

Cabinet Meeting on Wednesday 18 September 2019

Business Case for Council Owned New Build Care Homes with Nursing



Cllr Alan White, Deputy Leader and Cabinet Member for Health, Care and Wellbeing said,

“Supporting an increasing ageing population care is an issue for the whole country, but particularly impacts on larger counties like Staffordshire. We estimate that by 2039 there will be an extra 50,000 people aged 75 or over, and the cost of care for these people is soaring.

“Putting ourselves in the care market and increasing nursing home capacity will mean we can offer good quality, cost-effective placements to meet the assessed eligible social care needs of people in Staffordshire. Our investment and proposal to build two new nursing homes in the areas of highest demand, will see the county council developing high-care environments which maximises the use of advances in technology to support the needs of residents.”

Report Summary:

As initially presented at June 2019 Cabinet the Council is facing a rising cost of new care home placements, which is driving up the average cost of placements. To mitigate this cost pressure the Council is increasing the number of nursing home placement for Council funded placements through the refurbishment of Council owned building, Hillfield. In addition, the Council is looking to build two new homes to provide at least additional 120 beds.

The two new builds will be in the areas where the Council experiences the most difficulties to source placements and where the rising cost of new admissions is the greatest. This report will share the evidence for the recommendation for the new build locations and provide a Business Case for potential sites the Council could consider.

Recommendations

I recommend that Cabinet:

- a. Approves the development of two new Council owned nursing care homes, one in Stafford and one in South Staffordshire providing 120-200 additional care home placements.
- b. Approves these builds to be contracted through the Council’s existing Frameworks managed by Entrust.

- c. Delegates authority to the Deputy Leader and Cabinet Member for Health, Care and Wellbeing, in consultation with Director for Health and Care, to select the preferred sites and secure a care provider for the homes, subject to final sign-off of the business case by the County Treasurer.

- d. Delegates authority to the Director for Corporate Services in consultation with the Cabinet Member for Commercial to enter into development contracts, subject to final sign-off of the business case by the County Treasurer.

Local Members Interest
N/A

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Recommendations of the Deputy Leader and Cabinet Member for Health, Care and Wellbeing

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- b. Approves these builds to be contracted through the Council's existing Frameworks managed by Entrust.
- c. Delegates authority to the Deputy Leader and Cabinet Member for Health, Care and Wellbeing, in consultation with Director for Health and Care, to select the preferred sites and secure a care provider for the homes, subject to final sign-off of the business case by the County Treasurer.
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Report of the Director of Health and Care

Reasons for Recommendations:

1. The Council is facing a rising cost of new care home placements, which is driving up the average cost of placements. The Council's expenditure on older people's care is increasing by 5% annually for residential care and 12% annually for nursing care.
2. The Council already has a number of mitigations in place to attempt to manage these rising costs that include: commissioning of capacity through block contracts, quality control of social care assessments and brokerage, the implementation of the Cost Effective Care and Support Practice Guidance, the Provider Improvement Response Team, and the current strategic care home review led by the Social Care Institute for Excellence.
3. Cabinet in June 2019 approved the principle of Council owned older people nursing homes to be operated by an external provider or a Council owned Local Authority Trading Company, that will provide up to an additional 160 nursing home beds in Staffordshire. Due to financial efficiencies from larger builds the Council may consider increasing the additional capacity past the 160 total beds.

4. The Council is currently subject to a procurement process for an external provider for the service. In addition, the Council has modelled the cost to provide the service through a Council owned Local Authority Trading Company (LATC), should there be no interest from an external provider able to operate the service at a cost affordable for the Council. Work has commenced for the refurbishment of Hillfield site in Burton Upon Trent to allow mobilisation of the first 38 nursing home beds by 2020/21.
5. To achieve 120 additional nursing home beds Cabinet endorsed the development of a Business Case to build two new nursing homes to be presented at Cabinet in September 2019. This report presents the business case for the new builds and identifies the preferred locations and potential sites. Due to financial efficiencies from larger builds the Council may consider increasing the additional capacity past the 120 new build beds.

Context

6. The Council supports 2,500 older people to meet their assessed eligible social care needs in a care home: 57% are in a residential home and 43% in a nursing home. The Council arranges care with homes in Staffordshire and homes outside the county where people have a need for care to be provided in another area (e.g. to support specialist care needs or to be closer to family). At the present time 17% of placements are in homes outside of the county. Every month on average 100 new placements are made and on average 100 placements end, with the number of people supported remaining broadly static. The average length of stay is 1.8 years in residential care and 1.6 years in nursing care.
7. In the last three years only two new nursing care homes have opened in the County. One of these is 74 bedded located in Newcastle under Lyme and the other 39 bedded located in Lichfield District which transferred residents from a nearby care home closure. In the same period three nursing homes in the County have closed with a total loss of 95 beds resulting in a net increase from the new capacity of just 18 nursing beds.
8. The gross 2019/20 forecast spend for older people residential care home placements is £41.3m and £39.2m for older people nursing care home placements. The net 2019/20 forecast spend after the client contribution is collected is £25.1m for residential and £28.3m for nursing care home placements.
9. Data produced by Laing Buisson (2014) suggests that care homes nationally have around 41% of placements funded by local authorities, 10% funded by the NHS, and 49% funded by citizens who self fund their care. Table 1 lists the number of registered beds with the Care Quality Commission (CQC) and the percentage of them funded by Staffordshire County Council. With the exception of Tamworth Borough area the Council funds 20% or less of the available beds in all Districts and Boroughs. Whilst the proportion of self-funders, other local authority commissioned, or NHS funded beds is unknown this is an indicator that there is a lack of supply which is either accessible or affordable for the Council.

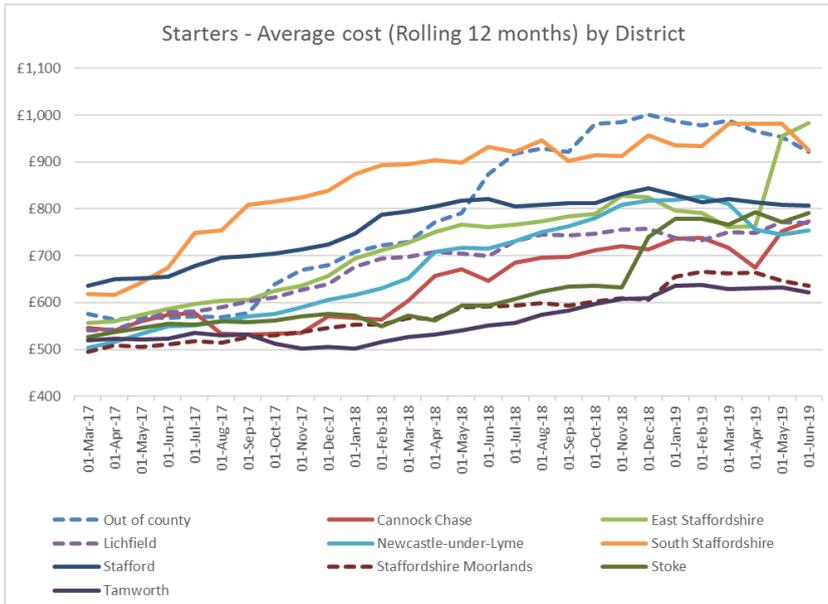
Table 1 - Council purchased capacity in Staffordshire nursing homes

	CQC registered nursing home beds	Current Council funded nursing home placements	Capacity commissioned for Council funded placement (%)
Staffordshire	4236	908	21
Cannock Chase	409	108	26
East Staffordshire	607	100	16
Lichfield	537	131	24
Newcastle under Lyme	440	126	21
South Staffordshire	731	96	22
Stafford	686	114	16
Staffordshire Moorlands	590	167	24
Tamworth	236	66	28

Preferred areas for new build nursing homes

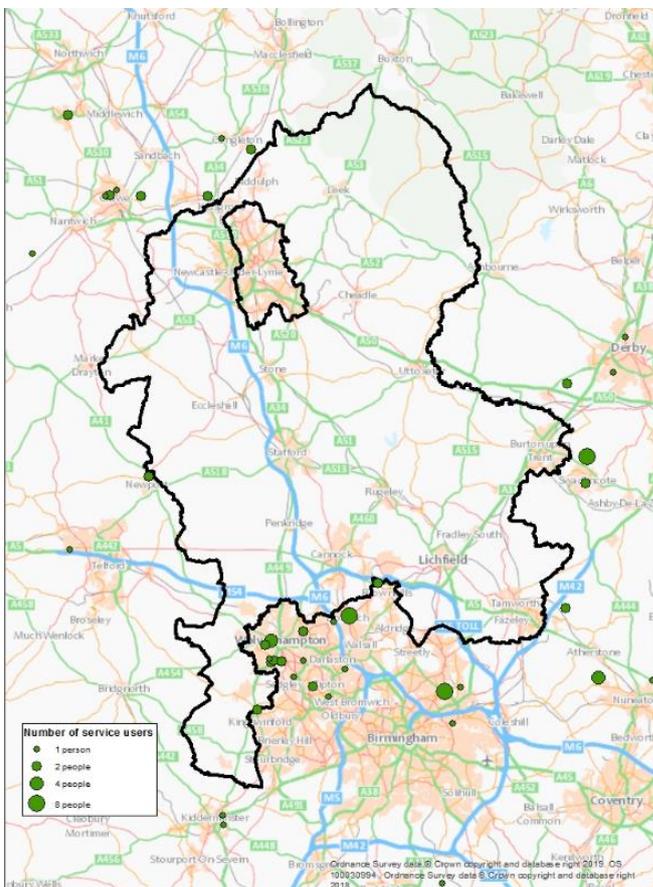
10. The Council has assessed the preferred areas and business case for new build nursing homes based on their ability to mitigate cost pressures from placements of Council funded individuals. The information to support this decision includes:
- a. The cost of Council funded nursing home placements.
 - b. The use of out of county high cost placements.
 - c. Population changes of older people.
11. The cost of new Council funded nursing home placements varies across the county - Graph 1. Stafford Borough, South Staffordshire District and East Staffordshire District are the areas with the highest average cost of new placements.

Graph 1 – Average cost of new Council funded nursing home placements



12. Graph 1 also shows the cost placements in out of county nursing homes. Map 1 displays the locations where the Council is using out of county nursing homes and shows that the areas bordering South Staffordshire District are most commonly contracted by the Council.

Map 1 – Map of location of out of county nursing placements



13. Table 2 shows that Staffordshire has seen the number of people aged over 65 increase by 19% over the last seven years with South Staffordshire being one of the Districts with the largest increase.

Table 2 – Changes in the older people population

	Population 2011 of people 65+	Population 2018 of people 65+	% change from 2011- 2018
Staffordshire	158,282	188,908	19.3%
Cannock Chase	15,801	18,944	19.9%
East Staffordshire	19,277	22,681	17.7%
Lichfield	20,460	24,650	20.5%
Newcastle under Lyme	22,685	26,362	16.2%
South Staffordshire	22,677	27,238	20.1%
Stafford	25,506	30,271	18.7%
Staffordshire Moorlands	20,582	24,426	18.7%
Tamworth	11,294	14,336	26.9%

14. Based on the cost of new Council funded nursing home placements and use of out of county nursing homes, Stafford Borough, South Staffordshire District and East Staffordshire District are the preferred areas for new build nursing homes. The need within East Staffordshire will be met in the short to medium term through the refurbishment of Hillfield. There may be further options to expand the areas for new build to include East Staffordshire in the future to replace Hillfield.
15. The scope of this additional capacity is to increase affordable provision for Council funded placements. When analysis on future need of care home placements includes quality based on CQC ratings Lichfield district becomes another area of need. This area has not been included as a preferred location due to the future Dementia Centre of Excellence in Fradley.

Business case

16. The financial model of the cost to provide the service through a Council owned LATC budget can be found in Appendix 8.
17. The build cost is estimated at £9 million per site with a preference to consider a modular build as oppose to a traditional build if suitable on chosen site(s). This includes a number of assumptions based on current construction costs: until the point of tender for a design building partner the actual cost will not be known.
18. The main benefit of modular build compared to a traditional build is the reduction in timescale, because modular units are produced off site with production starting in advance while site is being prepared for construction. Whilst delivering a shortened build time it remains the same cost.
19. When exploring the financial benefit, the Council has calculated an estimated net present value (NPV) for two new builds. The NPV is an option appraisal technique which values all future cash flows (+/-) over the entire life of investment, discounted to the present. NPV benefit of a 30-year operational care home within

South Staffordshire is estimated to be £9.02m and in the Stafford is estimated £3.06m. This is based on a discount factor of 4%, annual bed price inflation of 1%, 60 bed home, vacancy rate at 5%, build cost estimated at £9 million and land value is site dependent. Please see Table 4 and Table 5 for cash flow and NPV for each site.

Table 4 – Site Summary of Cash Flow (cash flow includes repayment of debt)

District	Site	45 beds	60 beds	100 beds	120 beds
		£m	£m	£m	£m
Stafford	Appendix 2 Site	NV*	3.47	9.3	12.32
	Appendix 3 Site	NV	6.07	11.90	14.92
South Staffordshire	Appendix 4 Site	NV	17.25	31.46**	NV
	Appendix 5 Site	10.24	NV***	NV	NV

**Not viable*

***Subject to site being able to accommodate 100 bedded build*

****Site size will only allow 45 bedded build*

Table 5 - Site Summary of Net Present Value

District	Site	45 beds	60 beds	100 beds	120 beds
		£m	£m	£m	£m
Stafford	Appendix 2 Site	NV	1.56	4.62	6.21
	Appendix 3 Site	NV	3.06	6.12	7.1
South Staffordshire	Appendix 4 Site	NV	9.02	16.60	NV
	Appendix 5 Site	5.31	NV	NV	NV

20. The Council has completed modelling to consider the variables that could have an impact on the NPV and, in addition, external factors that could impact on the need of the service.
21. Financial cashflows could be affected by (based on assuming the authority builds a 60-bed unit with a 5% vacancy rate (i.e. on average 57 beds will be occupied at any one time), 4% cost of borrowing, build cost of £9 million and land value of £1.5 million and assuming price inflation at 1%):
- a. **The size of the site** (current modelling is based on 60 beds). The Council may consider larger homes for increased financial benefit if the site size and demand in the area allows. Assuming no change in other variables, adding 1 bed to the assumed number of beds on site adds £221,259 to the NPV for Stafford and £339,999 for South Staffs. The two builds will provide at least 60

beds further increasing the additional capacity of 120 beds initially presented to Cabinet in June 2019 if financially beneficial to the Council.

- b. **Assuming a different cost of capital for the Council.** The NPV used in the base assumptions is the Council's current average cost of capital of 4%. When modelled with the PWLB 30-year borrowing rate of 2.18% (and assuming no other changes to the base assumptions), the NPV of the Stafford site increases to £.7 million, with the South Staffs site NPV increasing to £15.5 million.
 - c. **The type of build and the time span it would provide an operational service.** If we were to consider a traditional build (as opposed to modular), we might be able to consider a longer debt repayment term. Latest estimates show that on a 60-bed unit, the build costs are broadly comparable, but as the size of the unit increases, traditional builds actually become marginally cheaper. In addition, borrowing rates are slightly lower. The PWLB 50-year borrowing rate is currently 2.09%. Applying this rate to the relevant cashflows (and assuming no other changes to the base assumptions) generates an NPV for the Stafford site of £14.6 million, with the South Staffs NPV rising to £28.1 million.
 - d. **The rate of inflation.** The base assumptions assume a 1% year on year increase on bed prices. However, assuming the current CPI rate of 1.9% inflation on an annual basis would increase the Stafford NPV from £2.6 million to £4.4 million and the South Staffs NPV from £9.3 million to £12.2 million. Should bed prices inflate at 0.5% per annum, the NPV for the Stafford site would reduce to £1.6 million and the South Staffs site would reduce to £7.9 million.
22. The project cashflows could be significantly different from these estimates depending upon the combination of the variables, either assumed or actual. Please see appendix 1.

MTFS Impact

23. The project is being considered in order to contribute towards the significant savings targets built into the current MTFS. In 2020/21 there is a savings target of £6.4 million linked to delivering cost effective care and ensuring that additional nursing capacity is securing value for money for older people. This target rises to £8.8 million in 2021/22, £11.3 million in 2022/23 and £13.8 million in 2023/24.
24. If the project were to proceed, the two sites are expected to deliver annual savings of approximately £0.5 million from the third year of operation (savings on current fee rates minus borrowing costs for two 60 bedded units). Greater efficiencies may be generated if the Council considers larger builds as demonstrated in Table 4 and Table 5. The actual size of the development will be confirmed in the final business case and may increase to take advantage of the greater efficiencies described above.
25. Furthermore, it is possible that the introduction of new capacity to the market reduces current admission rates, thereby generating additional efficiencies.

26. Change in external factors that could impact on the need of the service could include over the operational build timescale and present potential risks include;
- a. **Demographic change.** A decrease in older people populations that require this level of care. This currently seems unlikely as data suggests the overall number of people aged 65+ requiring care homes is estimated to increase by 75% by 2039 (Social care Institute for Excellence).
 - b. **Technology and medical advances.** The need for specialist care could decrease if cures for dementia and long-term illnesses are discovered. In addition, further advances in technology could impact the delivery of social care and empower people to remain at home. Again, it seems unlikely that this would completely mitigate the rise in the number of people requiring nursing care due to demographic change.
 - c. **National Policy Changes.** The financial thresholds to access social care have already decreased by 12% from 2010/11 to present meaning 40,000 fewer people are now eligible for public funded care (The Health Foundation). Further national policy changes could decrease the demand of individual eligible for social care support through the local authority. However, in this event the Council would have the option of selling beds to private clients.
27. Two potential sites in each area have been identified. These are Council owned. The site plans for these are Appendix 2-5 and analysed in Appendix 6.
28. These sites are all deemed suitable to meet people's social care needs – as set out in Appendix 6. Therefore, the proposal is that the criteria for determining a preferred site for each area are based on the cost of land, any risks associated from planning and build, and access to sites.
29. If approval to proceed is given at September Cabinet, the nursing homes should be operational in 2022/23 – see Appendix 7.

List of Background Documents/Appendices:

Appendices

June Cabinet item: [Development of Council Owned Older People's Nursing Homes](#)

Appendix 1 - Financial Analysis and Cash Flow Benefit of New Sites

Background Documents (Exempt)

Appendix 2 - Site Plan for Site 1

Appendix 3 - Site Plan for Site 2

Appendix 4 - Site Plan for Site 3

Appendix 5 - Site Plan for Site 4

Appendix 6 - Site Analysis

Appendix 7 - Build Timescale

Appendix 8 - LATC Costing Overview

Contact Details

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