

CHESHIRE EAST COUNCIL

REPORT TO: JOINT EXTRA CARE HOUSING MANAGEMENT BOARD

Date of meeting: 12 May 2010
Report of: Borough Treasurer and Head of Assets
Title: Finance Update

1.0 Purpose of Report

- 1.0 This paper provides an update on the financial arrangements surrounding the shared Round 3 and Round 5 Extra Care Housing Schemes, which is managed by Cheshire East Borough Council on behalf of Cheshire West and Chester Council and Cheshire East Borough Council.
- 1.1 In respect of the Round 3 scheme, which is already in operation at five sites across the Cheshire area, this report provides an update on the income and expenditure during 2009/10, the resulting net position compared with the anticipated position and finally, linking to other reports on this agenda, experience financially from Round 3 that helps to inform the business case for Round 5.
- 1.2 In respect of the Round 5 scheme, this report updates on the implementation costs during 2009/10.

2.0 Decisions Requested

That the Board note:

- 2.1 The income and expenditure position on the Round 3 scheme during 2009/10 compared with anticipated position at this stage in the thirty year scheme.
- 2.2 The implementation costs incurred to date.

3.0 Reasons for Recommendation

- 3.1 The Extra Care Housing Schemes have a significant financial impact on both Councils and Members should review and note the financial position at regular intervals.

4.0 Wards Affected

- 4.1 No wards are affected.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including – Climate Change – Health

6.1 Not applicable.

7.0 Financial Implications 2009/10 and beyond

7.1 Both Round 3 and Round 5 remain within budget, although issues have arisen in both, such as higher than anticipated catering deficits and higher project management costs that will require tight financial control to remain in budget.

8.0 Legal Implications

8.1 None.

9.0 Risk Assessment

9.1 Risks surround the level of external project management required to secure Round 5 to the satisfaction of the Government and longer term risks surround the financial model underpinning Round 3, with small on-going changes in interest or inflation levels impacting on the longer term balance and viability of the scheme. Close scrutiny will be required to help mitigate these two risks.

10.0 Background and Options

Round 3

10.1 During 2009/10 revenue expenditure was incurred by both Councils operating the Round 3 scheme, primarily on staffing, transport, premises, catering and set up costs across the five sites in Cheshire, two within Cheshire West and Chester and three within Cheshire East. The costs have been absorbed by each Council and reflected within Adult Services. The only items that were in excess of what was anticipated were the catering arrangements costing £222,000 and set up arrangements costing £110,000.

10.2 The other main element of Round 3 is the payments to Avantage Ltd for the management of the sites and the offsetting grants received via PFI credits. In the original business case a profile of net credits and payments was approved over the 30 year life of the project, with a net credit of £827,000 anticipated at 31 March 2010. Due to the phasing and timing of grant payments, a net credit of £1,481,000 at this time will result in a surplus of £654,000 being reported. Whilst there is a surplus at this stage this is mainly a timing issue, which will help in part to offset the lower levels of interest being generated on the project at this time (4.5% assumed against nearer 1% being achieved).

10.3 During the early part of 2009/10 a mini review of the various assumptions built into the financial model that results in the thirty year profile was undertaken, in conjunction with the Councils' advisers, Grant Thornton. This review included assessing how the changes to the financial conditions following banking difficulties had and might impact, looking forward, on the long term viability of the scheme. Whilst dramatic short term impacts have been experienced on inflation and interest assumptions, over the longer term the various

assumptions were still considered prudent and achievable, and the scheme remains in balance. Continued scrutiny of the model will be undertaken annually and it is suggested that a formal review, including external advice be undertaken every three years. This will ensure that there are no major surprises towards the end of the scheme's life in approximately thirty years time. Should this arrangement be accepted the first formal review will be in the latter part of 2011/12.

- 10.4 Whilst the costs incurred during 2009/10 were not significant there have been a number of lessons which have resulted in increased costs to the scheme, and these costs have and are being factored into the business case development for the Round 5 scheme. There are two main financial impacts, set up costs as new residents move in, the costs being higher than originally anticipated, taking account, for example, an individual's specific needs and disabilities and secondly higher than anticipated losses on the catering provision, not helped in part due to the delay getting all the units occupied, particularly the owned and shared ownership units.

Round 5

- 10.5 The Round 5 scheme continues to be refined, following feedback from the Housing and Communities Agency and other Government Advisers, with the Government providing a steer that they are looking for the two Councils to develop two hundred PFI units at a cost of £66.1m. During 2009/10 the Council incurred set up costs (mostly on professional advice) of £254,000. Approximately £25,000 was incurred helping to complete and open the remaining Round 3 schemes, with £229,000 incurred on Round 5. Much of this expenditure surrounds the planning issues at the various sites and is higher than originally planned because of either planning issues that have arisen or because of changes to the sites, for example the substitution of Sandbach as a scheme.
- 10.6 The Round 5 scheme has a budget of £1.2m for Project Management costs, of which 20% has already been incurred, which is higher than anticipated, which will require tight control during the latter stages of the development in order to remain in budget.

11.0 Access to Information

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

Name: Dominic Oakeshott
Designation: People Finance Lead
Tel No: 01270 686232
Email: Dominic.Oakeshott@cheshireeast.gov.uk