



AGENDA
ITEM NO.:

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Appendix 1
NOT FOR PUBLICATION

Exempt/Confidential Under Access to Information Procedure Rules 10.4 (8 & 9)

REPORT OF: DIRECTOR OF NEIGHBOURHOODS AND HOUSING

REPORT TO: EXECUTIVE BOARD

DATE: 21 July 2004

**SUBJECT: SWARCLIFFE HOUSING REVENUE ACCOUNT PRIVATE FINANCE
INITIATIVE PROJECT**

**Whinmoor
Halton**

Specific Implications for:

Ethnic Minorities ☐
Women ☐
Disabled People ☐

Executive
Board

Decision ☐

Eligible for call in ☒

Not Eligible for call in ☒

(details contained in the report)

1.0 PURPOSE OF THE REPORT

- 1.1 To outline to Members the key features of the Swarcliffe Housing Revenue Account (HRA) Private Finance Initiative (PFI) Project and to seek approval to the proposed resolutions required to take the Project through to contract signature.

2.0 BACKGROUND

- 2.1 The Swarcliffe HRA PFI Project is the first of two Housing Revenue Account PFI Projects within the City, and is one of eight Pathfinder projects nationally. Within that context the investment in housing that will be achieved through PFI for the project approved by the Office of the Deputy Prime Minister (ODPM), in approximate capital values (expressed in today's terms excluding inflation) is £107m. Significant additional private investment will be levered into the estate under the associated Development Agreement.
- 2.2 On 15th October 2003 Executive Board approved appointment of the Preferred Bidder and accepted an increase in the PFI credits being offered by ODPM and the associated affordability implications, as well as approving changes to the Project Board membership to reflect the Council's new structures.

- 2.3 Executive Board's approval on October 15th 2003 was based on an offer of credits from ODPM of £70m, which was based on the assumption that the project would reach contractual close by March 31st 2004. Negotiations have proved to be more protracted than anticipated and closure is not now anticipated until July 2004. As a consequence of national changes to the subsidy rate effective from April 1st 2004 a later closure reduced the cash value of the £70m credits to the Council.
- 2.4 A further submission was made to the ODPM for an increase in the credits so as to effectively meet the cash shortfall referred to above. ODPM have approved an additional £3.5m credits, so that the total credits offered are now £73.5m.
- 2.5 It is necessary for the Council to submit a Full Business Case (FBC) to the ODPM for approval in order to secure the release of the Notional Credit Approvals prior to financial close and contract signature.
- 2.6 The responsibility for the oversight and management and for decision making on the Project was delegated to the Housing PFI Projects Board (formally, to the Chair of the Board, with the concurrence of two other Board members) by the Council's Executive Board. All stages of the procurement, the methodology used at each stage of the procurement and all decisions on the conduct and selections under the procurement have been made by the Housing PFI Projects Board.
- 2.7 The outcome of the procurement process was that the Housing PFI Projects Board at its meeting of 26th September 2003 approved the selection of the Yorkshire Transformations (YT) Consortium as the Preferred Bidder on this project. Under delegated powers, the Deputy Chief Executive, as Chair of the Project Board, signed a Preferred Bidder Letter, a copy of which is available in the Supplementary Annexes to this report, which are under separate cover.
- 2.8 The Yorkshire Transformations (YT) consortium comprises:
- i) The Governor and Company of the Bank of Scotland, senior lender
 - ii) Mowlem Developments Limited, equity and junior debt provider
 - iii) Yorkshire Community Housing Limited (part of the Yorkshire Housing Group), equity and junior debt provider
 - iv) Uberior Infrastructure Investments Limited, equity and junior debt provider
 - v) Mowlem plc, construction contractor
 - vi) Yorkshire Community Housing Limited, facilities management contractor

3.0 MAIN ISSUES

- 3.1 This section, Appendix 1 and the separate Supplementary Annexes to the report outline the main issues covered within the PFI Project Agreement which is the contract for this project. Appendix 1 refers to Financial issues. The Supplementary Annexes refer to Legal issues, the Performance Mechanism and the Development Agreement and are confidential under Access to Information Procedure Rules 10.4 (8 & 9)

3.2 Project Outline:

- i) The project is a major regeneration initiative which will deliver most of the physical regeneration improvements required to make the Swarcliffe estate a sustainable, attractive place to live by improving homes, addressing future housing needs and upgrading the overall environment of the estate.

- ii) Specifically, through the PFI contract, 367 surplus Council homes within the Housing Revenue Account will be demolished and 1659 refurbished. This includes 29 homes which the Council has disposed of under leasehold agreements. There will be an initial five year improvement period to bring the homes up to an Availability Standard specified by the Council which ensures that the requirements of the Decent Homes Standard are met. Associated environmental and highways improvements will be carried out over a seven year period. The Contractor will maintain the homes and the environment to the improved standard over the remainder of the contract period (years 6-30 and 8-30 respectively), after which they are handed back to the Council.
- iii) There will also be Development Agreements under the terms of which surplus land will be disposed of for provision of 350 new homes for sale, 110 for social rent, and for neighbourhood centre improvements (including shops and a neighbourhood housing office). Further environmental and open space improvements, new play areas and highways will be provided as part of the new development to meet highways and planning requirements. The proceeds from the disposals will be used to reduce the Unitary Charge paid by the Council under the PFI contract.
- iv) The housing refurbishments will be delivered through the Private Finance Initiative and the private sector partner will be required to take on the associated risks and responsibilities inherent in this process and will operate a range of ancillary services to maintain the dwellings and the surrounding environment and communal areas.
- v) The associated new development will be delivered through Development Agreements with the consortium, and will lever in over £30m private investment over and above the investment through the PFI contract referred to at 2.1.
- vi) To date Social Housing Grant of £4.1m has already been approved by the Housing Corporation to support 52 of the proposed new homes for rent. Further applications will be made in future bidding rounds, in keeping with the programme and Housing Corporation requirements.
- vii) **Complementary regeneration initiatives.**
The Woodview scheme, recently developed by Anchor Housing, provided approximately 100 new homes for the elderly, with associated communal facilities which are available for community use. New primary care facilities are proposed for the neighbourhood centre area and will be delivered through the Local Improvement Finance Trust initiative.

3.3 The PFI contract includes all the homes owned by the Council, within the Housing Revenue Account, on the Swarcliffe estate including those which have been disposed of under long leases where the Council retains responsibilities under the terms of the lease. The boundary of the scheme is shown on a plan which is in the Supplementary Annexes to this report.

3.4 The sites which it is proposed will be disposed of (10.4 hectares in total) are shown on a plan which is available in the Supplementary Annexes to this report. and are all within the HRA. Best consideration has been obtained through the bid process.

3.5 **Project Aims and Objectives:** these are as set out within the outline business case and are detailed in the Supplementary Annexes to this report.

3.6 **The works period** (construction period) runs from approximately 2 months after contract signature (currently anticipated July 2004) to 2011, with phased Packages of works taking place throughout the initial improvement period.

3.7 **The service period** will run from approximately 2 months after contract signature for the entire 30 year period of the Contract.

3.8 **The Services** included within the contract are:

- i) Property Repair and Maintenance
- ii) Grounds and estate Maintenance
- iii) Void Property Management
- iv) Caretaking and Cleaning
- v) Information and Information Technology
- vi) Tenant and Community Liaison and Involvement

These services are currently provided by Leeds South East Homes (LSEH). Appropriate adjustments to their Management Fee have been agreed to reflect the fact that they will no longer be providing the services which are included in the PFI contract.

Other housing management services (rent and service charge collection, lettings and tenancy management) will continue to be provided by Leeds South East Homes under the terms of their Management Agreement with the Council.

S27 Consent -Secretary of State consent is required to allow the Council to delegate specified housing management services under a PFI contract. That consent will be applied for under S27 of the Housing Act 1985 as amended by the Regulatory Reform (Housing Management Agreements) Order 2003 at the same time as the Full Business Case is submitted.

3.9 **Employment and TUPE** - 2 staff are currently employed by Leeds South East Homes in posts to which the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) are envisaged will apply and which will be subject to transfer to the facilities management contractor. The staff transferring are caretakers. As procurement commenced prior to January 2003 the ODPM's Code of Practice on Workforce Matters in Local Authority Service Contracts does not apply. Accordingly, the Contract has made provision ensuring that the terms and conditions of employment of the two transferring employees are fully protected, and that new staff are employed on broadly comparable terms.

3.10 **Pensions:** It is proposed that transferring employees of the facilities management service provider engaged in this contract will have continued membership of, or access to the local Government Pension Scheme. If for any reason the employer cannot achieve or retain admitted body status for this purpose, then broadly comparable arrangements would have to be provided.

3.11 **Conduct on site** - The contract will set out the City Council's minimum requirements relating to the conduct of the contractor's staff and any sub- contractors in Schedule 10 to the Project Agreement.

3.12 **Communications and consultation-** Provision has been made prior to and throughout the procurement period to keep stakeholders informed as to progress and to consult tenants.

3.13 Stakeholders in this project were identified as:

- i) Project Board
- ii) Project Team
- iii) Executive Board

- iv) Ward members (where homes are located)
- v) CIT chairs (where not ward members)
- vi) Tenants and residents living on the Swarcliffe estate
- vii) Tenants and Residents Associations whose members live on the Swarcliffe estate
- viii) ODPM
- ix) Leeds South East Homes
- x) Trade Unions
- xi) Press
- xii) Auditors

3.14 Communication and consultation throughout the project to date has included:-

- i) regular newsletters to residents, this newsletter is routinely copied to ward members, MP's, and other stakeholders
- ii) members briefings
- iii) displays and open days for residents
- iv) regular updates to three Tenants and Residents Association meetings
- v) Swarcliffe Community Forum
- vi) Updates to Community Involvement Team meetings
- vii) regular update reports to Project Board, updates and specific reports to Executive Board
- viii) provision of information to and regular meetings with trade unions including attendance at Leeds South East Homes Joint Consultative Committee
- ix) Briefings and update reports to Leeds South East Homes officers and Board
- x) updates to and meetings with the ODPM
- xi) regular meetings with Development Department on disposals, planning, highways and site issues

3.15 As outlined above there has been extensive consultation with tenants both prior to and throughout the procurement period. To date tenants have been supportive of the scheme. To obtain S27 consent the Council now has to carry out a final, formal consultation exercise which gives tenants an opportunity to comment on the proposed changes to the management arrangements for their homes. Those comments have to be taken into account before the Council takes the decision to enter into the contract. The consultation period will extend beyond the date of the Executive Board meeting. It is therefore proposed that the consultation outcomes are considered under delegated authority of the Director of Neighbourhoods and Housing.

3.16 As the project moves from contract close towards service commencement Leeds South East Homes and Yorkshire Transformations will be undertaking staff consultation with all transferring staff. The trade unions will be included throughout this process.

3.17 The following 4 areas (Financial, Legal and Performance & Payment and Development Agreement) are subject to ongoing negotiations. Appendix 1 and the Supplementary Annexes to the report outline the current negotiating positions. Changes to the positions outlined in Appendix 1 and the supplementary information referred to above will be subject to the delegations sought by this report to the Deputy Chief Executive.

3.18 **Financial Issues:** Attached at Appendix 1 is a detailed report covering the financial issues relating to the project. In summary the main issues are:

- i) Value for Money

- ii) Affordability
- iii) Capital Receipts
- iv) Compliance with the Local Authorities (Capital Finance and Accounting (England) Regulations 2003 (SI 3146)
- v) Termination of the contract
- vi) Impact on Leeds South East Homes

3.19 Legal Implications and Powers: The Supplementary Annexes to this report contain a draft report compiled by the Council's External Legal Advisers, Addleshaw Goddard, which:-

- i) Advises generally on terms reached in negotiation,
- ii) Comments on how closely the terms of the PFI contract follow the requirements of HM Treasury and ODPM standardisation guidance,
- iii) Explains the steps that are to be taken on the Council's behalf in relation to the PFI contractor's financing agreements and sub-contracts
- iv) Advises on the Council's statutory powers to certify the Project Agreement and the lender's direct agreement under the Local Government (Contracts) Act 1997, and
- v) Advises on the enforceability of the performance mechanism

3.20 Attached to the above report are draft certificates under the Local Government (Contracts) Act 1997, which, amongst other things, identify the statutory powers under which the Council will enter into the project. The final version of the Addleshaw Goddard report will be provided for the benefit of the deputy Chief Executive and the Director of Corporate Services, to support their final approvals of contract documentation and certification of the contracts respectively.

3.21 Performance & Payment Mechanism: The performance mechanism provides for specific deductions to be made from the Unitary Charge (the annual payment) when specified standards for the dwellings and services are not met. The payment mechanism regulates the calculation and payment of the invoices for the works and services in the contract, makes adjustments following Right to Buy property reductions and addresses issues such as the impact of inflation. A summary of the provisions within the performance and payment mechanism is contained in the Supplementary Annexes.

3.22 Development Agreement The Development Agreements will make provision for and set out the terms of disposals of land on a freehold and of garages on a leasehold basis under the Housing Act 1985, for which the Secretary of State's consent will be required. A summary is provided in the Supplementary Annexes. The Agreements will make provision for disposals of land at best consideration. It is proposed that the Capital Receipts so generated are used to reduce the Contractor's borrowings and so reduce the Unitary Charge to the Authority. Approval is sought to dispose of the sites for the price referred to in Appendix 1 on terms outlined in the Supplementary Annex.

4.0 CONCLUSION

4.1 Finalised commercial terms and drafting amendments to the Project Agreement are being agreed with Yorkshire Transformations in a series of meetings programmed to take place during June. The Full Business Case will be submitted to the ODPM in June, to ensure that the ODPM have sufficient time to consider and grant final approval for the Project by summer

2004. Derogations from standard guidance and proposals regarding insurance have been submitted in advance to facilitate approval. Once ODPM have completed their review of the FBC, they will issue a Promissary Note to the City Council confirming that they have approved the project. The Promissary Note provides the necessary credit cover and revenue support the Council requires before it can sign the contract with Yorkshire Transformations.

- 4.2 Contract signature will in turn see the phased start of refurbishment work in line with the agreed programme and commencement of the services following a period of mobilisation which is expected to last approximately two months.

5.0 PROPOSALS FOR APPROVAL

Members of Executive Board are recommended to:

- 5.1 Confirm their acceptance of the offer of £73.5m PFI credits from the Office of the Deputy Prime Minister and their understanding of the affordability implications for the Council as set out in Appendix 1.
- 5.2 Note the information in this report, its appendix and the separate Supplementary Annexes providing details of the process and negotiations undertaken and work carried out to date
- 5.3 Approve the financial implications and the affordability threshold for the Council of entering into this contract as detailed in Appendix 1.
- 5.4 Approve disposal of the sites identified in the Supplementary Annexes to Yorkshire Transformations for the price indicated in Appendix 1

PROPOSALS AUTHORISING DELEGATED APPROVALS

- 5.5 Subject to approval of the Full Business Case (FBC) by the Deputy Chief Executive and ODPM, a positive accounting determination on the transaction, and receipt of S 27 consent by the Secretary of State and subject to the Deputy Chief Executive (or in his absence the Chief Executive) being satisfied that the project remains within the affordability constraints set out in Appendix 1:

(1) Approve the Council's entry into the project with the special purpose company of the Yorkshire Transformations consortium, subject to the final approvals referred to in recommendation 5.5(2) below;

(2) Grant delegated powers to the Deputy Chief Executive , or in his absence the Chief Executive, (in consultation with the Chief Legal Officer and the Development Director) to give final approval to the completion of the Project, including (but not by way of limitation) the following:

- i) The terms of the Project Agreement
- ii) With the exception of the disposal price, the terms of any necessary land transactions including the Development Agreements which will involve the disposal of the surplus land, and the proposed lease of garage sites
- iii) The Financiers Direct Agreements
- iv) Any pensions Admissions Agreement and associated bond
- v) Direct agreements with the FM Sub-contractor
- vi) Collateral warranties from the construction subcontractor, designers and other second tier subcontractors

- vii) Form of acknowledgement by the Council of the financier's charge
 - viii) Any other documents conducive to the completion or undertaking of the project
- 5.6 Subject to consideration of the outcome of the final tenant consultation exercise, authorise the Director of Neighbourhoods and Housing to apply for Secretary of State consent under S27 of the Housing Act 1985 as amended by the Regulatory Reform (Housing Management Agreements) Order 2003 to delegate housing management functions as set out in the Project Agreement on the terms of the project agreement (which will include the power to sub-delegate and to act jointly with the funder's appointed representative)
- 5.7 Approve that the Director of Corporate Services , as the statutory officer under section 151 of the Local Government Act 1972, or in his absence the Chief Officer - Financial Management be authorised :
- i) to sign any necessary certificates under the Local Government (Contracts) Act 1997 in relation to this transaction.
 - ii) Final determination under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 3146)
- 5.8 Approve that, in respect of certification under 5.7, and subject to the advice of the Director of Legal Services, a contractual indemnity be provided to the Director of Corporate Services in respect of potential liabilities arising from the certification.
- 5.9 Approve that the Director of Legal Services (or any other officer of the Council authorised by her) be authorised to execute or sign all necessary agreements, by affixing the Council's common seal or otherwise, and take any necessary further action to complete the transactions and give effect to Members' resolutions and delegated decisions referred in these recommendations.
- 5.10 Request and authorise the Director of Neighbourhoods and Housing to implement any post completion arrangements necessary to monitor and administer the contract documentation by agreement, where necessary with Leeds South East Homes, such agreement to be reflected in an addendum to Leeds South East Homes' Management Agreement with the Council.
- 5.11 Authorise that the Director of Legal Services (or other officer of the Council authorised by her) be authorised to sign a certificate evidencing the above resolutions under section 41 of the Local Government (Miscellaneous Provisions) Act 1976 whether or not in advance of the minutes of this meeting being signed at the next meeting of this Executive Board.

SWARCLIFFE HOUSING REVENUE ACCOUNT PRIVATE FINANCE INITIATIVE PROJECT

Appendix 1

This Appendix is Not for Publication - Exempt under Access to Information Procedure rule 10.4 (8 & 9)

FINANCIAL ISSUES

1. Introduction

The main financial issues to be highlighted in this appendix are -

- Value for Money
- Affordability
- Capital Receipts
- Regulation 40 Compliance
- Contract Termination
- Arms Length Management Organisation (ALMO) impact

Some significant issues are still to be resolved with the ODPM and the preferred bidder which will impact on both affordability and price. The financial analysis within this appendix has taken those issues into account.

2. Value for Money (VFM) for the Public Sector

In order for the ODPM to issue the PFI credit, the Authority must prove that the project represents VFM for the public sector. The Council has prepared a Public Sector Comparator (PSC) which takes into account the following Treasury Taskforce guidance:

- Policy Statement No 2 “Public Sector Comparators and Value for Money”
- “Appraisal and Evaluation in Central Government” (the “Green Book”)

The PSC represents the cost to the public sector of directly supplying the services required by the Output Specification through conventional procurement. It therefore, represents the cost to the public sector of refurbishing and maintaining the dwellings of the Swarcliffe estate for a 30 year period.

The PSC analysis indicates that the procurement of the contract via a PFI option is £1.6m or 2% more efficient than procurement via the traditional public sector route.

The Final Business Case will contain a full breakdown of the relevant elements of the PSC.

3. Affordability of the Project to the Authority

The affordability for the Authority is summarised in Table 1 below and can be seen in detail in Table 4. The analysis indicates that the project requires a contribution from the Council of up to £24m over the life of the project and this equates to up to £555k per annum in the first year, rising to £1.135m in year 30 due to the impact of inflation at 2.5%.

In calculating the annual contribution, due account has been taken of the risks which still remain with the Council to allow for a build up in the sinking to cover these risks.

The project team have taken a prudent view as to the likely changes in the unitary charge between now and financial close. Possible increases in building cost inflation and funding rates have been taken into account. The latest assumption on indexation (the amount of unitary charge which is impacted by RPI inflation) has been used which is 60%.

The Authority submitted a request to the ODPM for permission to use a method of payment which optimises the bidder's unitary charge. The mechanism works by paying some of the excess cash held in the PFI sinking fund over to the bidder in order to reduce the borrowing costs of the bidder and therefore the price of the bid. On 29th April 2004, ODPM agreed in principle to the proposal. Conditions will be in place within the contract to protect the Council in making these payments.

Table 1 – Affordability

	30 Year Total £m
Unitary Charge	260
Financed By -	
PFI Revenue Support Grant	171
ALMO Contribution	53
Council Contribution	24
Interest accrued on balances	12
Total Funding	260

The analysis above includes inflation at 2.5% to illustrate the cashflow impact of the project over 30 years

It is proposed that the contribution required from the Council will be sourced from the use of a combination of Housing Revenue Account and General Fund resources. The General Fund contribution will be used to fund elements of the scheme which benefit the wider community, including changes to the environmental layout of the area and highway improvements. The precise methodology by which these resources are utilised will require discussion with, and the support of, ODPM.

The cost of the project (ie the £260m above), expressed in today's terms (excluding inflation) is £184m, illustrated in Table 2.

Table 2 – Project Cost

	£m
Refurbishment capital	57
Lifecycle capital	42
Environmental capital	8
Management Services	42
Borrowing and Taxation	35
Total Cost	184

This commitment from the Council will be offset by the benefits the Council will receive from a capital investment which is in excess of £107m. In addition to the initial refurbishment cost of £57m, the contract also contains lifecycle investment of £42m and environmental improvements of £8m. Under a conventional procurement these costs would have to be met from the Council's own resources. Private investment of over £30m is also being levered into the estate under a separate Development Agreement.

4. Capital Receipts

The Authority has included capital receipts of £2.676m within the project which is generated as a result of the sale of vacant and clearance land on the estate. The Authority has received "best consideration" for this land. The land will be developed to provide affordable social housing for rent and private housing for sale on the Swarcliffe estate.

5. Compliance with The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

In order to be regarded as a Private Finance Transaction, and to receive PFI credits, this project, as with any other PFI project, must be seen to comply with the Accounting Code of Practice. With regard to PFI transactions this is covered in the Financial Reporting Statement Number 5, commonly referred to as FRS 5. In essence, the transaction must be "off balance sheet". This means that the City Council will transfer the property risks to the PFI Contractor.

The Director of Corporate Services, after undertaking a review of the relative property risks associated with the Contract, and with advice from the Council's Financial Adviser will have to make a determination on the accounting treatment of the project. An opinion from the Council's external auditor will also be required.

6. Contract Termination

Contract termination can arise at the instigation of either the Authority or PFI Operator. Table 3 illustrates the likely level of termination payment required at different stages of the contract. The Supplementary Annex covering legal issues provides a more detailed summary of the termination provisions within the Project Agreement.

Termination of the Contract by either party or by a "no fault" event is likely to have significant financial consequences for the City Council. The City Council's Financial Advisers, Deloitte, have provided a summary of the potential consequences to the City Council on termination (based on the current Project Agreement) of the Contract. Members should have particular regard to this summary, as some of the potential financial consequences could be considerable.

Funders will not finance PFI projects where there is a risk of their investment being lost due to the termination of the contract earlier than set out in the Project Agreement, no matter whose fault (or no fault). This is reasonable given the capital sums that are invested by funders at the start of such a project, with repayments by the PFI contractor to the funder typically ending only a few years before the end of the contract term. The largest element of the potential compensation is the level of Senior Debt outstanding at the date of termination. This figure is at its highest at the start of the contract period, after funds have been drawn down to finance the construction costs, but prior to any repayments to the funder from the Unitary Charge income from the City Council after service commencement. The paragraphs below briefly summarise the implications for the City Council in the event of each cause of Contract Termination.

- **Contractor default**

In the event of contract termination in these instances, the City Council could elect to re-tender the contract. In this circumstance the City Council would pay the Contractor either the amount described as the “Adjusted Highest Compliant Tender Price”. This is likely to be the tender price, less the re-tendering and any other attributable costs to the City Council arising from the Contractor default. If a no re-tendering procedure applies, the Adjusted Estimated Fair Value procedure will apply, which is likely to be the Net Present Value of the revenues less costs within the Project Financial Model.

- **Council default**

If the City Council defaults on the Contract, then the PFI Contractor would be entitled to receive payment of all Senior Debt, any other Coupon Bearing investment and all expected future distributions relating to any equity investment, discounted back to the date of contract termination. An example of the payments that would be made at a sample of termination dates is illustrated below.

- **Termination on corrupt gifts and fraud**

In this event, the City Council would be obliged to pay the PFI Contractor an amount equal to the Senior Debt outstanding. An example of the payments that would be made at a sample of termination dates is illustrated in the table below.

- **Force Majeure**

The Project Agreement states that neither party is entitled to bring a claim for breach of obligations nor has any liability to the other part to the Contract for any losses or damages incurred if a Force Majeure event prevents them from carrying out their obligations. The terms for the calculation of compensation reflects that this is “no ones fault”. In the event of Contract Termination by reason of Force Majeure, the PFI Contractor would receive sums to cover repayment of its outstanding debt and any initial equity investment but would not receive any profit element. An example of the payments that would be made at a sample of termination dates is illustrated below.

Table 3 - Termination Amounts

	Council Voluntary Termination or Default	Force Majeure	Corrupt Gifts or Fraud
30 th June 2008 (yr 5)	£37.8m	£37.7m	£33.3m
30 th June 2013 (yr 10)	£33.5m	£32.9m	£28.9m
30 th June 2018 (yr 15)	£27.5m	£26.2m	£22.5m
30 th June 2023 (yr 20)	£22.9m	£20.0m	£16.6m
30 th June 2028 (yr 25)	£17.0m	£11.8m	£9.1m
30 th June 2033 (yr 30)	£8.0m	£1.5m	£0m

7. Leeds South East Home (LSEH) Impact

Leeds South East Leeds Homes will contribute £53m to the project over the 30 year concession period. This contribution is sourced from the Management Fee which LSEH receives for managing and maintaining the properties within the Swarcliffe area.

The contribution from LSEH consists of the budgets which no longer have to be spent, as the PFI operator will be undertaking the relevant services. These budgets include repairs and maintenance. These funds have been diverted to pay for the PFI contract.

No indirect budgets have been used to contribute towards the unitary payment. These budgets would include the central running costs of LSEH. This approach has been taken in order to protect the operating viability of LSEH and to protect the quality of services delivered to the rest of the South East area.

The implication for LSEH of using RTB receipts in the scheme is that the receipts from the Swarcliffe area will be invested back into the Swarcliffe estate rather than the wider LSEH area.

Table 4 - Movement in the Sinking Fund Balance

**Annual
Inflation
2.5%**

	Income \ Funding (£000's)				Payments (£000's)				Sinking Fund Balance (£000's)		
	PFI Grant (£73.5m)	ALMO Contribution	Council Contribution	Total Funding	Unitary Charge Variable	Unitary Charge Fixed	Bullets	Total Payments	Annual Cashflow	Interest on Fund	Closing Balance
1	5,687	1,362	555	7,604	1,405	937	1,000	3,342	4,262	96	4,358
2	5,687	1,346	569	7,601	2,212	1,474	3,000	6,686	915	217	5,490
3	5,687	1,328	583	7,597	2,947	1,965	2,000	6,912	685	262	6,438
4	5,687	1,308	597	7,592	3,625	2,417	1,000	7,042	550	302	7,290
5	5,687	1,317	612	7,616	4,216	2,810	-	7,026	590	341	8,221
6	5,687	1,350	628	7,664	4,415	2,943	-	7,358	306	377	8,904
7	5,687	1,383	643	7,714	4,488	2,992	-	7,480	234	406	9,544
8	5,687	1,418	659	7,764	4,563	3,042	-	7,605	159	433	10,136
9	5,687	1,453	676	7,816	4,640	3,093	-	7,733	83	458	10,677
10	5,687	1,490	693	7,869	4,719	3,146	-	7,865	5	481	11,162
11	5,687	1,527	710	7,924	4,800	3,200	-	8,000	(76)	501	11,587
12	5,687	1,565	728	7,980	4,883	3,255	-	8,138	(158)	518	11,947
13	5,687	1,604	746	8,037	4,968	3,312	-	8,279	(242)	532	12,237
14	5,687	1,644	765	8,096	5,055	3,370	-	8,425	(329)	543	12,452
15	5,687	1,686	784	8,156	5,144	3,429	-	8,573	(417)	551	12,586
16	5,687	1,728	803	8,218	5,235	3,490	-	8,726	(508)	555	12,633
17	5,687	1,771	823	8,281	5,329	3,553	-	8,882	(601)	555	12,587
18	5,687	1,815	844	8,346	5,425	3,617	-	9,042	(696)	551	12,442
19	5,687	1,861	865	8,413	5,524	3,683	-	9,207	(794)	542	12,190
20	5,687	1,907	887	8,481	5,625	3,750	-	9,375	(894)	528	11,824
21	5,687	1,955	909	8,551	5,728	3,819	-	9,547	(997)	510	11,337
22	5,687	2,004	932	8,622	5,835	3,890	-	9,724	(1,102)	485	10,720
23	5,687	2,054	955	8,696	5,943	3,962	-	9,906	(1,210)	455	9,965
24	5,687	2,105	979	8,771	6,055	4,037	-	10,091	(1,321)	419	9,064
25	5,687	2,158	1,003	8,848	6,169	4,113	-	10,282	(1,434)	376	8,005
26	5,687	2,212	1,028	8,927	6,286	4,191	-	10,477	(1,550)	325	6,781
27	5,687	2,267	1,054	9,008	6,406	4,271	-	10,677	(1,669)	268	5,379
28	5,687	2,324	1,080	9,091	6,529	4,353	-	10,882	(1,791)	202	3,790
29	5,687	2,382	1,107	9,176	6,655	4,437	-	11,092	(1,916)	127	2,001
30	5,687	2,441	1,135	9,263	6,785	4,523	-	11,308	(2,045)	44	(0)