

**MANCHESTER CITY COUNCIL
REPORT FOR RESOLUTION**

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| COMMITTEE | EXECUTIVE |
| DATE | 14 MARCH 2007 |
| SUBJECT | THE REGENERATION OF BRUNSWICK AND COLLYHURST PROGRESS ON THE PRIVATE FINANCE INITIATIVE OUTLINE BUSINESS CASES |
| REPORT OF THE | DIRECTOR OF HOUSING, NEIGHBOURHOOD SERVICES DEPUTY CHIEF EXECUTIVE (REGENERATION) |
| PROGRAMME AREA | HOUSING |

PURPOSE OF REPORT

To update Executive on the progress of securing approval for the Brunswick and Collyhurst Housing Revenue Account (HRA) Private Finance Initiative (PFI) Outline Business Cases.

RECOMMENDATIONS

Executive is requested to:

1. Note the positive progress being made in securing approval for the Outline Business Cases (OBC) for the regeneration of Brunswick and Collyhurst using HRA PFI.
2. Note the indicative commitment from Communities and Local Government to provide PFI credit of £117m for Brunswick and £160m for Collyhurst.
3. Note the new requirement from Communities and Local Government for local authorities to estimate potential cost increases in project procurement.
4. Note the updated cost and affordability position for each project and the financial implications of a number sensitivities which might impact on their affordability and confirm support for the way in which the affordability might be managed.
5. Confirm its commitment to fund the costs, as agreed by Executive in December, which are not funded from the PFI credit (such as land acquisition and home loss and disturbance costs). These costs are now estimated at £10m for Brunswick and £15m for Collyhurst.
6. Agree that, should any affordability gap arise, the project will be supported through other mechanisms including housing capital receipts or through reviewing the project scope without impacting on value for money.

FINANCIAL CONSEQUENCES FOR THE REVENUE BUDGET

The whole of the Maintenance Allowance and ninety percent of the Management Allowance which the Council will receive for each property will be used to assist in funding these projects.

FINANCIAL CONSEQUENCES FOR THE CAPITAL BUDGET

An estimated £25m from the capital budget will be required for land assembly, home loss and disturbance and other costs as identified in paragraph 3.1. The costs involved will need to be given priority from within capital resources available to support the Council's Housing programme from 2010 onwards.

Should the potential cost increases identified in paragraph 2.3 occur, this would equate to a one-off commitment of £3.3m funded from the Housing PFI reserve fund in line with budget strategy.

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BACKGROUND DOCUMENTS

WARDS AFFECTED

Ardwick
Cheetham
Harpurhey
Miles Platting and Newton Heath

| | | | |
|--------------------------|--|---------------------------------------|---------------------------|
| IMPLICATIONS FOR: | ANTI POVERTY Yes | EQUAL OPPORTUNITIES Yes | ENVIRONMENT Yes |
| | EMPLOYMENT OPPORTUNITIES Yes | | HUMAN RIGHTS No |

1. BACKGROUND

- 1.1 Executive approved the submission of draft Outline Business Cases to Communities and Local Government (CLG) in December 2006.
- 1.2 Communities and Local Government have assessed the Brunswick OBC and have agreed to sponsor it at the next stage in the PFI process. The next stage involves further scrutiny of the application by the interdepartmental Project Review Group (PRG). The OBC will be presented to the next PRG meeting on 20 March 2007. CLG are currently assessing the Collyhurst OBC and intend to sponsor this to the PRG meeting on 15 May 2007.
- 1.3 The Outline Business Case submissions are affordable based on the standard assumptions allowed. However, CLG is now requiring the Council to undertake sensitivity testing on the financial assumptions made to identify any potential financial risk to the Council.
- 1.4 In line with PFI guidance CLG requires the Council to make provision to cover potential financial risks before it is prepared to sponsor the OBC to the interdepartmental Project Review Group. This level of financial commitment has not previously been required at the OBC stage.
- 1.5 CLG has given an indicative commitment to provide £117m for Brunswick HRA PFI and £160m for Collyhurst HRA PFI.

2. FINANCIAL ASSUMPTIONS

- 2.1 A number of financial assumptions have been made to establish the key input costs in each OBC. In addition, however, CLG now require local authorities to model the potential cost increases and savings based on a number of different scenarios.
- 2.2 Officers are confident that they can successfully negotiate affordable PFI projects based on their experience of Round 1 and Round II HRA PFI. However, CLG require the Council to identify any potential gaps in funding and to specify how they will deal with such gaps.
- 2.3 The results of sensitivity testing shows that the Council may require up to £1.9m to support the Brunswick PFI project and £1.4m to support the Collyhurst PFI project if the scenarios modelled happen and officers have been unable to negotiate these costs away.
- 2.4 CLG require the Council to allocate resources, now, to cover any potential cost increases which may arise during the procurement process. Funds to cover this gap have been set aside in the Council's PFI reserve fund.
- 2.5 Officers intend to procure contracts within the original affordability model without calling upon the above fund and have identified a number of strategies to mitigate the risk of cost increases occurring.
- 2.6 Officers will present further reports on affordability during the procurement process which identify any resources required from the Council.

3. OTHER COSTS

- 3.1 CLG require the Council to identify other potential costs which must be met by the Council and for which PFI credit is not applicable. Since the report to Executive in December officers have carried out further work to identify these costs and have estimated them at £10 million for Brunswick and £15m for Collyhurst. These estimates are based on potential development sites and further work will be required during the procurement process to identify the costs in detail. The costs that the Council is likely to incur are associated with land assembly such as the making of a Compulsory Purchase Order, the purchase of land and property and home loss and disturbance payments.
- 3.2 The Council has established a PFI Project Team for each project funded by the Housing Revenue Account. A budget is available to procure external legal and financial advice as required.
- 3.3 The Council will contribute the whole of the Maintenance Allowance and ninety percent of the Management Allowance it receives from Government each year for the life of each contract. The ten percent of the Management Allowance which will be retained will be set aside for contract monitoring and management.

4. CONCLUSION

- 4.1 The Outline Business Cases were submitted to CLG in December 2006.
- 4.2 Both projects are affordable and Value for Money based on the base case assumptions allowed when applying for PFI credit.
- 4.3 Sensitivity testing shows that the projects are subject to cost changes. CLG now require the Council's commitment to meet any affordability gap before they will sponsor any OBC to the interdepartmental Project Review Group and officers are determined to negotiate affordable projects.
- 4.4 Further reports on affordability will be presented to Executive at appropriate times.

5. IMPLICATIONS FOR KEY COUNCIL POLICIES

- 5.1 The implications of this report for the Council's policies of combating poverty and disadvantage are that the improvements to residents homes and the environment will address social exclusion and enhance the quality of life for local people, improving both the overall social conditions and employment opportunities in the area.
- 5.2 The implications of this report for the Council's environmental policies are that this project will attract significant investment to the areas and substantially improve the environment. Estate redesign will increase permeability and design out crime, making estates more attractive and sustainable areas for residents to live.
- 5.3 The implications of this report for the Council's equal opportunities policies are that any new build homes will be designed to full 'Design for Access 2' compliance and will therefore provide improved opportunities for disabled people seeking accommodation

in this part of Manchester. Improvements to sheltered housing in both areas are planned and will be carried out with full knowledge of the Council's Valuing Older People strategy.

- 5.4 The implications of this report for the Council's policies on employment are that a significant amount of long-term investment in the area will be targeted to attract employment opportunities for local people. This will build on the work that has already been carried out by the regeneration teams working in the wider area.