

**Name of meeting:** Cabinet  
**Date:** 22nd September 2015

**Title of report:** Kirklees Excellent Homes for Life project; Potential Refinance of Senior Debt

Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes
Is it in the <a href="#">Council's Forward Plan</a> ?	Yes
Is it eligible for "call in" by <a href="#">Scrutiny</a> ?	Yes
Date signed off by <u>Director</u> & name	David Smith - 2.9.15
Is it signed off by the Director of Resources?	Yes - 2.9.15
Is it signed off by the Assistant Director Legal, Governance & Monitoring?	Julie Muscroft - 1.9.15
Cabinet member <a href="#">portfolio</a>	Resources

Electoral [wards](#) affected: N/A  
 Ward councillors consulted: N/A  
 Public or private: Public

## 1.0 Purpose of report

To outline the potential, to refinance the senior debt finance, supporting the Excellent Homes for Life (EHL), PFI project, to produce a significant financial benefit.

## 2.0 Key points

- 2.1** The EHL project, reached Financial Close in December 2011, at which point the Council entered into a Private Finance Initiative (PFI) contract with a private sector controlled Special Purpose Vehicle (SPV) to design, build, finance and operate 466 units of Housing Revenue Account (HRA), housing of which 150 units would provide supported living in Extra Care facilities. The construction phase went smoothly and all of the units are now operational providing a welcome increase in the stock of affordable housing in Kirklees. To date, the contract has been operating very successfully, with no significant operational difficulties being encountered.
- 2.2** The original providers of the senior debt to the scheme were a consortium of Co-op Bank, Nationwide Building Society and NORD LB. In 2014 as a result of their withdrawal from the investment banking sector, the Co-op Bank

withdrew from the funder consortium with their share of the debt being taken up by the remaining funders. As at the present time the senior debt outstanding in the project is circa £70m.

- 2.3** In early 2015, it became apparent, that favourable movements in the margins which funders apply, to the base cost of funds had occurred in similar infrastructure projects. On the back of this, an approach was made to John Laing Infrastructure Fund (JLIF), who control the SPV, to explore the potential for a refinancing exercise for the senior debt. JLIF agreed that there was merit in exploring this and a report was commissioned, which identified the potential for significant financial benefits to be generated if the debt was refinanced on current terms. The contract requires the larger part of this benefit to flow to the Council and the estimated benefit of this, to the Council is £1.7m at current values if taken as a lump sum. The Council would have the ability to take this benefit in the form of a reduced annual contract fee, over the balance of the contract term, if that was found to be more financially advantageous.
- 2.4** Both the Council and JLIF have agreed to progress, exploring the potential for a refinance and given that the interests of both parties in this matter are closely aligned wherever possible, the costs of appropriate commercial, financial and legal advice will be shared. The Council has appointed Local Partnerships (a national advisory body on major infrastructure projects to the public sector jointly owned by HM Treasury and the Local Government Association), to represent its commercial interests. Legal advisers are in the process of being appointed.
- 2.5** The refinance will either result in one or more of the existing funders, offering to provide the senior debt to the project on more advantageous terms, reflecting the current benchmarked market position, or new funders will be invited to provide the debt on market terms. In either scenario any changes required to the existing contract documentation, will be restricted to the legal documents relating to the scheme funding, to which the existing funders are a party. It is not proposed to make any amendments to the Project Agreement between the Council and the SPV which sets out the service standards, required under the contract and defines the levels of risk each party bears.
- 2.6** As it is likely that the financial outcome of the negotiations will have to be evaluated and if appropriate accepted on fairly short timescales, it is recommended that Cabinet agrees to delegate the final agreement on whether to accept a refinancing offer to the Director of Resources and the authority to execute any required documentation to the Assistant Director (Legal and Governance). Any refinance will only be agreed if the terms produce a financial benefit to the Council and do not amend the current balance of risk between the parties.

## **1. Implications**

### **Financial**

The scoping studies carried out indicate that a substantial financial benefit will be secured by the Council from a refinancing exercise. This will be to the benefit of the Housing Revenue Account (HRA) which funds the EHL project. In the event that a refinance cannot be successfully concluded, then each party would bear the costs of its own technical advice. In the case of the Council these costs are estimated to be in the region of £75k.

## **2. Officer recommendations and reasons**

It is recommended that Cabinet:

- a) note the potential financial benefits, from refinancing the senior debt funding within the Excellent Homes for Life PFI project.
- b) delegate authority to the Director of Resources to agree the terms of any refinance and the Assistant Director (Legal and Governance) to enter into any documentation required to secure this. This will be on the basis that the negotiated terms, demonstrate a financial benefit to the Council and do not amend the current balance of risk between the parties.

## **3. Portfolio Holders Recommendation**

The portfolio holder, Cllr Graham Turner, supports the officer recommendations and for the report to proceed to Cabinet.

## **4. Contact Officer**

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## **5. Assistant Directors responsible**

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