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Housing Learning & Improvement Network

Care Services Improvement Partnership CSIP

Health and Social Care Change Agent Team

Developing Extra Care Housing in Cheshire through public/private finance: the PFI route

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Brief description:
This case study examines the way Cheshire County Council have developed robust partnerships to develop Extra Care Housing and made best use of public/private finance to meet their strategic objectives.

SUMMARY

The development of a project through a Private Finance Initiative (PFI)[1] is a complex and lengthy process, and one which requires considerable investment from the bidding authority. These high start-up costs make it an unsuitable route for the funding of small scale projects. However, the lesson from the Cheshire experience is that the route is navigable: that it is marked by a clearly staged process: that the legal and financial expertise needed to deliver a successful PFI exists, although not necessarily in-house to the initiating authority, and that the process builds on cultural changes which have already taken place in most authorities in terms of closer partnerships between different organisations in order to achieve a shared vision, and the involvement of elected members as local champions for a particular course of action.

[1] Any documentation relating to PFI seems to be characterised by an explosion of acronyms. In this case study, new concepts will be introduced by their full name followed by the acronym in brackets. A list of acronyms and their referents can be found on the next page. These acronyms, though potentially confusing, do provide a route map through the staged process of bidding for PFI.

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LIST OF ACRONYMS

Acronym	**Meaning**
ECH	Extra Care Housing
FBC	Final Business Case
HRA	Housing Revenue Account
ITN	Invitation to Negotiate
OBC	Outline Business Case
PFI	Private Finance Initiative
4ps	Public Private Partnerships Programme
PPP	Public Private Partnership
PRG	Project Review Group
PUK	Partnerships UK
SPV	Special Purpose Vehicle
SOAs	Super Output Areas
SPG	Supporting People Grant

1 A VISION FOR CHESHIRE

1.1 Extra Care Housing in Cheshire

Cheshire's Private Finance Initiative (PFI) is a key element in a wider 'whole system' approach to support and care for older people across Cheshire. As a shire county with social services responsibilities, the Council works with six district council authorities and their community, leisure and housing departments, with four primary care trusts, three NHS hospital trusts, and a single mental health partnership trust. Together, these agencies aim to provide services which

- promote active community involvement and inclusion for all older people
- promote healthy living and prevent social or health deterioration
- prevent unnecessary hospital admissions or prolonged hospital stay
- support people in their own homes after episodes of care

Partnership strategies in Cheshire share a common vision, to provide 'care close to home'. A key component in achieving this vision is the provision of Extra Care Housing (ECH). There is a strong history of consensual politics: social care issues are not contentious. ECH has the full support of members from all parties.

In Cheshire, ECH is considered, in part, as an alternative to residential care. It is envisaged that ECH will consist of communities with mixed dependencies, with one third of places available as an alternative to long term placement, a further third with health and social care needs, and one third of more able older people. Achieving this balance across 2000 apartments is expected to result in a 25% reduction in admissions to residential care. Twenty-four hour on site care teams with generic skills will be provided both to meet the needs of tenants and leaseholders, and to reach out to older people in local communities.

The County of Cheshire is seen to fall into a total of 16 natural communities, and the aim is to ensure that ECH is available in each of these communities. Within these communities, the ECH scheme will contribute to the goals of neighbourhood renewal and of building sustainable communities.

ECH will provide an environment which promotes active ageing and enables older people to remain independent for as long as possible. Communal facilities in the Cheshire PFI include a health suite, multi-purpose activity rooms, including a craft area, a library with internet access, as well as a restaurant, lounge and coffee bar. A key feature of the scheme is that these facilities will be available to other local older people. This aims to ensure the benefits of "active ageing" are available to a wider population as part of a wider promotional and prevention strategy.

1.2 Achieving the vision

1.2.1 Achieving the objectives

The County Council has agreed a strategy to promote the development of 2000 Extra Care apartments by 2011. This links with the Local Public Service Agreement (LPSA) target to increase the number of older people supported in the community, and also to reduce the number of long term residential placements, which is above average in Cheshire.

Of the proposed 2000 apartments, 400 will be developed via a PFI. A further 230 apartments at Canalside Village in Chester will be delivered with the help of a successful bid to the Department of Health ECH fund. The remainder of the target will be achieved through a ‘mixed funding strategy’, whereby the Council has set aside pump priming capital to facilitate initiatives from Registered Social Landlords and private developers.

The PFI bid relates only to 5 sites. Three of the 5 sites are in wards containing census super output areas (SOAs)[1] which fall within the 5% most deprived super output areas in England, and the development of ECH is expected to contribute to regeneration in these areas. All the potential sites are in urban areas, offering apartments built over a compact area, largely on brown-field sites, and in locations with good public transport and access to services: the availability of sites was felt to be a critical factor in the success of the Council’s PFI bid. Consultants were engaged to do a thorough assessment of all 5 sites. The Project Team has been working with planners to draft an amendment to the County Structure Plan to ensure that ECH is not caught in the planning moratoria for new build property.

Schemes will be characterised by innovative building design, with good space standards and the incorporation of technology for telecare, and will be required to meet the latest Scheme Development Standards. Consultation with local older people is a central theme in all developments. Schemes will be mixed tenure to enable choice and maximise demand: 80 apartments will be for sale; a further 80 for shared ownership, and 240 for rent. All apartments whether for sale or rent will be at “affordable” levels. At least 30% will be two bedroomed.

1.2.2 Previous PFI experience in Cheshire

The Cheshire Project Team has benefited from the Council’s prior experience in PFIs, and also from the investment by the Council in considerable start-up funding. Both legally and financially, the field is extremely specialist, especially given the length of the contracts, and Cheshire have brought in one of only 6 or 7 specialist firms who provide this expertise.

Cheshire was well placed to take advantage of a PFI to deliver ECH, as the Council’s Project Team had already, by October 2002, achieved financial close on its Ellesmere Port Grouped Schools PFI Scheme. The success of this project, which

[1] Super Output Areas (SOAs) are a new geographic hierarchy designed to improve the reporting of small area statistics by examining populations of a standard size within fixed boundaries. They were introduced as an alternative to electoral wards, which can vary greatly in size and are subject to regular boundary changes. See www.statistics.gov.uk/geography/soa.asp

met all the necessary milestones in the process, from the Outline Business Case through to Best and Final Offer stage, is attributed in part to the strength of the internal Project Team and the excellent working relationships forged with the external advisers. This expertise, together with a number of newly developed Strategic Partnering Framework Agreements with Consultants, Contractors and Specialist Suppliers, are expected to produce further benefits for the County in terms of best value, sustainability and efficiency of delivery.

2 PFIs

ABOUT PFIS

PFI is essentially the provision of a service by a private provider to a public body, normally through a Design, Build, Finance and Operate (DBFO) contract. The initiating Authority pays an annual revenue fee for the provision of the service, and usually the assets revert to the provider at the end of the contract period, (between 25 and 30 years).

The Public Private Partnership (PPP) of which PFI is one manifestation, started life with two main policy aims:

- To increase capital investment in public sector infrastructure without impacting on macro-economic control frameworks
- To achieve better value for money, chiefly through the appropriate allocation of risks between the public and private sectors, and through innovation[2]

In order to achieve the first of these two aims, the Government is strongly supportive of the PFI process. Since 1996, it has encouraged the use of PFI by paying additional revenue support to approved schemes via a form of grant known as PFI Credits. It has also set up a number of mechanisms designed to help authorities through the process, including the Public Private Partnerships Programme (4ps).

2.1 PFIs and social housing

The Spending Review 2004 announced £1.22 billion of new Private Finance Initiative (PFI) credits for social housing. In the latest round of bidding (November 2005)[3], ODPM announced the intention of giving priority to projects that deliver a range of outputs contributing to regeneration and sustainable communities. To help bidding authorities, the Housing PFI Procurement Pack has been published with standard documentation for all schemes to use, building on lessons learned from current schemes. Detailed guidance can be found on the ODPM website.

[2] (See *PFI in Social Housing*, Registered Social Landlords Panel Bulletin Issue Number 13, February 2002).

[3] Office of the Deputy Prime Minister, *Private Finance Initiative Schemes for HRA/Non-HRA Housing: Guidance for Authorities Making Proposals*, November 2005.

From the point of view of the initiating Authority, PFI can provide funding and flexibility, allowing the private sector to use its business experience, allocating risk between partners where it can best be managed, and separating the provider and consumer[4].

A PFI in social housing can involve either Housing Revenue Account (HRA) schemes, or non HRA schemes. These are defined in the PFI Guidance for Local Authorities (see www.odpm.gov.uk), as follows.

- HRA PFI: The local authority contracts a consortium of private sector firms to carry out initial capital works, and ongoing management and maintenance for a selection of its housing stock. The local authority retains both its tenants, and ownership of the stock

- Non HRA PFI: The local authority contracts a Registered Social Landlord (RSL) to build, refurbish, manage and maintain a selection of its housing stock for the duration of the contract. The selected stock remains with the RSL and tenants remain tenants of the RSL

The scheme in Cheshire is a non-HRA scheme.

As a successful bidder in the third PFI round, Cheshire has both benefited from the learning experiences of the pathfinder schemes and contributed to the body of knowledge for future applicants.

2.2 The pathfinder schemes

In 1998, the Public Private Partnerships Programme (4ps) produced a report entitled *PFI and social housing – the potential for increasing private sector investment*'. All Chief Housing Officers were invited to submit Expressions of Interest for developing PFI in social housing, and in March 1999 the first round of eight pathfinder projects was announced. The second round was announced in March 2001 with a programme of 12 schemes, and the successful Cheshire bid is part of the third round of bids. Guidance for a further round of bidding was issued in November 2005.

All local authority PFI projects bidding for central government support must be endorsed by the Project Review Group (PRG) a government interdepartmental group which oversees the approval process for local authority PFIs. The pathfinder schemes took longer than anticipated between obtaining PRG approval and achieving financial closure, reflecting lengthy procurement periods and delays. Learning from the experience of the pathfinders suggested that the commitment of time and financial resources is crucial, and that provision needs to be made for these from the outset of a project. Project management and continuity of personnel have been identified as key factors in enabling progress, with a Project Manager being appointed for at least the duration of the procurement period.

[4] RSL Panel Bulletin Issue No 13.

3 PFI: A STAGED PROCESS

3.1 Expression of interest

The first step in the PFI process is to put forward an Expression of Interest to the PRG which outlines why PFI is being considered, what the project is expected to achieve, and a detailed option appraisal to considered alternative ways of achieving the desired outcomes. Although a preliminary step, the Expression of Interest is a detailed document outlining the aspirations and scope of the proposed PFI project. The Cheshire Expression of Interest, submitted in 2003, contained the following headings:

- Scheme location and size
- Scope of scheme
- Strategic context
- Evidence of housing demand
- Stock condition[5]
- Option appraisal and value for money
- Risk transfer[6]
- Tenant consultation
- Councillor commitment
- Project management and readiness to deliver
- Timetable
- Conclusion

In addition, all applicants are required to complete the ODPM spreadsheet model designed to assess investment options and value for money. The model generates the PFI credit requirement, and also the impact on the Housing Revenue Account for HRA-PFIs and on the General Fund for non-HRA PFIs, and the resulting ability of contractors to raise capital finance at the most favourable rates.

Cheshire used version 4 of the ODPM non-HRA spreadsheet. Adjustments included the 80 units within the model which will be sold, to ensure that PFI credits do not cover the cost of these units, as well as the residual value of the asset retained at the end of the contract by the provider.

The Cheshire Expression of Interest was submitted to the PRG in December 2003, and received the green light from ODPM in March 2004.

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[5] In HRA PFIs, stock condition is crucial for estimating likely costs of development, and in many cases existing stock condition surveys have been found to be insufficiently detailed to provide the necessary information, so that Authorities have had to commission a more detailed survey.

[6] A key consideration in developing a PFI is the transfer of risk to the private sector. This is an important factor in demonstrating that the expenditure is 'off balance-sheet' for the local authority and does not count against government macro-economic indicators.

3.2 Soft Market Testing

This should be carried out before the outline business case (OBC) is produced, with the objective of finding out what sort of scheme would be of interest, and holding an information day at which potential partners can meet to discuss proposals.

3.3 Outline Business Case

The ODPM Guidance stipulates that the Outline Business Case (OBC) should be submitted within 6 months of a bid being approved. The OBC sets out the fine detail of the proposal. Partnerships UK (PUK) is the successor to the Treasury Taskforce on Public Private Partnerships. It works with the Government in the development of PPP policy and contract standardisation and helps with project evaluation and implementation. OBCs are assessed by PUK prior to a PRG meeting, and their recommendations are considered by PRG when making their own assessment.

Through the OBC, the Council has to demonstrate that the proposal:

- Meets the Government's strategic objectives for PFI
- Sits within the Authority's strategies and objectives
- Meets a demand and provides the benefits required
- Satisfies financial appraisal requirements
- Is marketable as demonstrated by soft market testing of service providers
- Is bankable as demonstrated by soft market testing of funders
- Complies with standard conditions of contract as per Treasury requirements
- Will follow a robust procurement and project management process
- Meets appropriate public sector regulatory requirements
- Transfers sufficient risk to the private sector
- Is off balance-sheet and meets accounting requirements
- Delivers specified outputs
- Incorporates payment mechanisms linked to performance measurement and monitoring arrangements

(See RSL Landlords Bulletin issue 13)

The Cheshire Outline Business Case was submitted in December 2004 and received ODPM and PRG approval in May 2005.

The proposals within the OBC were summarised as follows:

- Design, Build, Finance and Operate 400 new ECH units
- Address real and demonstrable demand for Extra Care services across 5 districts in the County, creating a sustainable hierarchy of social care
- Effect local regeneration in each of the 5 identified locations, 3 of which are in the most deprived wards in the UK
- Provide facilities at each location that encourage community participation beyond those whose homes are in the scheme

The provision of the 24 hour on site care and support team will be tendered for separately. This was decided after soft market testing suggested the market preferred this approach. It also offers greater flexibility in procuring the care contract

3.4 Official Journal of the European Communities (OJEC)

The next step is for the local authority to start the procurement process with the publication of a notice in the OJEC inviting interested parties to bid for the scheme. In Cheshire, work on the procurement process went ahead whilst the OBC was still under consideration. This was felt to be necessary given the long lead-in period for the project. ODPM Guidance warns against attracting bidders too early only to have them becoming impatient as the Invitation to Negotiate (ITN) is developed.

A common pattern is for the contractor to be a Special Purpose Vehicle (SPV) made up of an RSL, a building contractor, and funding partners.

3.5 Invitation to Negotiate (ITN)

In Cheshire, bidders were shortlisted in June 2005, and the ITN documents were issued in August 2005. From a long list of potential consortia, bidders are now reduced to 3 potential providers, and the process is now a competition to see which can provide the best value for money.

A key element of the documentation is the Output Specification, which details what is to be achieved and forms the basis of the ITN. The ODPM Guidance stipulates that tenants affected by the Output Specification should be involved in determining what goes in to it. However, it is then up to the service provider to decide how best to meet the specification.

As part of the Output Specification, Cheshire seeks facilities which will incorporate flexibility to meet changing needs over the contract period. Contracts will encourage innovation, including telecare alarm systems and efficient energy management systems. The contract will ensure that capital assets and services are maintained throughout the contract period. There is recognition of the inverse relationship between construction and maintenance costs – a higher capital spend may incorporate design features which result in lower operating costs. Land will be transferred into the control of the provider at peppercorn value.

As previously in Cheshire, all 'soft' services[7] will be provided by the private sector. However, the Council will retain care services in house as it believes itself to be the most appropriate party to deal with this risk, based both on experience of service delivery, and also on its purchasing power and ability to negotiate economies of scale. Because of this policy, there will be no transfer of staff from the local authority.

The Payment Mechanism is the vehicle which allocates risk and responsibility between the partners. The Guidance notes that:

[7] Soft services are support services which include tasks such as cleaning, catering, repairs and maintenance, grounds maintenance and security.

The Payment Mechanisms can be extremely complicated. It is essential that the bidder is able to assess the impact of performance failure on payment: their understanding of risk will underpin their pricing. (See www.odpm.gov.uk).

Cheshire has yet to reach the stage of selecting a preferred bidder: that is scheduled for June 2006, with final negotiation and contract award taking place in March 2007, at which point the Council will be required to submit a Final Business Case to the ODPM. It is hoped that the new apartments will be operational in August 2008.

4 LEARNING POINTS AND CHALLENGES

4.1 Learning points

The Cheshire Project Team has identified three main learning points from the PFI process so far

1. Sites are key. The success of the bid has been partly attributed to the availability of suitable sites and the securing outline planning permission. The Council's Transforming Learning Communities Strategy may supply potential sites in the future. Moreover, the Team has successfully engaged with planners to ensure that ECH does not fall victim to a planned moratorium on new build for housing.

2. Initial funding allocation – the Council has committed funds to engaging specialist expertise to ensure that a strong financial case is made, that contracts are sufficiently sophisticated to cover the 30 year period, and to provide resources to keep partner agencies, older people, elected members, and potential providers informed and engaged with the process over a long period of time.

3. Strong market interest. ECH is a product which is innovative, popular with potential customers, and in the delivery of which there is considerable expertise amongst potential providers. The Council is confident of the continuing demand for ECH, and the potential of the model to adapt to changing needs. These are essential prerequisites to taking the project forward.

4.2 Challenges

Supporting People Grant (SPG). It is assumed that about 40% of potential tenants and leaseholders will be eligible for SPG. However, throughout the process there has been concern about possible reductions in the level of SPG. Following discussions, Older Peoples' services are now formally acknowledged as a key priority within the Supporting People Commissioning Strategy, which should help to protect this revenue stream. However, the Council has included the loss of SP revenue within its risk modelling (sensitivities) section, and has accepted the risk and undertaken to bear the cost, to an agreed ceiling, should the loss occur.

Other Housing LIN publications available in this format:

Case Study no.1:	**Extra Care Strategic Developments in North Yorkshire**
Case Study no.2:	**Extra Care Strategic Developments in East Sussex**
Case Study no.3:	**'Least-use' Assistive Technology in Dementia Extra Care (Eastleigh)**
Case Study no.5:	**Village People: A Mixed Tenure Retirement Community (Bristol)**
Case Study no.6:	**How to get an Extra Care Programme in Practice**
Case Study no.7:	**Supporting Diversity in Tower Hamlets**
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Case Study no.9:	**Supporting People with Dementia in Sheltered Housing**
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Case Study no.11:	**Housing for Older People from the Chinese Community in Middlesbrough**
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The Housing LIN welcomes contributions on a range of issues pertinent to Extra Care housing. If there is a subject that you feel should be addressed, please contact us.

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