Report

meeting	CABINET COMMITTEE ON RESIDENTIAL HOMES FOR OLDER PEOPLE AND FOR EXTRA CARE SERVICES	
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REPORT OF THE STRATEGIC DIRECTOR FOR ADULT SOCIAL CARE AND HEALTH

INITIAL FINANCIAL EVALUATION OF MODELS FOR THE FUTURE DEVELOPMENT OF RESIDENTIAL HOMES AND EXTRA CARE

1. Purpose of the Report

1.1 The purpose of this report is to provide the Cabinet Committee with an initial financial evaluation of the proposed options for the future development of residential care homes and extra care. The evaluation takes the form of a "desktop" exercise based on existing information gained from past schemes. Whilst this is sufficient to illustrate the capital and revenue issues each option presents, further detailed financial evaluation would be required on a preferred option prior to implementation.

1.2 The three options to be evaluated were set out in the report considered by Cabinet Committee Members on the 15th May 2007. They are as follows:

- ***Stay as Now*** – with the Council remaining as a provider of the current level of residential care services.
- ***Withdrawal*** from providing residential care and developing extra care as an alternative.
- Retain a ***Strategic Share*** of the residential care market and develop extra care services.

1.3 The evaluation will firstly consider the capital issues associated with each option and then set out the implications for the ongoing revenue position and any potential transitional costs.

2. Information and Advice

2.1 Capital Issues

2.1.1 The availability of capital to implement the options under consideration is a limiting factor which needs addressing. Currently, the 2007/08 to 2010/11 capital programme contains net funding of £4.3 million for the provision of mixed care schemes in Ashfield and Mansfield.

2.1.2 This section will firstly consider the broad capital themes to be addressed and then use the analysis to compare the capital costs associated with the three options under consideration.

2.2 Replacing Existing Homes

2.2.1 Under the ***Stay as Now*** option, the Council would ultimately have to replace its "old" homes within the timeframe of the review given the maintenance issues they face. Previous reports to the Cabinet Committee have identified that nine of the Council's residential homes do not meet modern standards and would need to be replaced to maintain the current volume of service. In order to determine the capital cost of replacement, the costs associated with recent schemes have been updated to allow for building inflation with appropriate allowances for equipment and contingencies.

2.2.2 Assuming that the existing sites are redeveloped, and that no additional land purchases are required, the projected replacement cost of the "old" homes and their associated day centres at 2007/08 prices are set out in the table below:

	Number of Beds	£000 Total Cost	£000 Cost per Bed
Kirklands	29	£ 2,986	£ 103
Daleside	32	£ 3,267	£ 102
Ashcroft	35	£ 3,547	£ 101
St Michaels	34	£ 3,454	£ 102
Leivers Court	38	£ 3,828	£ 101
Beauvale Court	44	£ 4,024	£ 91
Bishops Court	45	£ 4,110	£ 91
James Hince Court	38	£ 3,828	£ 101
Woods Court	49	£ 4,227	£ 86
TOTAL	**344**	**£ 33,271**	**£ 97**

Note: The number of beds replaced at James Hince Court is based on the current level of service, rather than the capacity of the building.

2.2.3 On average, the replacement cost is expected to be £96,700 per bed. The cost per bed is higher for the smaller homes as the fixed costs of planning and design are spread over fewer beds. In total, replacement of the existing homes will require a further £29 million of capital investment over and above the current provision in the capital programme.

2.3 Capital Cost of Extra Care

2.3.1 Both the ***Withdrawal*** and ***Strategic Share*** options would see the Council provide 150 extra care units as an alternative to residential care. For the purposes of this analysis, the cost of extra care units has been determined on the assumption that the Council will enter into a partnership with a third party developer to build new units. To build rented units over which the Council has nomination rights, finance can be obtained from the following sources:

- Developers selling extra care units to private buyers to provide funds to build rented units.
- Borrowing by the developer through mortgages secured on future rental income.
- The Council's own capital resources.
- Government Grants secured by the Council or the developer.

2.3.2 The funding mix employed will impact on the cost of providing extra units for the Council and the timeframe in which they can be delivered. There are direct trade offs to be made between the cost to the Council, the timeframe over which schemes are delivered and the amount of land they require:

- Selling extra care units to fund units for the Council is reliant on having sites that are large enough to support a mix of private and rented dwellings.
- Financing schemes with Government Grants reduces the capital cost to the Council but will significantly delay the timeframe over which schemes can be delivered. Over the 10 years that this review covers, it is not expected the Council and its partners would be able to attract sufficient grant to fund 150 extra care units.
- Financing from the capital programme is the most expensive route for the Council to provide extra care but allows for the quickest delivery of the schemes and requires the least amount of land.

2.3.3 The experience of the Rushcliffe mixed care scheme has been used as the basis to model the potential cost to the Council of providing 150 extra care places over which it has nomination rights. After allowing for the funding provided by securing mortgages on future rental income, the modelling considered:

- The cost to the Council of funding the scheme without relying on the sale of units to show the price of the quickest delivery of units on the least amount of land.

- The number of private units that would have to be sold by the developer in order to fund the required number of social rented units to show the private/rented mix and land requirements of providing the units at a nil cost to the Council.

2.3.4 The results are summarised below:

	Scheme funded by the Council	**Scheme funded by the Developer**
Units for the Council	150	150
Units for sale	0	311
Total number of units	150	461
Acres of land required	7.5	23.1
Cost to the Council of 150 Extra Care Units	**£12.2 million**	**Nil**

2.3.5 The table shows that in order for the capital cost of extra care to be met by the developer the amount of land required increases by a factor of three, with a ratio of two private sale units to one Council unit on the sites. Were the availability of suitable sites to be a major constraint, providing 150 extra care units could cost the Council £12.2 million.

2.3.6 It should be noted that the Council may be able to provide its target number of extra care units by working in partnership with District Councils and other Social Landlords to adapt or replace existing housing stock. This option could prove to be significantly cheaper than new builds and overcome site availability problems. Further work would be required, however, to identify potential schemes before costs could be determined.

2.4 <u>Implications of Disposals</u>

2.4.1 The ***Withdrawal*** and ***Strategic Share*** options envisage that the Council would generate capital receipts that could offset some of the cost of providing extra care. For the purpose of this analysis the following assumptions have been made about the implications of the disposals that would take place:

- ***Strategic Share*** – Eight of the nine “old” homes would be sold for development, and for the purpose of the analysis it is assumed that Woods Court would at some point be rebuilt to modern standards. All of the capital receipts generated from the sales would be used to fund replacement day care provision.

- ***Withdrawal*** – All of the “old” homes would be sold for development with the new homes sold as going concerns. Seven new day centres would be built to replace the lost capacity at a maximum cost of £1.5 million per centre.

2.4.2 The anticipated sale value of the old homes was reported to Members on the 16th April 2007. In total, the nine sites could be expected to realise £6.6 million. If the Woods Court site was retained, the capital receipt would fall to £5.3 million.

2.4.3 Consideration has been given to the potential capital receipt that could be realised by disposing of the new homes as a going concern. A limited survey of residential care homes for sale in the Midlands indicates that the new homes could have a significant market value. Based on an average sale price of £37,000 per bed, the sale of the new homes might be expected to realise a capital receipt in the order of £12.2 million.

2.4.4 As a result, the following conclusions can be drawn:

- ***Withdrawal*** – This option may generate a capital receipt of £18.8 million. After allowing for £10.5 million to provide seven day centres, a balance of £8.3 million could be available to fund extra care. On the basis of the experience of the Rushcliffe scheme, this would be sufficient to enable the Council to fund 102 extra care units.

- ***Strategic Share -*** This option generates a £5.3 million capital receipt, which would be sufficient to meet some of the cost of the cost of replacement day care. No funding would be available to finance extra care.

2.5 <u>Comparison of the Capital Implications of the Options</u>

2.5.1 The capital cost of the three options discussed above can be summarised as follows:

	£ Million ***Stay as Now***	**£ Million** ***Withdrawal***	**£ Million** ***Strategic Share***
Replacement of "Old" Homes	33.3	0.0	4.2
Replacement day centres	0.0	10.5	10.5
150 extra care units	0.0	12.2	12.2
Total Expenditure	**33.3**	**22.7**	**26.9**
Capital Receipt from sale of "Old"	0.0	-6.6	-5.3

	£ Million *Stay as Now*	£ Million *Withdrawal*	£ Million *Strategic Share*
Homes Capital Receipt from sale of "New" Homes	0.0	-12.2	0.0
Capital Receipts from Disposals	**0.0**	**-18.8**	**-5.3**
Capital Cost to the Council before Developer Contributions to Extra Care	**33.3**	**3.9**	**21.6**
Developer Contribution to the Cost of Extra Care	0.0	-12.2	-12.2
Capital Cost to the Council After Developer Contributions to Extra Care	**33.3**	**-8.3**	**9.4**

2.5.2 The following conclusions about each option can be drawn:

Stay as Now

- This is the most expensive capital option and provides no extra care places
- The capital cost could be offset by the use of PFI, but this would have significant revenue implications and commit the Council to operating the homes for perhaps a 25 year period.

Withdrawal

- The capital cost of this option is potentially the lowest of the three, but is dependent on the extent to which the new homes can be sold as going concerns.
- The capital receipts together with the existing capital programme funding would be sufficient to replace the day care provision and fund 150 extra care places without relying on private sales of extra care accommodation.
- If a developer's contribution was secured to fund the extra care there is the potential to release £8.3 million of capital receipts to fund other priorities.

Strategic Share

- This option would require a substantial capital investment from the Council to deliver 150 extra care places without funding from private sales. As a result much more development land needs to be identified than is required by the other options.
- With private sales income, the Capital Programme would require £5.1 million in addition to the current provision of £4.3 million to deliver 150 extra care places and re-provide the day care services from the sold sites.

2.6 <u>Revenue Issues</u>

2007/08 Revenue Baseline

2.6.1 As reported on the 16th April 2007, the 2007/08 operational budget for the services provided on care home sites is £14.84 million. Of this total, some £2.84 million relates to day care services, which are not subject to this evaluation.

2.6.2 The remaining residential care budget of £12.0 million is the baseline on which the revenue implications for each option are considered. The budget is allocated as follows:

Subjective Heading	**£000**
Employee Costs	11,779
Premises	1,488
Transport	43
Supplies and Services	774
Capital Charges	2,086
Other Income	-1,047
Total Expenditure	**15,123**
Client Income	-3,123
Grand Total	**12,000**

2.6.3 Fee rates for independent sector providers are set at the Total Expenditure level, before client contributions (which are collected by the Council). Based on a 92% occupancy, the gross cost per week of Council provision is £467.

2.6.4 Of this, some £64 per week relates to Capital Charges. Capital Charges are unique to the Public Sector and are an accounting entry designed to indicate the opportunity cost of using assets. They are not real cash, they are not collected from the Council Tax payer and they are not available to spend on alternative services. Therefore, the amount of funding per week actually available for alternative services is £403 per week – some £13.037 million in total.

2.6.5 As previously reported, the current National Job Evaluation (NJE) exercise is likely to impact on the cost of Council provision. At this stage costs for Nottinghamshire have yet to be finalised, but based on the experience of other Local Authorities, NJE is expected to add £33 per week to the gross cost of Council provision.

2.6.6 After allowing for the impact of NJE, the gross cost of £436 per week compares to the projected gross cost of extra care of £248 per week (based on 20 hours of care per week, as reported on the 15th May 2007) and £344 per week paid to Independent Sector providers for older people with dementia.

2.6.7 It should be noted that the average level of client income per resident per week is budgeted to be £96 in 2007/08. This compares to a maximum charge for homecare of £75 per week. Assuming that older people who might have gone into Council homes go into Council extra care, there will be an income loss of £21 per person per week.

Comparison of the Final Revenue Implications of the Options

2.6.8 Under the ***Stay as Now*** option, the budget costs set out above would be expected to be maintained in real terms throughout the review period. For reasons of prudence it is assumed that the revenue costs of the ***Withdrawal*** and ***Strategic Share*** options would be the same. TUPE requirements mean that the running costs of any homes that were sold would have to be met on the same terms and conditions for staff as if the Council were running the service itself.

2.6.9 Based on a model that sees 300 beds closing in the “Old” homes and being replaced by 150 extra care beds and 150 placements in the Independent Sector, once the options are fully implemented, total savings of £2.03 million could be realised as follows:

- **Extra Care** – After allowing for the loss of income at £21 per week, replacing 150 Council residential care beds with 150 extra care beds would save £167 per person per week, equating to £1.31 million per year.

- **Independent Sector residential care** – Replacing 150 Council residential beds with 150 in the Independent Sector would save some £92 per week for older people with dementia, equating to some £0.72 million per year.

2.7 Transitional Costs

2.7.1 Whilst the final costs of the ***Withdrawal*** and ***Strategic Share*** options are expected to be the same, the pace and nature of the change will impact on the transitional costs that the Council incurs. These will mainly be in the area of redundancy/pension strain and provision of extra capacity to facilitate closures. Without more detail of the timeframes over which each option might be implemented, it is difficult to quantify the level of transitional costs at this stage. It is clear, however, that transitional costs for the ***Withdrawa***l option will exceed those for the ***Strategic Share*** option as the Council will lose the ability to redeploy staff or save costs through staff leaving/retiring. Experience with the modernisation of learning disability day services indicates that the transitional costs associated with the ***Withdrawal*** option could be in excess of £2.5 million.

2.8 Summary

2.8.1 In conclusion, the following points have emerged from the analysis to date:

- The ***Stay as Now*** option may require some £33.3 million of capital investment and would produce no revenue savings on the baseline budget.

- The ***Withdrawal*** option offers the potential to realise significant capital receipts that would finance the provision of day care facilities and enable the Council to provide extra care within current resources. Were external funds from developers to be secured, this option might provide funding for other priorities. In revenue terms, once fully implemented this option could save some £2.03 million, but at the risk of incurring significant transitional costs with regard to reshaping the workforce.

- The ***Strategic Share*** option also offers potential revenue savings of some £2.03 million per year, and greater control over the timing and amount of any transitional costs. It does, however, realistically rely on enough land to allow for developers to fund the extra care units though private sales or a capital contribution from the Council of some £21.6 million towards the cost of the scheme.

3. Statutory and Policy Implications

3.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder and those using the service. Where such implications are material, they have been described in the text of the report. Members' attention is however, drawn to the following:-

3.1.1 Personnel Implications

Any options to change the services provided by the Council will have workforce implications which have been identified in reports to the Cabinet Committee on the 16th April 2007 and the 15th May 2007.

3.1.2 Financial Implications

These are contained in the report.

3.1.3 Equal Opportunities Implications

Any future service changes must ensure that the diverse needs of the County are appropriately provided for.

3.1.4 Implications for Service Users

Any options to change the services provided by the Council will have implications for service users which have been identified in reports to the Cabinet Committee on the 16th April 2007 and the 15th May 2007. If Cabinet were minded to approve the transfer or closure of any homes there would need to be a period of formal consultation before a final decision was reached.

4. **Recommendations**

4.1 It is recommended that the members of the Cabinet Committee:

(a) comment on the information in this report
(b) consider the relative merits of each option and identify initial views on whether any option appears to be more preferable to others.

5. **Legal Services' Comments** (LM 29/05/07)

5.1 The recommendations in the report fall within the terms of reference of this Cabinet Committee.

6. **Strategic Director of Resources' Financial Comment** (AS 29/05/07)

6.1 At this stage the financial analysis is of a "desktop" nature and should be treated as illustrative. There are no new expenditure commitments in the report, and once Members have identified a preferred option, detailed financial analysis will be required. The Cabinet Committee was established to oversee and guide the work on the review of residential homes and extra care as one of the "policy options" agreed by Council as a means of achieving economies and addressing future budget issues.

7. **Background Papers Available for Inspection**

7.1 Reports to the Cabinet Committee, 16th April 2007 and 15th May 2007.

7.2 Accountancy working papers.

8. **Electoral Division(s) Affected**

8.1 All the electoral divisions in Nottinghamshire.

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