

CHESHIRE EAST COUNCIL

Joint Extra Care Housing Management Board

Date of Meeting: 28 September 2011
Report of: Dominic Oakeshott, Finance Lead People, Cheshire East Council
Subject/Title: Annual Financial Report for 2010/11

1.0 Report Summary

This report gives an overview of the financial position in relation to the PFI contract; it excludes the impact on the individual authorities of the costs they bear in isolation from each other. These costs which are treated on an individual basis are incurred in relation to care costs and catering facilities where each party has made their own arrangements and which are therefore reported separately.

2.0 Recommendation

2.1 That Members note the contents of the Finance Report and in doing so, the potential actions that may be needed in future years.

3.0 Reasons for Recommendations

3.1 No formal decisions are required at this point so it is recommended that Members note the contents of the Report.

4.0 Wards Affected

4.1 Cheshire East
Crewe St Barnabas, Handforth, Middlewich

4.2 Cheshire West & Chester Council
Rossmore, Winsford Over & Verdin

5.0 Local Ward Members

5.1 Cheshire East
Crewe St Barnabas – Councillor Roy Cartlidge
Handforth – Councillors Barry Burkhill and Dennis Mahon
Middlewich – Councillors Paul Edwards, Simon McGrory and Michael Parsons

5.2 Cheshire West & Chester Council
Rossmore – Councillor Pat Merrick
Winsford Over & Verdin – Councillors Don Beckett, Tom Blackmore and Lynda Jones

**6.0 Policy Implications including – Carbon Reduction
- Health**

6.1 None.

7.0 Financial Implications

7.1 As outlined in the attached appendix

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 None.

9.0 Risk Management

9.1 None.

10.0 Background and Options

10.1 The Round 3 PFI Extra Care Housing Schemes opened in 2009.

10.2 Cheshire East Council manages the PFI Contract on behalf of Cheshire East and Cheshire West & Chester Borough Councils.

10.3 Part of the management of the contract involves keeping both Authorities informed on developments within the PFI Schemes. This annual financial report is the latest report issued.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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Report

Date: 16th September 2011

Report of: Patrick Rhoden, Principal Accountant

Subject: PFI Extra Care Housing Annual Financial Report

NB – Care and catering contracts are now managed in-house by each Authority and do not form part of this report.

Introduction

The purpose of this report is to highlight the overall financial position in relation to the contract, namely by looking at the position of the PFI Reserve and highlighting any other major financial considerations at this point in the contract.

A separate report in this agenda concentrates on the changes within the financing and operating of the Special Purpose Vehicle (SPV) created to deliver the services specified in the contract which are obviously important in terms of the overall financial stability of the contract over an extended period.

This report therefore focuses on the reserve.

The PFI Reserve

The purpose of the Reserve is to smooth out timing differences over the 30 year period of each PFI agreement. These relate to timing differences between the receipt of funds by the Council (in the form of PFI Special Grant, which is a fixed annual amount received from Central Government for the capital element of the scheme) and the amounts released by the Council towards the monthly Unitary Payments.

The Reserve has been left largely untouched during 2010/11 as the timing of transactions (grants received and unitary payment made) coupled with very low interest rates means there isn't any in year surplus to be invested. Any surplus balances in the reserve are invested and carried forward to cover the projected deficits in future years, with the Reserve ultimately balancing to zero when the agreement ends.

	Cheshire East £000	Cheshire West and Chester £000	Total £000
Balance Brought Forward from 2009/10	892	673	
Movement	0	(15)	
Interest Earned	0	0	
Balance Carried Forward to 2011/12	892	658	1,550

Future Financial Issues

The above table summarises the current position with regard to the overall reserve established for this PFI contract. It is pleasing to report that the original financial modelling envisaged the reserve should be in credit to the total of £1,145k by the end of 2010/11. This was then modelled to increase to a balance of £1,495k by the end of 2011/12. The reserve is currently in a healthy position when compared with the original model, primarily as a result of the timing of the credits in relation to the phased opening of the sites during 2009.

However, the current position masks underlying potential problems that will occur going forward. Main areas of concern are the affordability issues being experienced by both councils and therefore the ability to make anticipated contributions to the reserve in the short term.

These contributions are anticipated to be made from two revenue sources.

The first contribution is from Adult Social Care budgets reflecting the economies in care costs being delivered by the operation of these Extra Care facilities. The current mix of needs and it's divergence from the planned thirds mix (please see current occupancy levels in the operations report) within the facilities means these economies are not as great as anticipated, which when added to the wider demographic pressure on Adult Social Care budgets, mean making the planned contribution is very difficult.

The second contribution was expected from Supporting People monies and it will be important for each council to confirm whether the planned contribution can be made going forward, following changes to this funding stream.

The current economic climate with the consequential effect on interest rates will also affect the reserve going forward. Interest was planned at 4.5% per annum on invested funds, whereas current rates generate little in excess of 0%. If the current

position continues in the longer term this will have a material adverse effect on the reserve. Also of relevance, but less so than the investment return, is the impact of inflation on the elements of the contract. It is anticipated that over the first five years of the contract that investment returns will be lower than planned, but that inflationary levels will also be lower, in part compensating for the loss of investment income.

In line with the review of the care contract, it was agreed that a formal review of the reserve would be undertaken every five years. Informally, as detailed above, the reserve will be reviewed annually and reported to Members at the Joint Extra Care Housing Management Board. Maintaining the reserve with sufficient capability will be important in these early years, ahead of the first formal review.

Conclusion

Maintaining a healthy financial position in the PFI reserve is essential, in order to do this an annual report on the reserve including recommendations for any necessary remedial action and a strategy for future investment in the reserve should be brought forward to the Joint Officer and Elected Members as appropriate.

At this point (and in the short term going forward) the reserve is healthy when compared to previous estimates and therefore no immediate action is recommended.