Report to:	**Audit and Best Value Scrutiny Committee**
Date:	**4 March 2009**
By:	**Director of Adult Social Care**
Title of report:	**Age Well – East Sussex**
Purpose of report:	**To update the Committee on the progress of the Age Well Project (the "Project")**

RECOMMENDATIONS:

The Scrutiny Committee is recommended to note:

1. the progress of the Age Well Project; and

2. the risks to the Project associated with the current economic climate.

1. Financial Appraisal

1.1 £39m of PFI Credits have been approved by the Department of Health (DoH) and HMT Treasury. This will be received via an annual annuity payment of c£3m for 25 years from the date at which the Buildings become operational.

1.2 The PFI Credits support the Capital elements of Age Well. These include the Design Build, Finance and Lifecycle maintenance costs of the Buildings.

1.3 An annual Revenue Budget of c£1.66m p.a. (indexed) has been allocated by Adult Social Care to cover all costs (other than capital costs) associated with cleaning, catering, utilities, waste and laundry services of the buildings.

2. Background and Supporting Information

2.1 The Age Well Project was established following reviews of the East Sussex County Council residential homes for older people which ended in 2004 and which concluded that Ridgewood Rise in Uckfield, Havard Rd in Ringmer and Mount Denys in Hastings, were particularly ill-suited to future requirements. Reviews also identified a gap in services in Rother.

2.2 The Project was initiated in September 2004 with the appointment of two Project Directors. Formal Project Governance arrangements have been in place since inception and the Project Delivery Board is chaired by the Director of ASC. The Project also follows the Gateway Review process operated by the 4ps[1] and has been subject to an Audit Status review. There is close liaison with both internal and external audit and the Deputy Director of Corporate Resources is a member of the Project Delivery Board.

2.3 The Outline Business Case (OBC) for £39m of PFI Credits was submitted to the Department of Health in April 2006 in accordance with the Bid Round schedule.

2.4 Approval to proceed to advertisement in the Official Journal of the European Union (OJEU) was conditionally granted by the Treasury's Project Review Group (PRG) in March 2007.

[1] The 4ps (Public Private Partnerships Programme), is the local government procurement expert and was established in 1996 by the English and Welsh local authority associations (predecessors to the LGA). The 4ps works in partnership with all local authorities (at no cost) to secure funding and accelerate the development, procurement and implementation of PFI schemes, public private partnerships, complex projects and programmes

2.5 All the PRG conditions were satisfied in February 2008 with the approval of Outline Planning Consent for the re-development of the Ridgewood Rise site in Uckfield.

2.6 The Project was advertised in the OJEU on 25 February 2008 and is now in Procurement under the EU Competitive Dialogue (CD) procedures.

3. Update and Timetable

3.1 The Procurement Timetable from OJEU to Financial Close is 24 months in line with issued guidance in respect of CD procedures (see Appendix 1). The Project has so far met all of its advertised target dates and is now one full year into the process.

3.2 Eleven responses to the Pre-Qualification Questionnaires were received. Ten companies passed the threshold required and the top seven companies were Invited to Submit Outline Solutions (ISOS).

3.3 Evaluation of the ISOS responses was completed in September 2008 and the three top scoring companies were shortlisted and Invited to Submit Detailed Solutions (ISDS) by 9 January 2009.

3.4 The intention is to further shortlist to two Bidders by the end of February and evaluation of Bids is underway to achieve this target. Progress will be reported orally to the Committee.

The Effect of the "Credit Crunch"

3.5 The key risks to Age Well in connection with the current crisis in the economy are set out in Appendix 2 and relate to:

- Lack of funds in the Bank market;
- Increases in overall funding costs; and
- Financial failure of a sub-contractor.

3.6 Overall while Age Well is well placed, by virtue of its size, to be attractive to the Banking market the terms of any Bank commitment remain at risk. Close liaison with the DoH is being maintained on this issue.

4. Conclusion and Reasons for Recommendations

4.1 The report is for information purposes only and the Committee is therefore requested to note its content.

KEITH HINKLEY
Director of Adult Social Care

Contact Officer: Paula Kirkland, Project Director Tel No. 01273 738738
Lorayne Ferguson, Project Director Tel No: 01892 663082

BACKGROUND DOCUMENTS

None

Appendix 1

ISDS Timetable

	Indicative Dates
Issue Invitation to Submit Detailed Solutions (ISDS) to Shortlist	Mid-Sept 2008
Bid prep/dialogue meetings with 3 shortlisted Bidders	Oct, Nov, Dec 2008
Detailed Solutions received	9^{th} January 2009
Initial Evaluation – including Reference Site Visits, Clarification on Detailed Solutions and Further Shortlist	9^{th} Jan – 27^{th} Feb 2009
Dialogue with 2 Bidders	March – May 2009
Assess readiness to close Dialogue	April 2009
Close Dialogue and Issue Call for Final Tenders	Mid–May 2009
Receipt of Final Tenders	June 2009
Clarification, specification and fine tuning of Final Tenders	July 2009
Conclude Evaluation of Final Tenders and select Preferred Bidder	Early Sept 2009
Fine-tuning, planning and judicial review period.	Sept 09 – Feb 2010
Contract Award	Feb 2010
Alcatel Period	March 2010
Contract Commencement	March 2010

Appendix 2

Risk	Outcome	Background	Current Status	Category H/M/L
(1) Lack of available funds in the Banking Market	Inability to secure Financial Close in line with the timetable. Delays to FC ultimately leading to increased costs as construction cost would rise in the intervening period and potential issues with affordability.	There has been a general decline in the number of banks still in the market for this type of transaction This lack of liquidity is currently a major issue for large infrastructure projects such as the Manchester Waste PFI and the M25 and the larger Programmes such as Building Schools for the Future. These transactions typically require in excess of 7 banks to commitment to lend. .	Age Well is by contrast a small PFI. The expectation is that only one bank will be required. All three Bidders have secured terms from at least one bank. Therefore, at the time of reporting, there appears to be sufficient appetite for a non-complex single bank transactions.	L
(2) Increases in overall funding costs	Bidders unable to secure funding on affordable terms affecting Project Affordability.	The cost of funds is made up of (i) underlying base costs that are related to the Bank of England Base (BoE) Rates and (ii) the margins that Banks charge above these base costs. Base costs have decreased with the cuts in the BoE rates although not as dramatically as the BoE rate itself. The decline in the depth of the Bank market (see (1) above) has led to a decrease in the supply of funds against a background of stable demand. This has led to an increase in the cost of funds (i.e. as demand outstrips supply the price has increased) Therefore, each reduction in base costs has been met with an equal increase in the margin charged by banks. The risk of changes in financing costs is a County Council Risk up to the point of Financial Close.	The Project Team is monitoring this issue very closely and Bidders have already been asked to resubmit their funding terms. Overall the total cost of funding has changed very little as the reduction in base costs has been matched by an increase in margin. There is, however, no certainty as to movements in these costs (either base costs or margins) over the coming year. The Project Team is in contact with the Dept of Health. The DoH is committed to the success of Age Well (its only stand alone PFI in the market).	H
Business failures.	Supply chain issues affecting construction timetable or service delivery.	This is essentially a Private Sector risk. However, the Authority is interested to see the Project running smoothly and without delays.	Bidders have been asked to set out how they would each deal with a failing sub-contractor at each stage in the Project's life.	L