

CHESHIRE EAST COUNCIL

REPORT TO: JOINT EXTRA CARE HOUSING MANAGEMENT BOARD

Date of Meeting:	15 June 2010
Report of:	Lynn Glendenning Project Manager/Commissioning Manager
Subject/Title:	Round 5 Outline Business Case Resubmission

1.0 Report Summary

- 1.1 This report provides an update on the changes to the Outline Business Case and seeks Member approval prior to resubmission.

2.0 Decision Requested

- 2.1 To authorise the resubmission of the Outline Business Case to the HCA.

3.0 Reasons for Recommendations

- 3.1 To allow the Councils' interests in extra care PFI to be considered by the HCA prior to a decision later this year.

4.0 Wards Affected

- 4.1 Poynton and Sandbach East & Rode in Cheshire East.
- 4.2 Blacon and Sutton & Manor, (Ellesmere Port) in Cheshire West and Chester.

5.0 Local Ward Members

- 5.1 Poynton – Cllr Roger West, Cllr Chris Beard, Cllr Howard Murray
Sandbach East & Rode – Cllr Elsie Alcock, Cllr Rhoda Bailey,
Cllr Andrew Barrett
- 5.2 Blacon – Cllr Reggie Jones, Cllr Marie Nelson, Cllr Alex Tate
Sutton & Manor (Ellesmere Port) – Cllr Kimberley Anderson,
Cllr Bob Crompton, Cllr Paul Donovan

6.0 Policy Implications including - Climate change - Health

- 6.1 To assist in addressing the significant demographic shift toward the over 65 population in Cheshire East and Cheshire West and Chester

7.0 Financial Implications for Transition Costs (Authorised by the Borough Treasurer)

- 7.1 Further financial analysis has been undertaken by the Councils and the external advisers, taking account of the current anticipated time lines and the various factors affected by the financial markets, such as inflation levels, interest rates etc. and at this stage no increase to the contribution agreed by the Councils is required. A further oral update will be given at the meeting.
- 7.2 If an increase is required any further contributions required would be referred to the respective Councils.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 The Outline Business Case was submitted some time ago and a resubmission, will allow the HCA to provide its final decision about the Councils continuing involvement in the extra care PFI.
- 8.2 The Board has power to authorise the resubmission of the Outline Business Case, but project affordability is reserved to the respective councils.
- 8.3 If approval is forthcoming and the Councils are concerned about any terms of the approval they would not be bound to proceed. If affordability was an issue, the respective Councils would need to consider that aspect separately. There could be reputational difficulties if the Councils chose to withdraw at this stage and such a decision could not be taken lightly.

9.0 Risk Management

- 9.1 The submission of the Outline Business Case does not commit the Councils at this stage.

10.0 Background

- 10.1 The Programme Director and officers of both Councils have been in active discussions with the HCA in response to their request for additional information in advance of the resubmission of a final Outline Business Case. This process is now all but concluded.
- 10.2 The key developments which affect the Outline Business Case since its original submission are:-
- An increase in PFI credits from £59.9 million to £66.1 is considered essential to ensure affordability
 - A reduction in the number of units from 400 to 330 still retaining 200 PFI units to ensure planning obligations are met and to respond to the changes in the housing market and the appetite of developers to provide for sale/shared ownership units.
 - A combined contribution of up to £300k per annum from the Councils will be required (although this is an increase on the original figure, it has already been agreed by both Councils)

- Any cross subsidy from development units removed. The lack of demand in the Housing market, coupled with the restriction in the availability of credit to potential buyers and the house building companies themselves, have seen both the volume of transactions and their profitability fall. The combined effects mean that in the interests of prudence the assumption of a cross subsidy is no longer valid, and if left in the affordability calculation could lead to a scheme being offered to the market that, under the present market conditions, could appear to developers to be commercially unattractive. To anticipate any improvement in the housing market, it is hoped that the project agreement and associated documentation can allow for the possibility of a cross subsidy possibly using an approach that would be based on sharing profits over and above a defined level. The cross subsidy would then operate in the event of an improved housing market.
- A significantly improved position in relation to deliverability – with outline planning permission secured on 2 sites and with a high likelihood of success on the remaining sites.
- An agreed and working set of governance arrangements, and a well developed inter authority agreement (covered elsewhere on the agenda)

10.3 The Executive Summary from the Outline Business Case is included as Appendix 1.

11.0 Access to Information

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

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Executive Summary

The Extra Care Housing PFI forms a crucial element of the plans of both Cheshire West & Chester Borough Council (hereafter “Cheshire West”) and Cheshire East Borough Council (hereafter “Cheshire East”) (collectively called the Authority) for the modernisation of provision to respond to significant demographic pressures in the older people’s population.

Over many months, first the former Cheshire County Council and latterly the two Authorities working jointly have developed this Outline Business Case, consulting with local partners, the wider PFI market, the Department for Communities and Local Government and Homes and Community Agency to ensure that it is robust, attractive to the PFI market place and its aims and objectives are deliverable.

The proposals within this Outline Business Case have now been fully refined, and are summarised as follows:

- The new Extra Care units are to be developed over 4 Authority owned sites under a Non – HRA 30 year PFI contract;
- A Design, Build, Finance and Operate contract to build 330 new Extra Care units of which a minimum of 200 will be for social rent. The additional units will be developed for a mixture of shared ownership or outright sale. This will extend the provision of cross tenure choice and ultimately develop sustainable communities which satisfy proven demand;
- Address real and demonstrable demand for Extra Care services within the Authorities’ geographical areas creating a sustainable hierarchy of social care not currently in place;
- Effect local regeneration in each of the four identified locations; and
- Provide facilities at each location that encourage community participation by members of the wider community beyond those housed within the scheme.

This Outline Business Case is based on current market conditions. In view of the current difficulties in the housing market, the proposed 130 shared ownership and outright sale units sit entirely outside of the PFI contract finances and structures. The financial assumptions contained within this Outline Business Case are based on a zero cross-subsidy.

Key strengths of the Outline Business Case are:

- Robust financial calculations, resulting in a PFI Credit requirement of £66.123m;
- A strong business case and a commitment from the Authority to properly manage and resource the procurement process and make a combined contribution of up to £300k per annum;

- Four deliverable sites, all of which are already in the ownership of the Authorities with Outline Planning Consent on three of the four sites, Outline Planning Consent to be in place for all four sites prior to OJEU;
- Provision of 1 bed plus and 2 bedroom homes to meet a wide range of resident aspirations and provide the high level of “future proofing” that market consultation has demonstrated that the private sector is seeking to provide; and
- Extra Care Housing designed to the highest standards with the inclusion of sale/shared ownership to provide mixed tenure communities to improve sustainability.

Project Outcomes

- Communities surrounding the selected sites will have a transformational change in local neighbourhoods as people will have the choice to live in high standard, affordable and adaptable homes which can change to take account of individuals’ needs creating a “Home for Life”;
- The residents of the Extra Care developments and the wider community will have access to a range of activities which will enable them to lead healthier more active lifestyles. This will lead to the development of sustainable, healthy communities;
- Through supportive environments that promote active lives through health and well being, older people will be able to maintain, and regain, their independence; and
- Evidence of strong bidder interest for this scheme through market consultation exercises and the highly successful Project Open Day

Authority Contribution and Track Record

- The Authority has an excellent track record for delivery of PFI on both the Round 3 Extra Care Contract and other major PFI Contracts including Waste and Schools PFI Projects.
- 100% donation of Authority owned land, valued at £3 million;
- Site Clearance – All sites will be cleared flat sites. There are minor remediation works and these will be completed prior to construction start.
- Strong and committed annual contribution upheld from Expression of Interest of £300K per annum split between the Authorities;
- Strong project management arrangements, including technical, legal and financial resources drawn from individuals involved in the previous Extra Care Housing PFI undertaken by the Authorities’ predecessor, Cheshire County Council, together with other resources with experience in PFI and other major procurements including planning, architectural and housing services;
- Day to day project delivery would be via an Authority officer team comprising officers from both Authorities to ensure best use of existing resource and experience, together with the dedicated project manager to oversee project delivery and to serve as a focus for project issues;

- Joint commitment from the Councils to deliver and finance the Extra Care support and domiciliary services separately from the PFI Contract;
- Evidence of very strong Bidder interest in this scheme due to the successful Round 3 Schemes and the Round 5 project launch and market consultation exercise; and
- Strong Member support from each Council including in governance terms the establishment of a Joint Extra Care Housing Management Board (JECHMB) with decision – making powers to ensure timely procurement responses and a robust decision – making process.