



Hull Extra Care PFI Project

Supporting choice and independence

Hull Extra Care Housing and Centre of Excellence PFI Project

Confirmation Business Case



Hull
City Council

1. Executive Summary

- 1.1.** This Confirmation Business Case (CBC) sets out the position reached with the Preferred Bidder following a period of clarification and fine-tuning. The Authority has reached a position where it is satisfied that it can proceed to Financial Close subject to the approval of the Department of Health and HM Treasury. The project programme has Financial Close scheduled for week commencing the 17th November 2014.
- 1.2.** The Strategic Case as set out in the Appointment Business Case (approved by the Department of Health on the 14th April 2014) remains relevant with levels of medium and long-term demand in excess of the scope of works to be delivered under this project.
- 1.3.** The Commercial Case assesses the investment route for the provision of additional Extra Care within the City and confirms that the most suitable route for investment is new build through PFI. This has remained the most economically viable option from the OBC through to the ABC and with an unchanged scope of work remains the viable option to take to Financial Close.
- 1.4.** The original Value for Money (VfM) assessment to select PFI investment as the preferred option has been updated based on an expanded scope of 316. The outcome of this refresh of the VfM assessment indicates that the choice to select PFI investment remains valid. This is set out in greater detail in the Economic Case.
- 1.5.** The Financial Case evaluates the affordability of the project for the public sector. The case demonstrates that the project is affordable for the Authority at the agreed level of financial support from DOH at [REDACTED]. The position remains in line with the ITFSB bid submitted by Riverside demonstrating that the process has remained robust throughout the Preferred Bidder period.
- 1.6.** The Management Case confirms the resource and governance arrangements beyond Financial Close, through mobilisation and into operational status. This section also sets out the progress made to date in response to the recommendations made by the Gateway Review Team following the Gate 3 Review in May 2014 for which the project received an overall Amber/Green status.

2. The Strategic Case

- 2.1.** The Strategic Case from the Appointment Business Case, approved on the 14th April 2014, remains relevant and unchanged for this Confirmation Business Case. There remains significant demand within the city for this specialist accommodation, a level of which will remain unmet following the delivery of the three Extra Care facilities.

3. The Economic Case

3.1. Introduction

3.1.1. The purpose of the Economic Case within this Confirmation Business Case is to re-affirm the PFI investment route selected at the OBC stage and set out how the Bidder's final position differs from the any assumptions made within the ABC. The scope of the project remains unchanged from the ABC and the ranking of options therefore remains valid.

3.2. Identification of the Investment Option

3.2.1. A long list of investment options was considered in depth within the original OBC and these options were re-assessed at the ABC stage to reflect the change in scope of the scheme from 215 units to 316 units. These options were shortlisted to the four options below:–

1. Do Nothing

Assumes current arrangements continue, with ongoing heavy reliance on residential care, lack of Extra Care accommodation, and an inability to fully implement the hub and spoke model of service delivery.

2. Expand Existing Facilities and reconfigure service delivery

Assumes 316 sheltered housing units are upgraded or converted to comply with Extra Care standards and that other core requirements are met through further service reconfiguration and improvements which facilitate changes to service delivery.

3. Expand Domiciliary Care and reconfigure service delivery

Assumes 316 individuals are provided with higher levels of care and other support to remain in their own homes and that services are further reconfigured to provide 1-1 care in dispersed locations.

4. Invest in new Extra Care

Assumes 316 new Extra Care homes, associated communal facilities and a Centre of Excellence are constructed on three sites and that associated services are co-located.

3.2.2. After a full quantitative and qualitative VfM analysis was completed, option 4 was selected at the OBC stage to progress with a PFI funded investment into new Extra Care facilities.

3.2.3. The updated ranking of investment options set out in Table 1 demonstrates that the revised OBC position still illustrates that the most viable investment option is to develop new Extra Care.

3.3. Quantitative Economic Appraisal

3.3.1. The Quantitative Economic Appraisal of the short listed service delivery options has been undertaken by preparing cost estimates for each, covering all anticipated capital and revenue costs for the required works and services plus the impact on other associated budgets. These costs have been allocated to the project years in which they are expected to occur and have been discounted to present values using standard discounting techniques. This ensures that a straightforward

comparison can be made between options that contain different patterns of cost over the project period. Key features include:-

- Cash releasing and non-cash releasing benefits have been identified by stakeholders;
- Estimated capital and revenue costs formulated by Gleeds, the Authority's technical advisors;
- Risk identified and costed through a series of workshops;
- Optimism bias applied in line with NHS guidance.

3.3.2. The analysis and associated ranking is set out in Table 1. The table demonstrates that option 4 is the most viable option, with a net benefit of £11,007k. Other options have been discounted due to either a high ongoing revenue cost for the public sector or their inability to generate significant cash and non-cash benefits.

Table 1. Quantitative Appraisal

	OPTION 1 - DO NOTHING NPV of Cost £000	OPTION 2 – INVEST AND REMODEL NPV of Cost £000	OPTION 3 – EXPAND AND REMODEL NPV of Cost £000	OPTION 4 – NEW EXTRA CARE NPV of Cost £000
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3.4. Qualitative Economic Appraisal

3.4.1. The Qualitative Economic Appraisal was undertaken by the Project Team with input from health partners and other stakeholders. The shortlisted options were scored between 0 (does not meet core requirements / very poor) through to 5 (meets core requirements with scope for additional benefits). The scores remain as per the ABC as set out in Table 2 below:-

Table 2. Qualitative Appraisal

	OPTION 1 - DO NOTHING NPV of Cost	OPTION 2 - INVEST AND REMODEL NPV of Cost	OPTION 3 - EXPAND AND REMODEL NPV of Cost	OPTION 4 - NEW EXTRA CARE NPV of Cost
	■	■	■	■

3.5. Overall Conclusions

3.5.1. The ranking of the investment options using weighted point analysis combines both the quantitative and qualitative evaluation. The results of the analysis are set out in Table 3 and demonstrate that the option of investing in new Extra Care is the highest ranked option with the lowest cost per benefit point of £1,843.

Table 3. Ranking of Investment Options Using Weighted Point Analysis

	OPTION 1 - DO NOTHING	OPTION 2 - INVEST AND REMODEL	OPTION 3 - EXPAND AND REMODEL	OPTION 4 - NEW EXTRA CARE
	■	■	■	■
	■	■	■	■
	■	■	■	■
	■	■	■	■

3.5.2. The Authority can confirm that the scope of services for the PFI procurement is in line with the original OBC. The original value for money assessment, as demonstrated by the revised analysis within this business case, to select PFI investment as the preferred option remains valid.

3.5.3. The Authority is therefore confident that the original Economic Assessment, to select new Extra Care PFI as the investment option is still valid to Financial Close.

4. The Commercial Case

4.1. Introduction

- 4.1.1. The Commercial Case within this document sets out the status of all the outstanding points of further clarification which were included in the Preferred Bidder Letter and required further discussion prior to progressing to Financial Close.
- 4.1.2. Appendix 1 to this document includes a detailed breakdown of the positions reached on all the outstanding points. The Authority has satisfied itself through the process of clarification and fine-tuning that progression to Financial Close would not expose the Authority to additional risk and associated cost.

5. Financial Case

5.1. The Financial Appraisal

5.1.1. The purpose of the Financial Appraisal is to compare the public sector cost and affordability of the proposed solutions and, with the use of sensitivity analysis, compare the robustness of these solutions for the Authority.

5.2. Affordability

5.2.1. The affordability and funding of the project by the Authority is set out in Table 4. The table reflects the revised level of credit support agreed with DOH as part of the ABC submission which resulted in the credit level reducing from £84.0m to [REDACTED] due to the favourable affordability position of the final bids. The key principles of project funding are: –

- Riverside charge the Authority the annual Unitary Charge which is net of rent and service charge income. Riverside therefore retains the rent and service charge income but also retain the associated risk.
- Riverside use this income stream to fund the borrowing associated with the construction of the facility (largely via senior and subordinate debt), lifecycle investment into the facility and the operational and management costs of the apartments over the term of the concession.
- The Authority funds the Unitary Charge payments using PFI credit support from DOH (received annually at an annuity rate of 5.1%), Authority resources [REDACTED] annum) and also any interest earned on surplus balances in the early years of the project.

Table 4. Project Funding and Affordability (Nominal)

Bidder Position	Riverside ITSFB (£000)	Riverside Final Bid (£000)
Income		
Nominal Unitary Charge	████████	████████
Rent and Service Charges	████████	████████
Interest received	████████	████████
Total Income	230,184	231,107
Costs		
Construction	████████	████████
Bidding	████████	████████
Lifecycle	████████	████████
Operation	████████	████████
Senior debt interest and fees	████████	████████
Sub debt interest and fees	████████	████████
Equity Bridge and Fees	████████	████████
Dividends	████████	████████
Tax	█	█
Others	█	█
Total Costs	230,184	231,107
Authority Funding Position		
Nominal Unitary Charge Payments (*)	████████	████████
Funded by -		
PFI Credit Support ¹	████████	████████
Authority Resources	████████	████████
Interest	████████	████████
Total Resources	████████	████████
Surplus\ (Deficit)	-	163
Number of Units Delivered	316	316

████████████████████

5.2.2. The revised funding position is in line with the position at ITFSB. The Authority has clarified a limited number of capital and lifecycle elements with Riverside and that has resulted in a reduction in lifecycle costs and an increase in capital costs. The overall Unitary Charge remains in line with the bid submitted at ITFSB at [REDACTED].

5.3. Funding Terms

5.3.1. The Authority has continued to work with Riverside and Aviva as the funder throughout the Preferred Bidder stage to complete due diligence and fix the terms of the funding. Since the ITSFB stage, Aviva have reduced their profit margin from [REDACTED].

5.3.2. Riverside have also undertaken a review of the market to ascertain if a more economically advantageous funding offer could be achieved. It is the view of both the Authority and Riverside that the Aviva offer represents value for money due to the profit margin of [REDACTED] (above gilt rate), overall favourable funding terms and the commercial positions that Aviva have taken on the key contract documents due to their knowledge and track record of operating in the PFI market.

5.3.3. The Authority has always reserved the right to run a funding competition during the procurement process and has chosen not to exercise this right due to the terms submitted by Aviva.

5.4. Sensitivity Analysis on Funding

5.4.1. The financial model at the ABC stage was run at a gilt rate of 3.25% plus a 50 basis point buffer, taking the overall rate to 3.75%. Since the submission of the ABC, the gilt rate has reduced to 2.75% so the Authority has instructed Riverside to use the revised lower rate, taking the overall rate to 3.25% (inclusive of the 50 basis point buffer).

5.5. Residual Value (RV)

5.5.1. The RV position remains at £1 as per the ABC.

5.6. Corporation Tax

5.6.1. The tax position of Riverside is unchanged from the position set out within the ITSFB. The structure has proven to be deliverable, bankable and results in the effective execution of each party's contractual roles.

5.6.2. Riverside are the 100% shareholder of the SPV and have used their charitable status as a registered social housing provider to obtain charitable status for the SPV. The SPV is therefore exempt from Corporation Tax and SDLT due to Registered Provider Relief.

5.7. Impact on Authority Balance Sheet

5.7.1. As part of the original OBC, the balance sheet impact of the project was assessed under the both the European System of Accounts 1995 and the Financial Reporting Interpretations Service Concession Arrangements, Interpretation 12 (IFRIC 12, 2010).

5.7.2. On the grounds that the project will be SoPC4 compliant and accordingly transfers construction and Availability risk to the operator, the assessment of ESA 95 indicated an off balance sheet treatment for the purposes of National Accounts.

The sponsoring Department of Health should also not record an asset in relation to the project for National Accounts purposes indicating that there is no requirement to score the PFI credits to the Department of Health's capital budgets.

- 5.7.3. The Financial Advisor's assessment at OBC of IFRIC 12, 2010 confirmed that the project is both a service concession for the provision of services and related to infrastructure and it is therefore likely that the assets would be recognised on the Authority's balance sheet.
- 5.7.4. The Authority's External Auditors have re-assessed the accounting treatment of the project prior to Financial Close and have indicated that they had no issues to raise with the assessment. Please see Appendix 2 (to follow).

6. The Management Case

6.1. Introduction

6.1.1. This section sets out the project management and associated governance arrangements that are in place to ensure the successful delivery through the mobilisation phase post Financial Close and beyond into the operational phase of the project.

6.2. Project Team

6.2.1. The Project Team incorporates the Contract Management Team consisting of Steve Greenley, the Contract Manager and Wieneke Rudolphij, the Contract Officer who will both remain in place post Financial Close to oversee the mobilisation and operational phases.

6.2.2. Project Team meetings are held monthly and are chaired by the City Adult Social Care Manager in the role of Project Director. Table 5 below sets out the membership of the Project Team. Mike Phillips, the Project Manager will remain in post after Financial Close, overseeing a revised set of workstreams to ensure continuity of knowledge is bolstered further from the procurement phase.

6.2.3. The Contract Management Team has been in post since the procurement phase commenced thus providing the day to day continuity from procurement of the project through mobilisation and into operational phase. Integrating the Contract Management Team into the Project Team at such an early stage has avoided any significant risk to the Authority which may have arisen in handing over a complex project from those responsible for procurement to the Contract Management Team.

Table 5. Full Project Team Membership

Role	Name	Job Title
Project Director	Alison Barker	City Adult Social Care Manager
Project Manager	Michael Phillips	Project Manager
Contract Management Workstream Lead	Steve Greenley	Contract Manager
Reviewable Design Data Workstream Lead	Wieneke Rudolphij	Contract Officer
Catering Workstream Lead	Neil Bottomley	Resources Officer (Catering)
Care Workstream Lead	Lorraine Goude	Assistant City Manager for Integrated Commissioning
Housing Operations Workstream Lead	Jane Medforth	Practice Manager
Communications Workstream Lead	Carron Brant	Stakeholder Engagement Officer

6.3. Project Governance

6.3.1. To ensure consistency of governance for the project during mobilisation the Project Board will remain in place until as such time as the final facility is operational. Membership of the Project Board will remain unchanged from the procurement phase. Once the project moves into the full operational phase the Board will fall away.

6.4. Programme

6.4.1. Financial Close is scheduled for week commencing the 17th November 2014, subject to the approval of this Confirmation Business Case. The revised key milestone programme is set out in Table 6 below.

Table 6. Key Project Milestones

Milestone Activity	Date
Planning approval secured	29 th September 2014
Submit Derogation Schedules to Local Partnerships and IUK	20 th October 2014
Derogations schedules approved	24 th October 2014
Issue Alcatel Letters	27 th October 2014
Standstill Period	7 th November 2014
Confirmation Business Case approved by HM Treasury	7 th November 2014
Confirmation Business Case approval by Department of Health	14 th November 2014
Financial Close	17 th November 2014

6.5. Gateway Reviews

6.5.1. A Gateway 3 Review was undertaken in May 2014 to assess the Authority's readiness to progress through to Financial Close. The project received an Amber/Green rating with a number of recommendations included in the final report. These recommendations are set out in Table 7 below with associated commentary relating to the Authority's actions in response.

Table 7. Gateway 3 Recommendations

Recommendation	Commentary
1. Develop and agree a sustainable policy for assigning homes to residents in the new facilities	<ol style="list-style-type: none">1. Workshop took place on the 5th September 2014.2. Agreed that the Extra Care Strategy requires an Extra Care Delivery Plan to compliment it. This is to capture the 'ripple' effect of the new Extra Care facilities and proposals regarding future housing investment decisions to resolve unmet demand for Extra Care. First Draft scheduled for January 2015.3. Customer mapping exercise currently being undertaken for each of the three geographical areas around the Extra Care facilities to inform both needs

Recommendation	Commentary
	analysis and community balance within the facilities.
2. Establish governance and arrangements for the implementation of the assignment policy for the initial selection of all residents	1. Principles of Allocations Protocol now agreed with Contractor and Adult Social Care. Detail of practicalities for identification and assessment to be developed post Financial Close.
3. Ensure the Homecare procurement reflects the vision for the delivery of the new service	<ol style="list-style-type: none"> 1. Homecare commissioning team embedded in Extra Care Project Team to ensure dovetailing of assumed outcomes. 2. Representatives from the team also involved in the re-shaping of the Allocations Protocol with the Contractor and representatives from HCC Housing Team.
4. Ensure that successful applicants are appropriately supported in the take up of their tenancy	<ol style="list-style-type: none"> 1. A Mobilisation Workstream will be established immediately after Financial Close which will incorporate a review of practical support which can be provided before, during and after the proposed move. 2. The rate of new tenancies per week has been significantly reduced to ensure the level of resources on hand is more than sufficient to support new residents in their new homes. 3. The affordability headroom has enabled both the Contractor and the Authority to explore areas of 'betterment' within the scope which will provide greater support for residents. This includes providing carpets, curtains and white goods within each apartment.
5. Update the benefits baseline measures and include these in the Confirmation Business Case	<ol style="list-style-type: none"> 1. A review of the Benefits Realisation Plan has been undertaken. This has included reference to 'Accounting for the Cost Benefit Analysis Guidance for Local Partnerships' circulated by HM Treasury in April 2014. 2. The CCG have also been requested to review secondary benefits in light of this guidance.
6. Ensure continuity of project management beyond PFI financial close	<ol style="list-style-type: none"> 1. This was the subject of a separate paper presented to Project Board at its meeting on the 30th July 2014. 2. Agreed that dedicated PM resource is required with responsibility for identification and appointment delegated to Trish Dalby (Chair of Project Board) in consultation with the two respective Portfolio Holders. 3. Location of project dependent on appointment of City Manager for Major Projects and Infrastructure.
7. Revise the project structure, governance, risk and management arrangements to	1. At its meeting on the 30th July 2014, Project Board agreed that a dedicated Project Management resource would be identified to oversee a revised set

Recommendation	Commentary
support the PFI, care and catering projects	<p>of workstreams which reflect the move into the mobilisation phase from procurement. The revised set of workstreams to include care and catering procurement and associated interface issues.</p> <p>2. Project Board also agreed to remain in its current form with membership unchanged through to full operational stage to ensure heightened continuity of knowledge of the project.</p>
8. Prepare an overall and a detailed plan for all activities up to and including the operation of the new facilities and services	1. This will be developed in partnership with the Contractor post Financial Close.

6.5.2. Further reviews are planned at Gate 4 - Readiness for Service; and Gate 5 - Operation and Benefits Realisation.

6.6. Authority Support

6.6.1. Project Board approved the ABC on the 17th February 2013 with the Authority confirming its endorsement and annual contribution at the Cabinet meeting held on the 24th March 2014. The parameters of the delegated authorities agreed by Cabinet at this meeting remain valid for the commercial position reached as set out within this Confirmation Business Case.

