interest rate margins (tranche A and B), during and after construction;
- minimum and average debt service cover ratio (DSCR) and loan life cover ratio (LLCR); and
- debt service reserve account (DSRA) or debt service reserve facility (DSRF).

3.2.24 In readiness for financial close, Barclays is already seeking the necessary (credit committee) approvals i.e. prior to FBC submission. However, should the Council at any point consider that Barclays' terms do not offer VfM (and it is not satisfied with the steps being taken by SHL to resolve the situation) then it has reserved the right to call a full

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funding competition. Clearly the Council would need to consider the cost/benefit and timing implications when deciding whether to call a competition under these circumstances.

3.2.25 In summary, the Council and its advisers are keeping the funding costs of the project under close scrutiny through working closely with the bidder and maintaining the option for a pre-financial close funding competition. SHL and its advisers have worked hard to drive down funding costs as the project has progressed from ISDS submission in line with the changing conditions for project finance lending in the market.

Commissioning an independent review of the Persimmon land price

3.2.26 Wiltshire's project was tendered specifically on the basis of the private sector being required to provide land for 50% of the homes. This was in line with the OBC and the extensive work undertaken by WWDC to establish that its level of housing need required private sector land to be brought forward, in addition to its own land supply, and to test that this requirement would be deliverable and affordable. The OBC, therefore, included a modelled assumption that land would be provided by the preferred bidder, who would be paid market value for this land.

3.2.27 In phase 1 the private sector land is coming from two sources – one site (51 units) will be provided by Sarsen (but as this is a former Wiltshire County Council site now owned by Wiltshire Council the land value of this site will be recycled as a capital contribution – see section 4.5 and Appendix 13.1) and three further sites (85 units) will be provided by Persimmon, with whom Sarsen has a strategic relationship.

3.2.28 The cost to the project of the phase 1 Persimmon land is £9.2m. The Council recognised the need to obtain independent valuation advice to support its review of the reasonableness of this land price. King Sturge was selected, and the reports they produced have been used by the Council to support and ensure that the negotiation process between SHL and Persimmon has been robust, and has led to a price which the Council considers to be reasonable.

3.2.29 It should be noted that the three Persimmon site areas for the PFI project form part of two larger Persimmon open market housing sites (Leigh Park and Victoria Road) and these PFI site areas are available fully serviced with access, utilities and drainage, and already had outline/detailed planning permission for medium value open market sale housing before the PFI negotiations were concluded.

3.2.30 Both the Council and SHL have been scrupulous to ensure that Persimmon's continuing section 106 (s106) obligations for the larger Persimmon sites, including the PFI site areas, will continue to be met in

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full by Persimmon at no cost to the PFI project. With regard to the s106 affordable housing requirement:

- where the PFI site area in question (Victoria Road and Leigh Park R11) is subject to s106 affordable housing requirements in respect of the larger Persimmon site, then the required number of s106 units will be provided in full, but not on the PFI site areas i.e. the PFI affordable homes will be provided in addition to and not instead of the s106 units; and
- where the PFI site area (Leigh Park R1D) is not subject to s106 affordable housing requirements in respect of the larger Persimmon site, then the PFI site area will provide 100% s106 affordable housing with grant i.e. the PFI funded units will be required to remain as affordable housing in perpetuity.

3.2.31 This has been a challenging matter for the Council to resolve, given the complicated planning history of the Persimmon sites. However, the Council is confident that the agreed planning gain in respect of the larger Persimmon sites will be delivered in full by Persimmon at no cost to the PFI project, in addition to the affordable homes to be provided on the PFI site areas.

3.2.32 This will result in an increase in the total number of social rented homes to be provided on the Victoria Road and Leigh Park sites from 96 to 176 units i.e. an increase of 80 units. This is explained in detail, with figures, in the letter at Appendix 37.1.

3.2.33 These special assumptions have been allowed for by King Sturge in their assessment of the reasonableness of the Persimmon land price. In addition, Persimmon's position from the outset of the negotiations has been that any commercial deal must reflect the normal return from a traditional sales situation i.e. it should receive payment of the land value plus compensation for the developer's profit that it would have received had it built out and sold the homes on the open market.

3.2.34 The Council has accepted that, without this compensation element, there would be no driver for Persimmon to provide sites for the PFI project and this land would not then become available for affordable housing. While this would not be reflected in a theoretical open market transaction the Council and King Sturge have recognised that special assumptions do affect actual prices paid in the market and this has, therefore, been the basis on which the reasonableness of the Persimmon land price has been assessed.

3.2.35 The Council has sought to drive down the price of the Persimmon land to a level where it can be satisfied that, bearing in mind the special assumptions outlined above, the land cost represents the lowest price achievable that would allow the land to become available for affordable housing. With advice from King Sturge, Persimmon's original land

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price of £125,000 per unit has been negotiated down to the final price of £9.2m for 85 homes or £108,530 per unit.

3.2.36 This compares favourably with King Sturge's most recent valuation of the Persimmon land including the compensation element, provided in July 2010, of £9.8m or £115,530 per unit.

3.2.37 The sequence of valuations is set out in Table 17 below and the full King Sturge report is attached at Appendix 30.1, together with our Chief Executive's letter (Appendix 31.1) setting out the Council's view that the Persimmon land cost is, under the specific circumstances, reasonable. This view also considers the fact that the Persimmon sites are capable of being built out efficiently and cost effectively.

Table 17: Persimmon land price and King Sturge valuation per unit

Date	Stage	Number of PFI units	Persimmon price/unit	King Sturge valuation/unit	Price reasonable ?
June 2008	Affordability review	200	£125,000	N/A	No
January 2009	Bid Submission	204	£90,700	£58,210	No
July 2009	Post-Bid Submission	204	£90,700	£69,215	No
November 2009	Post-Detailed Planning	85	£108,530	£108,530	Yes
July 2010	Pre-financial close	85	£108,530	£115,530	Yes

3.2.38 The apparent increase in the Persimmon land price per unit in November 2009 coincided with the removal of two lower value sites from the project due to planning issues, hence the reduction in the number of PFI units on Persimmon land from 204 to 85 units at that point in time.

Securing non-finance efficiency savings by benchmarking

3.2.39 It was recognised by the Council that in a competition with two or more bidders, it would be normal practice to compare the weighted (for affordability) quality scores of competing bids in order to identify the most economically advantageous tender. However, with a single bidder, it was not possible to carry out such a comparison and, therefore, HCA/DCLG required the Council to put in place a separate,

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quantitative VfM assessment of the bidder's priced submission in order to assess whether it provided project VfM.

3.2.40 The VfM assessment procedure that was adhered to by the Council in respect of assessing SHL's ISDS bid is set out at Appendix 35.1. This was completed in addition to a qualitative evaluation of the extent to which the bidder's proposals were VfM.

3.2.41 Following ISDS submission, the benchmarking of SHL's non-finance costs (in accordance with the above VfM assessment procedure) was progressed throughout 2009 and 2010, with HCA/DCLG having input to the process and transparency on the results. Overall unit capital costs were benchmarked against the DCLG review of the comparative costs of delivering new build social rented housing through PFI and the National Affordable Housing Programme (March 2008).

3.2.42 During July 2009, July 2010 and again in October 2010 extensive work was undertaken to establish appropriate benchmarks for key cost elements and to negotiate savings with the bidder in line with those benchmarks. The position reached in October 2010 was reviewed once again as part of HCA/DCLG's VfM review of housing PFI projects and further savings were negotiated with SHL as set out in the following paragraph.

Achieving further savings through the housing PFI VfM review

Table 18: Housing VfM review savings

Saving	Comment
Housing maintenance costs	Reduced from £1,159 to £953 per unit per annum
Operational insurance costs	Reduced from £438 to £398 per unit per annum
Lifecycle costs	Reduced from £21,000 to £10,414 per unit over contract term as a result of cost savings and a reduction in the contract period by 7 and a half years
SPV management costs	Reduced by £1,000 to £150,000 per annum
Inclusion of stub period repayment	Efficiency arising from fine tuning of the financial model
Include inflation hedge	Indexation of up to 5% of the UC (by reference to RPIx) to remove the need for an RPI swap. The Council has undertaken sensitivity analysis to satisfy itself that the project will remain affordable with this limited indexation of the UC as detailed in section 4.2

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3.2.43 Key cost savings achieved as a result of the HCA/DCLG VfM review are as shown in Table 18 above.

3.2.44 Following discussions with HCA the Council offered a £6m reduction in PFI credit (from £83m to £77m) as set out in its June 2011 VfM submission, attached at Appendix 2.1 to 2.3, inclusive. This revised position was agreed by the Minister in July 2011, subject to the normal PFI project processes and requirements, including the submission and approval of this FBC by HCA and DCLG as well as by HMT through the TAP process.

Protecting the quality of the project outputs within a review of the Contractor's Proposals and the Output Specification

3.2.45 Along with the scrutiny of project finance and non-finance costs, the Council has worked with its technical advisers, Mott Macdonald, to ensure that the Contractor's Proposals meet the requirements of the Council's Output Specification.

3.2.46 In addition and to ensure delivery of a VfM project, the Council has reviewed whether any of its availability and/or performance standards are giving rise to additional costs for the bidder, but without an appropriate benefit being received by tenants and/or the Council, and also without any impact on PFI support grant funding.

3.2.47 This process has resulted in a streamlining of the Output Specification (see Appendix 28.1 and 28.2) and consequential efficiency savings from SHL's housing and contract management costs, but without materially impacting on the level of service provision.

Ensuring that phase 2 continues to offer VfM

3.2.48 As previously established, the project will now be delivered in two phases. All costs in respect of the first phase will be finalised at phase 1 financial close, but some costs in respect of phase 2 will remain variable at this point, as will the residual value sum. A table showing those costs which are fixed in respect of phase 2 and those that are variable is set out in Table 19 overleaf.

3.2.49 As can be seen from Table 19 SHL is effectively underwriting the loss of economies in phase 1 (compared to the combined phases 1 and 2) for management and maintenance costs. This demonstrates the bidder's commitment to delivering the full 350 home project.

Table 19: Fixed and variable costs for phase 2 as at phase 1 financial close

Cost metric	Fixed or variable cost	Comments
Land costs	Variable	See following table for mitigation.
Construction costs	Variable	See following table for mitigation.
Lifecycle costs	Variable	See following table for mitigation.
Maintenance costs	Fixed	Bidder underwriting loss of economies in phase 1. No further mitigation required.
Management costs	Fixed	Bidder underwriting loss of economies in phase 1. No further mitigation required.
Insurance costs	Variable	See following table for mitigation.
Funding costs	Variable	See following table for mitigation.
Residual value	Variable	See following table for mitigation.

3.2.50 The Council is confident that robust arrangements are in place for the second phase, which will enable VfM to be secured for the balance of the 350 units. The following table (Table 20) sets out the steps (to be taken by the Council to mitigate the risk of cost increases/reduced RV in respect of those phase 2 costs which remain variable:

Table 20: Mitigation of phase 2 variable costs including residual value

Cost metric	Risk	Mitigation
Land costs	Persimmon land cost higher than anticipated	<ol style="list-style-type: none"> 1. Phase 2 Persimmon land cost benchmarked against Persimmon land cost in phase 1 base case. 2. King Sturge to assess reasonableness of land price, supporting negotiation and providing independent assurance. 3. Identified substitute Council site. 4. Flexibility in contract to introduce alternative sites if necessary. 5. Cost increases managed by Council within overall affordability envelope of project and no increase in PFI credit.
	Unable to provide identified Council site	<ol style="list-style-type: none"> 1. Realistic assumptions made for timetable to deliver site.

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		<ol style="list-style-type: none"> 2. Identified substitute Council site. 3. Flexibility in contract to introduce alternative sites if necessary. 4. Cost increases managed by Council within overall affordability envelope of project and no increase in PFI credit.
Construction costs	Programme slippage	<ol style="list-style-type: none"> 1. Realistic timetable in bidder financial model to phase 2 financial close. 2. Planning applications for phase 2 sites submitted as soon as possible after phase 1 financial close. 3. Continuity of Council and bidder's project delivery teams from phase 1 to phase 2. 4. Cost increases managed by Council within overall affordability envelope of project and no increase in PFI credit.
	Inflationary cost increases	<ol style="list-style-type: none"> 1. Phase 2 construction costs benchmarked against construction costs in phase 1 base case by reference to appropriate indices. 2. Cost increases managed by Council within overall affordability envelope of project and no increase in PFI credit.
	Legislation requires increased standards	<ol style="list-style-type: none"> 1. Phase 2 construction costs benchmarked against construction costs in phase 1 base case, and realistic assumptions made for scheduled Building Regulations uplift in April 2013. 2. Cost increases managed by Council within overall affordability envelope of project and no increase in PFI credit.
	Site specific costs higher than anticipated	<ol style="list-style-type: none"> 1. Phase 2 construction costs benchmarked against construction costs in phase 1 base case, and based on realistic assessment of accommodation, construction and infrastructure requirements in relation to identified phase 2 sites. 2. Good knowledge of phase 2 sites by Council and bidder/Persimmon to identify site specific issues. 3. Flexibility in contract to introduce

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		<p>alternative sites if necessary</p> <p>4. Cost increases managed by Council within overall affordability envelope of project and no increase in PFI credit.</p>
Lifecycle costs	Lifecycle costs higher than anticipated	<p>1. Phase 2 lifecycle costs benchmarked against lifecycle costs in phase 1 base case.</p> <p>2. Standardised construction solutions for phase 2 as per phase 1.</p> <p>3. Cost increases managed by Council within overall affordability envelope of project and no increase in PFI credit.</p>
Insurance costs	Insurance costs higher than anticipated	<p>1. Phase 2 insurance costs benchmarked against insurance costs in phase 1 base case.</p> <p>2. Transparent market testing of costs prior to phase 2 financial close.</p> <p>3. SoPC4 cost sharing arrangements.</p> <p>4. Cost increases managed by Council within overall affordability envelope of project and no increase in PFI credit.</p>
Funding costs	Funding costs higher than anticipated	<p>1. Realistic swap rate buffer included in bidder's financial model for timing of phase 2 financial close (as set out in section 4.3).</p> <p>2. Phase 2 funding costs and margins benchmarked against funding costs and margins in phase 1 base case, and based on realistic assessment of funding costs and margins for anticipated phase 2 financial close date.</p> <p>3. Barclays' knowledge of project and acceptance of risks.</p> <p>4. Council right to a funding competition if Barclays' funding terms not 'on market'.</p> <p>5. Cost increases managed by Council within overall affordability envelope of project and no increase in PFI credit.</p>
Residual value	Residual value less than anticipated	<p>1. Residual value profile for full 350 home project based on realistic assumptions in respect of phase 2 accommodation.</p>

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		<ol style="list-style-type: none">2. Potential changes in phase 2 accommodation assumptions to be considered from RV perspective.3. RV reduction managed by Council within overall affordability envelope of project and no increase in PFI credit.
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3.2.51 In summary, the Council has sought to fix at phase 1 financial close all those costs in respect of phase 2 that are capable of being fixed, given the level of certainty that the bidder has over those costs. Where certain of the phase 2 costs are not capable of being fixed at this stage, the Council has implemented appropriate measures to mitigate the risk of those costs being higher than anticipated, as set out in the Table 20 above.

3.2.52 The Council considers that, based on the fixed costs for phase 1 and the fixed and anticipated costs for phase 2, VfM will be achieved for the full 350 home project – this has been demonstrated by reference to both the Council's quantitative assessment procedure (see above and Appendix 35.1) and HCA/DCLG's VfM review of housing PFI projects (see Appendix 2.1 to 2.4 for further details).

3.2.53 However, in acknowledgement of the risk of potential cost pressures arising during the phase 2 procurement, the Council confirms that it accepts the risk of managing such pressures (i.e. actual costs being higher and/or RV lower than anticipated) within the overall affordability envelope of the project and without any increase in PFI credit. The final position that is achieved in respect of phase 2 costs will be set out in the revised FBC for that phase.

3.3 Final contract position

Project Agreement

3.3.1 The Council prepared a bespoke contract document based on the HRA Guidance that was available when the procurement was commenced in 2006. This was negotiated substantially with the bidder prior to the issue of the September 2010 Non-HRA Guidance by HCA. Nevertheless the Council and bidder have sought to move contract terms in line with Non-HRA Guidance and drafting, although there remain a number of derogations, including from Standardisation of PFI Contracts Version 4 (SoPC4) required drafting.

3.3.2 The Council's proposed Project Agreement (PA) and derogations tables have been the subject of discussions with HCA and detailed papers have helped to identify the areas where further movement closer to Guidance positions could reduce significantly the number of derogations that the Council is seeking, particularly in relation to residual value. The Council has addressed these areas and

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succeeded in transferring additional risk to the bidder, without any increase in cost for the Council, such that the project now has a near-standard risk profile and, thus, offers improved VfM.

- 3.3.3 In summary, the contract will run for 20 years from full service commencement i.e. 22 and a half years from financial close including the construction period. This has been reduced from 30 years (from financial close i.e. 27 and a half years from full service commencement) in response to HCA/DCLG's recent VfM review, as per the section above.
- 3.3.4 As discussed in section 2.4 the specified delivery dates for completed units are set out in Schedule 15 to the contract. In addition there are longstop dates by which SHL must complete specified numbers of units or face potential contractor default.
- 3.3.5 Following the decision to adopt a phased approach to the delivery of the full 350 home project (see section 2.3), the contract now contains a non-contractually binding mechanism, as set out in Clause 53A of the PA, for delivering the additional 108 units in phase 2.
- 3.3.6 Three sites have been identified for delivery of the phase 2 housing requirement and these are discussed in detail at section 5.3. There is also a mechanism for introducing substitute sites, if required. Clause 53A provides for SHL to develop detailed solutions in respect of these sites, for Council approval. Once such details have been approved it is anticipated that the Council will issue an authority additional phase change notice, effectively confirming the same.
- 3.3.7 Agreement will then be reached on the cost of adding the approved sites to the project, through discussion between the parties. The methodology for ensuring VfM in respect of phase 2 costs is set out in section 3.2 above.
- 3.3.8 It is important to note that, while this mechanism is not binding on the parties, both SHL and the Council are fully committed to delivering phase 2 and the full 350 home project. Further details of Clause 53A are set out in row 57 of the attached HPP derogations table (see Appendix 11.2) and a separate Council paper. Please note that the PA (rather than the paper) reflects the final drafting position.
- 3.3.9 In addition to the phased approach discussed above and following the completion of detailed negotiations with SHL, the remaining key contractual issues at FBC stage are:
- Capital contribution: the project specific reason for making this contribution is set out in section 4.5. See rows 1 and 2 of the SoPC4 derogations table (at Appendix 11.1) and the separate Council paper (Appendix 13.1) which was approved by HMT in October 2010, for

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further details. Please note that the square bracketed wording within the PA (rather than in the paper) reflects the final drafting position.

- The termination date discount rate applied to the contractor default residual value sum: required in order to achieve a September 2010 Non-HRA Guidance compliant position on RV and compensation on termination, as discussed below, with no erosion of RV or increase in project costs. Further details are set out in row 5 of the attached SoPC4 derogations table and a separate Council paper.
- Change in law: where the project follows the HPP/SoPC4 approach rather than the September 2010 Non-HRA Guidance position, due to commercial agreement having been reached before the guidance was issued. For further details please refer to row 21 of the HPP derogations table (Appendix 11.2).
- INFORMATION REMOVED
- Public safety event: amendments necessary for SHL to manage the risk of contractor default and linked to the movement to a September 2010 Non-HRA Guidance compliant position on RV and compensation on termination, with no increase in project costs. See row 44 of the HPP derogations table for further details.

3.3.10 Each of these derogations has been 'tracked' through a 'major derogations' paper, which has travelled between the Council and HCA/DCLG. The latest version of this paper shows that major derogations with regard to partial force majeure and the timing of the leases have been dropped prior to FBC submission.

3.3.11 The Council has also agreed to adopt sector specific solutions that are currently under development on other projects with regard to:

- the risk of the Right to Buy attaching to the assets during the contractor default/retendering scenario; and
- termination during construction.

3.3.12 The current version of the PA was submitted to HCA in August 2011 and HCA/DCLG's response to the updated derogations tables (Part A – SoPC4; Part B – HPP; and the funder's direct agreement (FDA)) are attached as Appendix 11.1 to 11.3 inclusive. The Council understands that a parallel process is in place to consider the derogations responses alongside this FBC.

Residual value and compensation on termination

3.3.13 The procurement has sought to achieve an optimal level of RV, taking into account the delivery of other project outputs, such that the project and the Council benefit from the RV throughout the contract period by way of a discounted UC. As stated above the project was tendered

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prior to the September 2010 Non-HRA Guidance, and the Council and its bidder negotiated a commercial arrangement for the various termination scenarios in order to optimise the level of RV and, therefore, project VfM.

3.3.14 In support of this comment, the Council confirms that SHL's RV offer for the full 350 home project (£18.75m for the 20 year contract) is significantly higher than would have been the case had the bidder been required to bid against the guidance position, and this allows the Council to benefit from a lower UC than it would have otherwise had to pay.

3.3.15 The Council and its bidder have worked hard to come into line with Guidance, but without reducing the RV sum or increasing costs, in order to protect the VfM and affordability of the project. This has required SHL to accept the September 2010 Guidance position of no underwriting from the Council of the RV sum in any termination scenarios and the application of overage to the RV sum upon termination or expiry of the contract.

3.3.16 A single derogation is required in respect of contractor default residual value sum, as indicated above, but otherwise the project RV and compensation on termination position is now fully in accordance with the September 2010 Guidance.

3.3.17 To reiterate, this has been achieved without any erosion of the RV sum or increase in project costs. In other words the project benefits from a pre-guidance level of RV and a post-guidance risk profile i.e. an optimal position has been achieved. The Council considers that it has now transferred as much additional risk to SHL as is possible without requiring a re-pricing of the project and, in particular, the level of RV currently on offer.

Payment Mechanism

3.3.18 The final Payment Mechanism is set out in Appendix 29.1. This is also a bespoke document, like the PA, but it follows standard SoPC4 principles and contains measurable availability and performance elements.

3.3.19 Unavailability can lead to 100% deduction of the UC. For service performance this is capped at the full annual facilities management charge, which equates to 15% of the UC.

3.3.20 The Council confirms that both the availability criteria and the performance standards are set at a level where it can be reasonably expected that deductions will be made from time to time during the contract period (i.e. the UC is not 'essentially fixed' and, therefore, the contractor is incentivised to meet the required standards), but not so high as to create a 'hair trigger' for contractual breach or to require a level of risk pricing that would erode VfM.

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- 3.3.21 Performance standards within the Output Specification are measured by reference to a number of key performance indicators (KPIs), with these KPIs having been set in line with top quartile performance for relevant housing providers.
- 3.3.22 The PA (Clause 34.5) includes a performance standard benchmarking mechanism whereby every two years the Council may, at its own expense, benchmark the contractual KPIs against top quartile performance for organisations providing a similar service. If the Council considers that best value can be achieved by improving certain performance standards, then it can do this by way of an authority change.
- 3.3.23 It should also be noted that, as this is a Non-HRA project, the contractor is taking the risk of third party income from rents and service charges. This income more than covers the contractor's operating and lifecycle renewal costs (there is a rental income surplus over operating and lifecycle costs of, on average, £622,000 per annum or just over £16m in total, in cash terms) and, therefore, no services are being paid for by the UC.
- 3.3.24 However, the Output Specification requires performance to be measured against the Council's KPIs and, thus, deductions for poor service provision will still impact on the UC and the contractor's ability to meet its capital costs.

Risk allocation

- 3.3.25 A key feature of PFI is the allocation of risks to the party best able to manage those risks in order to ensure best VfM. The OBC risk allocation matrix has been updated to reflect the final position at FBC stage (see Appendix 10.1) in respect of those areas of risk transferred to the contractor, those that are retained by the Council and those that are shared between the parties.
- 3.3.26 The Council believes that the allocation of risk is consistent with both SoPC4 and the September 2010 Non-HRA Guidance, with the exception of change in law and contractor default residual value sum. The project specific reasons for needing these derogations are discussed above.
- 3.3.27 As stated above the project now has a near standard risk profile, but without any increase in project costs. The Council considers that it has transferred as much additional risk to SHL as is possible without requiring a re-pricing of the project.

Personnel implications and TUPE

- 3.3.28 The Council confirms that, as this is a Non-HRA project there will be no Council employees or contractors transferring to SHL or its sub-contractors and, therefore, TUPE will not apply. However, in order to

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ensure that the parties remain fully protected, modified pensions and employees drafting has been included within the PA.

3.4 HCA review

- 3.4.1 As stated in the section above, the current version of the PA was submitted to HCA in August 2011 and HCA/DCLG's response to the updated derogations tables are attached as Appendix 11.1 to 11.3 inclusive. The Council understands that a parallel process is in place to consider the derogations responses alongside this FBC.

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4 FINANCIAL CASE

4.1 Overview

4.1.1 Since this is a phased project, the financial model to be included within the contract at financial close, in December 2011, will be the agreed 242 unit model. As explained in section 3.3 the contract includes a non-contractually binding mechanism for providing 108 additional homes in phase 2 by way of an authority additional phase change. At that point the contract will be amended to include the additional sites and a new 350 unit financial model.

4.1.2 This FBC submission supports the full 350 home project. SHL's 350 unit model (see Appendix 14.2), used as the basis for this FBC, has been produced by taking the agreed 242 unit model and including the phase 2 sites listed in Table 24 at section 5.3 as a second phase of 108 units. Both SHL and the Council are fully committed to delivering phase 2 and the full 350 home project.

4.2 Unitary charge

4.2.1 As detailed in sections 2 and 3 of this submission, the Council and its advisers have borne down on the cost of the project in order to ensure that it is both affordable and provides VfM at FBC stage.

4.2.2 The UC as at the base date of April 2010 for the full 350 home project is £7,049,852, up to 5% of which will be index linked by reference to RPIx for the contract period, as explained below.

4.2.3 With regard to the 242 unit financial model to be included within the contract at December 2011 financial close, the UC as at the base date of April 2010 is £4,615,943, also with up to 5% index linked to RPIx.

4.2.4 During development of the financial model, inflation sensitivities were run, as required by Barclays (the senior lender), assuming RPIx of 5%. These sensitivities demonstrated that there would be default on the senior debt because SHL's indexed income within the financial model does not increase as quickly as its indexed costs, due mainly to the majority of its costs indexing at a higher rate (i.e. RPIx + 1%) than its rental income (RPI + 0.5%).

4.2.5 The Council agreed, in principle, with the bidder that an element of the UC could be indexed in order to mitigate the risk of default and to ensure that the project succeeded in obtaining bank credit approval. It was also recognised by the Council that leaving inflation risk with the bidder was unlikely to provide VfM for the public sector, due to the bidder's inability to control this risk. It was, therefore, likely that SHL would have been obliged to introduce an RPI swap into its financial model and the cost of this would have been passed on to the Council.

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- 4.2.6 The Council has subsequently agreed with the bidder that up to 5% of the UC will be indexed by reference to RPIx. This is a proxy for the percentage of the UC that the Council's contribution accounts for. The Council is comfortable in taking this risk on the basis that, over the long term, it expects its budgets to increase broadly in line with inflation and, therefore, the risk is naturally hedged for the Council.
- 4.2.7 SHL is committed to reducing the percentage of the UC that is subject to indexation in the financial close model, if this is possible without causing default in the 5% RPIx sensitivity, including by detailed sculpting of the debt-service cover ratios in certain periods.
- 4.2.8 This change to a slightly indexed UC does not result in any additional income or profitability for SHL, Barclays or any other member of the bidding consortium. The UC begins at a lower rate than would have been the case with zero indexation and 5% of it simply increases in line with inflation over time (i.e. 95% of the UC is effectively a flat line cost).
- 4.2.9 All returns within the financial model remain the same as they were prior to the slight indexation being introduced. The benefit to the project and the VfM for the public purse is in terms of the cost of the RPI swap which is avoided. Ultimately it is for the Council to manage the sinking fund in order to prevent the emergence of an affordability gap in the later years of the contract, and the Council has assumed a prudent 2% interest rate in respect of any credit balances.

~~4.2.10 This change to a slightly indexed UC does not result in any additional income or profitability for SHL, Barclays or any other member of the bidding consortium. The UC begins at a lower rate than would have been the case with zero indexation and 5% of it simply increases in line with inflation over time (i.e. 95% of the UC is effectively a flat line cost).~~

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~~4.2.11 All returns within the financial model remain the same as they were prior to the slight indexation being introduced. The benefit to the project and the VfM for the public purse is in terms of the cost of the RPI swap which is avoided. Ultimately it is for the Council to manage the sinking fund in order to prevent the emergence of an affordability gap in the later years of the contract, and the Council has assumed a prudent 2% interest rate in respect of any credit balances.~~

~~4.3 PFI funding~~

4.3.1 As stated above, this FBC is submitted in support of the full 350 home project. The associated financial modelling indicates a maximum PFI credit in excess of the £77m that is being requested by the Council post-VfM review, as demonstrated by reference to the completed affordability proforma attached as Appendix 12.3.

4.3.2 Taking into account the:

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- £7,049,852 UC;
- £77m PFI credit;
- £237,000 annual revenue contribution; and
- £1.1m capital contribution

the full 350 home project is affordable to the Council with a modest level of contingency provided (given that the risks are well managed at FBC stage) i.e. it produces a surplus at the end of the contract period of £1.30m in nominal terms (£0.31m in NPV terms). This is summarised in Table 21 below:

Table 21: Affordability summary

	350 unit model	
	Nominal (£'000s)	NPV (£'000s)
Total UC	(146,270)	(76,489)
PFI monitoring costs	(3,116)	(1,640)
Total costs	(149,386)	
PFI credit (i.e. support grant from £77m total)	141,907	77,136
Total Council revenue contribution	6,855	3,609
Total sinking fund interest (at 2%)	1,924	1,129
Total revenue resources	150,686	
Net surplus at contract expiry	1,300	

4.3.3 Please note that, in Table 21, the sum of the individual NPVs would not equal the NPV of the net surplus at contract expiry since the profile of the PFI credit support (i.e. constant in cash terms through the steady state period) differs from that of the Council revenue contribution and sinking fund interest (assumed at 2%), such that the discounting is not the same across elements. However, for comparison purposes the NPV figure for the net surplus is £0.31m.

4.3.4 It has been agreed previously with HCA/DCLG and confirmed through the VfM review process (see the Council's submission at Appendix 2.1) that the PFI credit allocation for phase 1 of the project will be calculated on a pro-rata basis by the number of units, as follows:

- $£77m \times (242/350) = £53.24m$

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4.3.5 The 53.24m PFI credit is more than would be required to ensure that a stand-alone project of 242 homes is affordable to the Council. However, this level of credit is essential in respect of phase 1 of the two phase project in order to ensure that the full 350 homes are affordable, as summarised in Table 21 above.

4.3.6 The timing of the phased approach is such that initial service commencement (i.e. certification of availability of the first units, as per the construction programme at Appendix 23.1) in respect of the first phase will occur prior to the phase 2 financial close and, therefore, the credit for the two phases will be drawn down in two separate tranches.

4.3.7 **Through this FBC Wiltshire Council therefore requests confirmation of the £77m credit allocation for the full 350 home project, of which:**

- **£53.24m will be drawn down upon service commencement of phase 1 (242 units); and**
- **£23.76m will be drawn down upon financial close of phase 2 (108 units).**

4.3.8 As set out in section 3.2, where the measures for ensuring VfM in respect of phase 2 are discussed in detail, the Council confirms that it accepts the risk of delivering the remaining 108 units in phase 2 within the balance of the £77m PFI credit (i.e. £77m - £53.24m = £23.76m). This means that, if the cost of phase 2 is higher than is currently anticipated, the Council would need to identify and review a range of options to manage the cost of the additional 108 units or, failing that, to increase its financial contribution.

4.3.9 Equally it is acknowledged that, if the remaining £23.76m credit is too high for phase 2, then the difference between the £23.76m and the amount justified by the financial modelling could be 'clawed back' by DCLG at revised FBC stage for phase 2. Alternatively this could be used to deliver additional outputs (i.e. extra homes) as suggested in section 5.3.

4.3.10 In addition to the affordability proforma referred to above (Appendix 12.3), the following completed proformas and templates are also provided with this FBC submission:

- Proforma 1 – Databook (Appendix 12.1)
- Proforma 2 – Capex (Appendix 12.2)
- Advisory Template 1 – Lifecycle costs (Appendix 12.5)
- Advisory Template 4 – VfM Optimism bias rationale (Appendix 12.8)

Swap rate assumptions

- 4.3.11 It has been previously established that this is a two phase project to provide 350 new homes, with 242 units being delivered in phase 1. The Council has reached agreement with SHL on the 242 unit financial model to be used for the phase 1 financial close (see Appendix 14.1). The additional 108 homes in phase 2 have been included within this 242 unit model to produce the agreed 350 unit model, used as the basis of this FBC (see Appendix 14.2).
- 4.3.12 The Council's concern is to ensure that the full 350 home project remains affordable and can, therefore, be delivered. As previously stated, material to the affordability of the full 350 homes is the level of PFI credit draw down (£53.24m) upon service commencement of phase 1 (242 units). This is demonstrated in the calculations and by reference to Table 21 above.
- 4.3.13 With regard to swap rates, both the 242 and 350 unit models include a swap rate assumption of 5%. This is above the rate currently being achieved in the market, of close to 3%.
- 4.3.14 However, it is important to point out that the Council is taking the risk on changes in swap rates not just until phase 1 financial close (in December 2011), but until financial close on phase 2 (in around two years time). Based on expert advice received from its financial risk consultants, J C Rathbone Associates (see Appendix 38.1), the Council considers the current 5% swap rate to be a prudent and reasonable assumption.
- 4.3.15 The Council acknowledges though that it should not benefit from the actual swap rate position that is achieved being lower than that assumed.
- 4.3.16 It is, therefore, proposed by the Council that, at the point of closing (or not proceeding with) the second phase, an adjustment will be made to the level of PFI credit in order to moderate the affordability of the full 350 home project (or just the first phase as the case may be), but that such an adjustment will not be made at phase 1 financial close due to the negative impact this would have on the affordability of the second phase and, therefore, on the deliverability of the full 350 homes. The proposed mechanism for making this adjustment is set out below.
- 4.3.17 In the unlikely event of phase 2 not proceeding, the £53.24m pro-rated PFI credit in respect of phase 1 would be more than is required to ensure that a stand-alone project of 242 homes is affordable to the Council. This is the case at the currently assumed 5% swap rate and at any lower rate which is actually achieved at phase 1 financial close.

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- 4.3.18 In this scenario, and at the point in time at which it is agreed that phase 2 will no longer proceed, the Council will work with HCA/DCLG to re-solve the (£53.24m) credit figure to a lower level, which would deliver sufficient support grant to produce a reduced surplus at the end of the operational contract of £0.5m in nominal terms (reduced from the higher level that is expected to be produced based upon the actual swap rate at phase 1 financial close). The Council confirms it will then claim its ongoing PFI support grant in respect of the 242 homes based on this reduced credit figure.
- 4.3.19 The above mechanism provides protection for the public purse such that, in the unlikely event of phase 2 not proceeding, the Council would not benefit from support grant it does not need in order to make the project affordable, but without requiring the phase 1 credit to be set at a level that is too low to ensure the affordability of the full 350 home project.
- 4.3.20 If, however, phase 2 does proceed then a similar approach would be employed to ensure that the full 350 home project does not attract a level of support grant which is higher than that required to deliver affordability i.e. the same £0.5m surplus referred to above at the end of the contract term (reduced from the £1.3m currently modelled).
- 4.3.21 This adjustment, at the point at which the phase 2 sites are admitted to the contract (i.e. phase 2 financial close), will, therefore, enable the actual phase 1 and phase 2 financial close swap rates (or the actual financial close swap rate applicable to the full 350 homes in the case of phase 1 being re-financed at phase 2 financial close) to be reflected in the level of support grant claimed by the Council. The Council assumes that DCLG will be able to set out a required and agreed mechanism in respect of the above in its PFI credit letter for phase 1.
- 4.3.22 It is important to reiterate here the position set out in section 2.3 that the Council would not (without having to re-start the procurement process) be able to enter into a single phase contract for 242 homes i.e. without the intention of delivering the full 350 home project.

4.4 Authority revenue contributions

- 4.4.1 The Council confirms that the affordability of the full 350 home project has been reviewed against our current and predicted future budgetary position, and the project is affordable to the Council for the full contract period.
- 4.4.2 At OBC stage it was agreed for the Council's annual revenue contribution to be capped at £195,000, index linked to RPI (assumed to be 2.5%) from April 2004 for the contract period (see OBC page 63). This will be payable in full from the year in which initial service commencement occurs i.e. there will be no ramping up of the Council's contribution.

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- 4.4.3 The Council has subsequently agreed that its full revenue contribution will be made available as necessary in respect of the 242 units in the first phase in order to incentivise the delivery of phase 2 – at which point we will receive the benefit of nomination rights to 108 additional units with no increase in annual contribution.
- 4.4.4 Allowing for inflation at 2.5% the Council's annual revenue contribution is now £237,000 at 2012/13 prices. This was agreed on 14 September 2011 under the delegated authority of the Council's Cabinet (see Appendix 27.5 for the relevant minute).
- 4.4.5 The Council's total predicted set up costs to financial close in December 2011, including costs previously incurred by WWDC, are now £2.5m. In addition to this the Council will need to identify a budget for the delivery of phase 2. This further demonstrates the Council's commitment to the project.

4.5 Authority capital contribution

- 4.5.1 The Council is providing four sites for nil consideration, in the first phase, as set out in the section below. Sarsen is purchasing the freehold to a fifth site, Manor School (51 units), from the Council in a separate transaction prior to phase 1 financial close. The sale and purchase agreement for this site was made between Sarsen and the then Wiltshire County Council (prior to the inception of Wiltshire Council, when WWDC was still the procuring authority for the PFI) and it has been agreed for the transaction to be completed on the original basis.
- 4.5.2 The sale price for the Manor School site is £1.1m and the Council will receive a capital receipt from Sarsen of this amount. However, it is acknowledged that it would be unreasonable for the Council to use the £1.1m outside of this project given the £77m PFI credit support from DCLG. This would not be financially efficient in any case because the project would incur £1.1m of additional borrowing at the project IRR.
- 4.5.3 It has, therefore, been agreed by the Council (see the June 2010 Cabinet report and minutes at Appendix 27.3 and 27.4 respectively) to recycle the £1.1m into the project as a capital contribution and the Council's Capital Contribution Paper (Appendix 13.1) has been duly approved by HMT (October 2010).
- 4.5.4 The capital contribution will be made on a date just before the last projected date in the financial model at which point there is at least £1.1m of senior debt left to be drawn down. By this point in time SHL will have completed works in excess of £20m, thus providing more than adequate security for the Council's £1.1m contribution.

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4.6 Land contributions

- 4.6.1 As stated above, the Council is providing four sites (excluding Manor School) in phase 1 of the project. These will be provided for nil consideration on a 125 year leasehold basis, as agreed by the Council's Cabinet in June 2010 (see Appendix 27.3 and 27.4 for the report and minutes).
- 4.6.2 The aggregate value of these sites is £1.95m, with the individual site values being as set out in the following table (Table 22). This falls within the scope of the general consent under section 123 of the Local Government Act 1972 to dispose of land for less than best consideration and, therefore, specific Secretary of State consent is not required.
- 4.6.3 Please refer to Appendix 33.1 for District Valuer Services' June 2010 report and Appendix 33.2 and 33.3 for further correspondence confirming that the June 2010 valuations are still current for financial close in December 2011.

Table 22: Site values for Council provided sites

Site name	Location	Number of units	Value
Broad Street	Trowbridge	31	£280,000
Hillside	Warminster	33	£980,000
Paxcroft Mead	Hilperton	18	£200,000
York Buildings	Trowbridge	24	£488,000
Total			£1,948,000

- 4.6.4 The Council is, therefore, making a total land and capital contribution to the first phase of the project of £3.05m, as follows:
- Capital contribution (Manor School) £1.1m + land contribution (four sites) £1.95m = £3.05m
- 4.6.5 Schedule 24 of the PA lists a further Council provided site (Southview Farm – 48 units) to be included in phase 2 of the project, plus the reserve site (Margaret Stancomb School – 18 units). Further detail on the deliverability of the phase 2 sites is included in the travelling major derogations paper and at row 57 of the HPP derogations table (Appendix 11.2).
- 4.6.6 These sites will be subject to District Valuer valuations post-phase 1 financial close and following receipt of planning permission for Margaret Stancomb School. The expectation is that these sites will be

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included in phase 2, for nil consideration, as reflected in the 350 unit financial model (see Appendix 14.2).

4.7 Provisional sums and financial impact of outstanding risks

4.7.1 This is a new build Non-HRA project in which there is a high degree of cost certainty with regard to the first phase and the great majority of the risks in respect of phase 2 have been transferred to the private sector. There are, therefore, no provisional sums, other than in respect of the scheduled change to the Building Regulations in April 2013, for the Council's account that are (or need to be) specifically priced within the project. Consequently, the level of outstanding risk is reflected in the required £1.30m surplus (in nominal terms) at the end of the contract.

4.7.2 INFORMATION REMOVED

4.7.3 The Council's risk action plan for the procurement phase of the project is attached as Appendix 22.1. A risk register in respect of the operational phase is currently under development and the latest version is at Appendix 22.2.

4.8 Future benchmarking and market testing

4.8.1 As stated in section 3.3, rental and service charge income more than covers SHL's operating and lifecycle renewal costs. Since these services are not being paid for by the UC, there is no requirement for either benchmarking or market testing of future service costs. Such provisions have, therefore, been omitted from the PA as anticipated by the September 2010 Non-HRA Guidance and in accordance with the Council's preferred approach to risk transfer.

4.9 Accounting treatment

4.9.1 The Council's financial advisers, Grant Thornton, have prepared an IFRIC 12 accounting opinion for the Council and have separately assessed the ESA95 treatment for the purposes of the National Accounts.

4.9.2 Based on current guidance, Grant Thornton's current 'best view' position is that the project and related assets fall within the scope of IFRIC 12. The infrastructure assets to be developed under the PFI contract should, therefore, be accounted for as an asset along with the related liabilities on the balance sheet of the Council.

4.9.3 As set out in the guidance for ESA95, since the SPV will be taking construction and availability risk in addition to a share of demand risk, it is expected that the project would be accounted for as 'off-balance sheet' for the purposes of the National Accounts.

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4.9.4 Please refer to Appendix 16.1 for the IFRIC 12 accounting opinion and to Appendix 17.1 for the ESA95 assessment. A statement with regard to engagement with the Council's external auditor is at Appendix 18.1.

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5 MANAGEMENT CASE

5.1 Overview

- 5.1.1 The project is well-managed by the Council with appropriate governance arrangements in place. All resources are currently focussed on achieving financial close during December 2011 in order to maintain Council/contractor support for the project. The timing of the Council's assurance stages is set out in the completed Integrated Assurance and Approvals Plan (IAAP) at Appendix 19.1.
- 5.1.2 There is a high level of certainty with regard to the deliverability of 242 homes in the first phase of the project. Westbury Partnerships, SHL's construction sub-contractor, is already geared up to achieve start on site at the first sites. SHL's post-contract delivery team is also in place.
- 5.1.3 The key project delivery target dates and milestones pre and post-financial close are set out in the timetable below (Table 23), with the phase 1 construction programme being included as Appendix 23.1:

Table 23: Target dates pre and post-financial close

Milestone	Date
Submission of revised contract and derogations to HCA	17/8/11
Financial models agreed between Council and SHL	13/9/11
Submission of FBC to HCA	7/11/11
Contract documents agreed between Council and SHL	15/11/11
Approval of FBC by DCLG Investment Sub-Committee	15/11/11
Approval of contract/derogations by HCA/DCLG/IUK	16/11/11
Submission of FBC to Treasury (HMT)	16/11/11
Final bank credit committee approval	2/12/11
Treasury Approval Point (TAP) approval by HMT	14/12/11
Financial close	16/12/11
Start on site	January 2012
Service commencement	September 2012
Full service commencement (242 units)	June 2014
Full service commencement (350 units)	July 2015

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5.1.4 The deliverability of phase 2 essentially revolves around three key factors: the availability of the full £77m PFI credit; certainty in respect of land supply and the robustness of cost assumptions. Taking each of these in turn:

Availability of PFI credit

5.1.5 This FBC is submitted in support of the full 350 home project, for which the associated financial modelling indicates a maximum PFI credit in excess of the £77m being requested by the Council post-VfM review. As stated earlier, in sections 3.2 and 4.3, the Council confirms that it accepts the risk of delivering the remaining 108 units in phase 2 within the £23.76m balance of the £77m PFI credit.

Certainty of land supply

5.1.6 The phase 2 sites (including a reserve site) have been identified, are within the Council/consortium's ownership, and an agreed plan is in place to secure the required planning approvals – see section 5.3 below.

5.1.7 Realistic assumptions have been made with regard to the time period necessary to ensure that the phase 2 sites are available and ready for construction work to begin. The Council, therefore, expects financial close of phase 2 to be achieved within the proposed longest period of two years as per the agreed 350 unit model (i.e. 18 months to issue the authority additional phase change notice confirming the sites to be added to the project plus a further six months to phase 2 financial close) and it will continue to work with the bidder to achieve a tighter timescale.

5.1.8 However, it should be noted, as discussed in section 5.3, that bringing forward the phase 2 financial close date may not allow full service commencement to be brought forward similarly. There is also some flexibility to introduce alternative sites, only if necessary or desirable to do so.

Robustness of cost assumptions

5.1.9 As detailed in section 3.2 above, the Council is confident that robust arrangements are in place for the variable costs in respect of phase 2 to be agreed with SHL within an overall VfM solution. The Council and the bidder are clear that robust demonstration of VfM for phase 2 is an essential pre-requisite for delivery of the full 350 home project.

5.1.10 Wiltshire Council has acknowledged the risk that it may not realise the full benefits of the project unless it manages the contract effectively. A fully funded contract management structure has, therefore, been put in place, together with suitable arrangements for knowledge transfer from the procurement to operational teams.

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5.2 Management structure

5.2.1 Strategic direction and governance is provided by the Housing PFI Project Board, which operates under the authority of Cabinet, with further oversight provided by the Council's Assurance Steering Group. The Board comprises of:

- Cllr John Thomson (Chair/Project Sponsor) – Deputy Leader and Cabinet Member for Adult Care, Communities and Housing
- Cllr Christopher Williams (Vice Chair) – Portfolio Holder for Communities and Housing
- Sue Redmond – Corporate Director Community Services
- Graham Hogg – Service Director Housing

5.2.2 The Board is supported by an inter-departmental project team, with external representation from an HCA transactor. PRINCE2 project management techniques are employed in order to ensure the controlled delivery of the project.

5.2.3 The project is being delivered centrally within the Council by Procurement, with client input from Housing. A full time project manager coordinates the internal project team and external advisers.

5.2.4 The Council's lead advisers are:

- Financial – Grant Thornton
- Legal – Fasken Martineau
- Technical – Mott MacDonald
- Insurance – Willis

5.3 Statutory approvals/consents

Phase 1

5.3.1 With regard to phase 1 of the project full planning approvals and, where relevant, section 106 agreements are in place for all eight sites. SHL/Westbury Partnerships have already commenced the process of discharging planning conditions for the first sites in the construction programme.

5.3.2 Applications for consent under section 25 of the Local Government Act 1988 (to provide 'gratuitous benefit' via payment of the UC to SHL) and under section 233 of the Town and Country Planning Act 1990 (for disposal of Council provided sites held for planning purposes) were submitted to DCLG in June 2010, and the Council is working with the

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relevant officers for these applications to be determined as quickly as possible.

- 5.3.3 Further applications have also been made for section 25 consent in respect of the individual leasehold disposals. Since this is a Non-HRA project and there are no existing tenants, no section 27 consent is required.
- 5.3.4 Secretary of State consent is not required under section 123 of the Local Government Act 1972 for disposal of the four Council provided sites for less than best consideration, since the aggregate value of these sites is below £2m and the disposal will, therefore, be made under the general consent. The District Valuer's report and further correspondence is at Appendix 33.1 to 33.3, inclusive.
- 5.3.5 SHL has practically completed its due diligence work on both the Council and contractor provided sites for phase 1. A schedule of the remaining title issues is provided at Appendix 34.1, although it is not anticipated that these matters will prevent development of the sites.
- 5.3.6 The Council is not providing any warranties in respect of its sites other than that the replies to enquiries are correct. Consequently SHL has carried out its own investigations to satisfy itself with regard to the Council's title, and the Council has dealt with title defects that have been identified as a result of these investigations. In respect of the Persimmon land, certificates of title will be addressed to the Council.

Phase 2 and reserve site

- 5.3.7 As discussed elsewhere in this FBC, it has been agreed for the Council to adopt a phased approach to the delivery of the full 350 home project. The phase 2 sites have been identified, and the planning position with regard to these sites and the reserve site is summarised in Table 24 below:

Table 24: Planning status of phase 2 and reserve sites

Site name	Ownership	Number of units	Planning status
Phase 2			
East Trowbridge	Persimmon	60	Outline
Southview Farm	Council	48	Full
Reserve site			
Margaret Stancomb School	Council	18	None

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- 5.3.8 The Persimmon owned site at East Trowbridge has outline planning permission for a total of 650 homes. As is usual for a site of this size, reserved matters applications (i.e. applications to convert outline planning permission into full planning permission) will be made on a phased basis for individual areas of the site, in accordance with the overall development programme. Reserved matters applications will, therefore, be required for the PFI areas of the site once the detailed design work has been completed.
- 5.3.9 It has been agreed commercially for these applications to be submitted once there is certainty in respect of phase 1 financial close. This is considered to be a justifiable approach given the extended period during which there has been uncertainty over the first phase and the level of potentially abortive costs that the parties are bearing pre-phase 1 financial close.
- 5.3.10 At Southview Farm the PFI areas of the site are owned by the Council, with the benefit of full planning permission. The road access and mains services are to be provided to the edge of each PFI area by a third party developer under the terms of a separate land contract between the Council and the developer. That contract sets out a timetable for the provision of such access and services, which is triggered by the financial close date for phase 1 of the PFI, as illustrated in Table 25 below:

Table 25: Timetable for availability of Southview Farm site areas

Council site areas	Number of units	Time period after phase 1 FC for roads and services to be provided	Date site areas available assuming 16 December 2011 FC
1	N/A	N/A	N/A
2	17	One year	December 2012
3	9	Two years	December 2013
4	10	Two years	December 2013
5	N/A	N/A	N/A
6	12	Three years	December 2014
Total	48		

- 5.3.11 As can be seen from Table 25 above, with the final site area becoming available (i.e. serviced with roads completed) in December 2014 and allowing seven months for the PFI homes to be constructed, service commencement would occur in July 2015 i.e. these will be the last homes to be completed in accordance with the timetable shown in Table 23 at section 5.1.

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5.3.12 It does not, therefore, follow that by achieving a tighter timescale in respect of the phase 2 financial close that full service commencement of all 350 homes will occur more quickly than is currently proposed.

5.3.13 SHL is currently working up a feasibility study for the former Margaret Stancomb School site, prior to submitting a planning application for the site. This site is not required to deliver the 108 units in phase 2, rather it is a supplementary site should actual construction/funding costs for the second phase fall below the anticipated costs at this FBC stage (or the resultant RV sum is higher than anticipated), and it becomes possible for further units to be delivered within an affordable project.

5.3.14 INFORMATION REMOVED

5.3.15 As set out above (as well as in the major derogations paper and at row 57 of the HPP derogations table (Appendix 11.2)), there are specific reasons why the sites identified for phase 2 cannot be brought forward into the first phase. These reasons are not considered a threat to the deliverability of phase 2.

5.3.16 The parties have set a longstop date of 18 months following financial close of phase 1 to confirm the second phase sites (by way of the Council issuing an authority additional phase change notice), plus a further six months to phase 2 financial close (i.e. two years in total). As stated in section 5.1 this is based on a realistic assessment of the time needed to ensure that the phase 2 sites are ready for development and it will ensure that the sites can be built out efficiently and cost effectively.

5.3.17 The Council wishes to emphasise that, together with SHL, it is fully committed to closing phase 2 as quickly as possible, although this may not allow full service commencement to be brought forward as explained above.

5.3.18 A site selection system at Part 2 of Schedule 24 of the PA provides flexibility to introduce alternative sites for phase 2, only if necessary or desirable to do so. This is considered to be a prudent and pragmatic mechanism to further ensure that phase 2 is deliverable, even though the Council expects the phase 2 homes to be located on the two/three sites listed above.

5.4 Funding approvals

5.4.1 The Council will be making an annual revenue contribution, a capital contribution and a land contribution to the project as discussed in sections 4.4 to 4.6 inclusive. Cabinet (22 June 2010) has approved the making of these financial contributions, as set out in the relevant report and minutes attached as Appendix 27.3 and 27.4.

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5.4.2 On 14 September 2011 the Council agreed by way of a delegated decision (from the 22 June 2010 Cabinet meeting) to enter into the housing PFI contract on the basis of the negotiated position reached with SHL. The minute of this meeting is at Appendix 27.5.

5.5 Stakeholder communication and involvement

5.5.1 This is a new build Non-HRA project and, therefore, tenant consultation has not been an issue for the Council. The main area of community engagement has been through the site selection and planning process.

5.5.2 Full public consultation on the initial list of sites was carried out during summer 2006. This ran for 12 weeks, in accordance with WWDC's Statement of Community Involvement and included five community area drop-in sessions, an interactive webpage and a display of architect's drawings at the Council's offices. Local residents, town and parish councils were invited to participate. By the end of the period approximately 670 consultation responses had been received.

5.5.3 Further consultation was carried out in summer 2007, in respect of the disposal of open space under section 123(2A) of the Local Government Act 1972, and nine letters of objection were received. All public consultation responses and objections were taken into account by WWDC's Cabinet when, in October 2007, it approved the final list of Council provided sites. The Council provided sites at Manor School and Margaret Stancomb School have been included in the project following the inception of Wiltshire Council in April 2009.

5.5.4 All planning applications (except extensions of time) have been determined by full Planning Committee and not delegated to officers, thus providing further opportunities for community engagement.

5.5.5 As landlord of the PFI homes, Sarsen will operate a residents' panel with the purpose of reviewing and improving the housing management and maintenance services provided under the contract, and to assess Sarsen's performance in meeting its resident involvement and community investment objectives. This group will comprise of up to 12 tenants and will meet at least four times a year.

5.6 Contract management and monitoring

5.6.1 The Council acknowledges the risk that it may not realise the full benefits of the project unless it manages the contract effectively. In order to mitigate this risk a full time senior contract manager will be appointed to manage this project and, in principle, the Council's other (schools) PFI. This post will sit within Procurement.

5.6.2 It is intended that the contract manager will be recruited once this FBC has been approved and that he/she will be in post well before completion of the first homes. Arrangements have been made to

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ensure overlap and knowledge transfer between the outgoing project manager and the incoming contract manager.

5.6.3 The contract manager/Procurement will have overall responsibility for the management and monitoring of the contract, including to:

- act as the Council's representative and the single point of contact in relation to the contract;
- verify payment deductions under the Payment Mechanism; and
- monitor availability and performance against the Output Specification.

5.6.4 The contract manager will work closely with a specialist Finance colleague with regard to the operation and ongoing review of the Payment Mechanism – this officer is already engaged in the procurement process. This replicates the system currently in place for the Council's schools PFI. The contract manager will also liaise closely with Housing colleagues with regard to service delivery and the ongoing review of the Output Specification.

5.6.5 A prudent, index linked allowance of £100,000 has been included within the Council's annual revenue contribution (£237,000) to fund the housing element of the above post. This allowance also includes all external costs, including professional fees, in connection with managing the operational project. Please note that the £100,000 allowance is not intended to cover the cost of delivering phase 2 of the project as this will be budgeted for separately.

5.6.6 The liaison procedure is set out in Schedule 8 of the PA, which follows the standard HPP format. In essence a project liaison group will be established, comprising of three Council representatives, three contractor representatives and, upon service commencement, three tenants (plus any additional non-voting members as the parties may agree). This group will provide a means to review all aspects of the performance of the contract and to make recommendations accordingly.

5.6.7 There will be further liaison mechanisms in place between the Council and SHL, for example with regard to the operation of the Nomination Agreements.

5.7 Outstanding risk

5.7.1 As stated above, this is a new build Non-HRA project in which there is a high degree of certainty with regard to the cost of phase 1 and the great majority of the risks are transferred to the private sector (for further details of which, please refer to the updated risk allocation matrix at Appendix 10.1).

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5.7.2 The land supply and pricing risks in respect of phase 2 are mitigated by the mechanisms contained within Clause 53A of the contract, as discussed in section 3.3 above. In the worst case scenario of phase 2 not being deliverable for whatever reason, the Council's contingency plan is to continue to operate the first phase of the project (without any request for additional credit support) and to seek alternative means of developing the Council provided sites in phase 2 in order to provide the additional homes.

5.7.3 INFORMATION REMOVED

5.7.4 INFORMATION REMOVED

5.7.5 INFORMATION REMOVED

5.7.6 The Council's risk action plan for the procurement phase of the project is attached as Appendix 22.1. A risk register in respect of the operational phase is currently under development and the latest version is at Appendix 22.2.