

THE HIGHLAND COUNCIL

4 MAY 2006

Report by Director of Social Work

OUTLINE BUSINESS CASE

Agenda Item	
Report No	

1.0 SUMMARY

This report provides an outline business case, the purpose of which is to seek to ensure that the decision to procure care home services is based upon a robust strategic and financial analysis of the options available. It outlines that there is a sound business case for proceeding with the procurement option. Members are asked to note the content of this report.

2.0 Introduction

- 2.1 The Chief Executive delivered a “Contingency Planning” presentation to a meeting of the Sub Committee on 8 March 2006.
- 2.2 This presentation set out the options that would need to be considered by members in the event that the procurement process does not attract sufficient bids or where the bids returned are too expensive against Council benchmark costs.
- 2.3 The Chief Executive confirmed at this meeting that the contingency planning presentation would form the basis of an outline business case to be presented to members.
- 2.4 This outline business is being finalised. The information in this report is drawn from the Options and Contingency Report, which, due to the potentially commercially sensitive information contained therein, and in order to prevent the procurement exercise being compromised, is circulated as a pink paper. All figures are indicative at this stage and are subject to review prior to the final document being issued.

3.0 Analysis of the Strategic Context and Business Need

3.1 Introduction

- 3.1.1 The changing demographics in Highland present many challenges in planning the future provision of services for older people. There will be many more older people in the future than there are at present. These older people will also have different expectations about the type of services they will receive when they get older and become frailer. The Council must therefore plan for the increase in demand on services and plan for the provision of a different profile of services.
- 3.1.2 Older people want to stay at home for as long as possible. In the future therefore, there will be more older people wanting to stay at home. The Council must plan now for the increased purchasing of home care services.

- 3.1.3 There will still very much be a need for care home services. The future client group is likely to be frailer, as people are supported at home for as long as possible and enter in to care homes later, where this is considered appropriate to their needs.
- 3.1.4 The Council has a portfolio of 19 care homes for older people. These care homes are expensive to run and require refurbishment to improve the standard of living environment, comply with relevant legislation and ensure the availability of facilities fit for purpose for the next decade and beyond.
- 3.1.5 The Council will not receive any increase in funding over forthcoming years. Indeed, significant efficiency savings must be made.
- 3.2 Population Projections
- 3.2.1 It is widely recognised that the population structure both in Highland and in Scotland is changing and that the pattern of an increasingly ageing population continues to be projected.
- 3.2.2 By 2024, the General Register Office for Scotland project that the population in Highland will reach 218,894. This represents an increase of 7,554 people (3.6%) from the population of 211,340 at 2004. Of this population increase, it is projected that there will be 16,029 (37%) more people aged 60/65+¹ than currently reside in Highland. The increase in this age group is significantly higher in Highland than the projected Scottish average for 2024 (19.3%).
- 3.2.3 Of particular note is the increase of people aged 75+, which is estimated to increase by 79.9% by 2024. This increase in the frail elderly population will place increased pressures on demand for services.
- 3.2.4 In the short to medium term, the 60/65+ age group is projected to increase by 15.4% by 2010, and the 75+ age group increasing by 16.1%.
- 3.2.5 In terms of the anticipated demands within the older population, it is estimated that of the population, 2.4% of people aged 65-74, 7.4% of people aged 75-84 and 22.3% of people aged 85+, will have dementia. Specialist services will therefore need to be available to meet these needs.
- 3.2.6 The projected population increase by 2010 and 2024 are illustrated at **Figure 1** below.

¹ This 37% increase takes into account the change in retirement age in 2010 when retirement age changes from 60 to 65 for women.

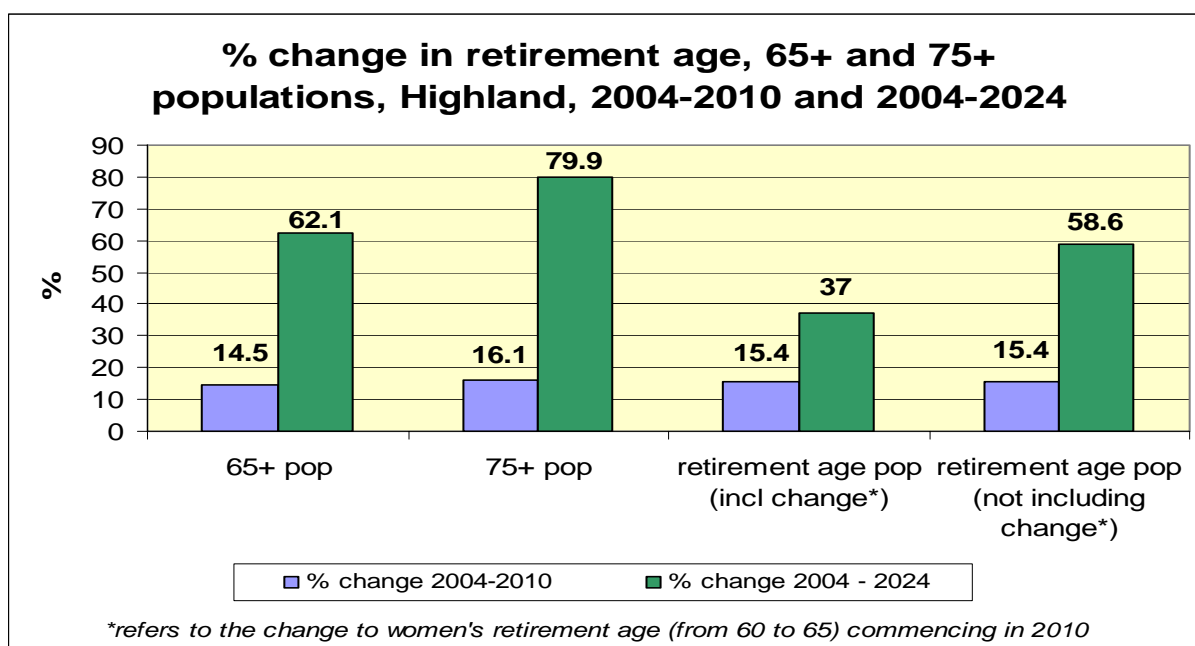


Figure 1

3.3 Highland Provision in Relation to the Scottish Average

3.3.1 Considering population projections is crucial to planning for future services. In establishing a wider picture of probable future need, it is helpful also to consult comparative Scottish averages on key services for older people to identify if further pressures may exist and to determine the extent to which services require to be rebalanced.

3.3.2 **Table 1** below sets out The Highland Council figures for day care, care homes, sheltered housing and home care services, against the Scottish average, as a rate per 1,000 of the population. This information confirms that in terms of day care services, the Council is marginally higher than the national average, care home provision is broadly comparable with the national average, and that both sheltered housing and home care services fall short of the national average for the provision of these services.

3.3.3 As older people wish to remain in their homes for as long as possible, there will be an increase in demand for the services which assist to support people to do so, such as home care, day care and housing for older people.

**Services for Older People
The Highland Council Provision in Relation to the Scottish Average**

	The Highland Council <i>(As a rate per 1,000 of the population)</i>	Scotland <i>(As a rate per 1,000 of the population)</i>
Day Care <i>(16+ age group)</i>	8.6	5.3
Care Home	39.0	40.7
Sheltered Housing <i>(over 65)</i>	32.3	43.9
Home Care <i>(hours per week)</i>	343.0	561.0

Table 1

3.4 Estimated Service Requirements by 2010

3.4.1 Using the foregoing information, the changes to service volumes to both attain the Scottish average and account for the 15.4% increase in older people by 2010, can be mapped out to illustrate the measured change required to be taken by the Council. This is provided at **Figure 2** below.

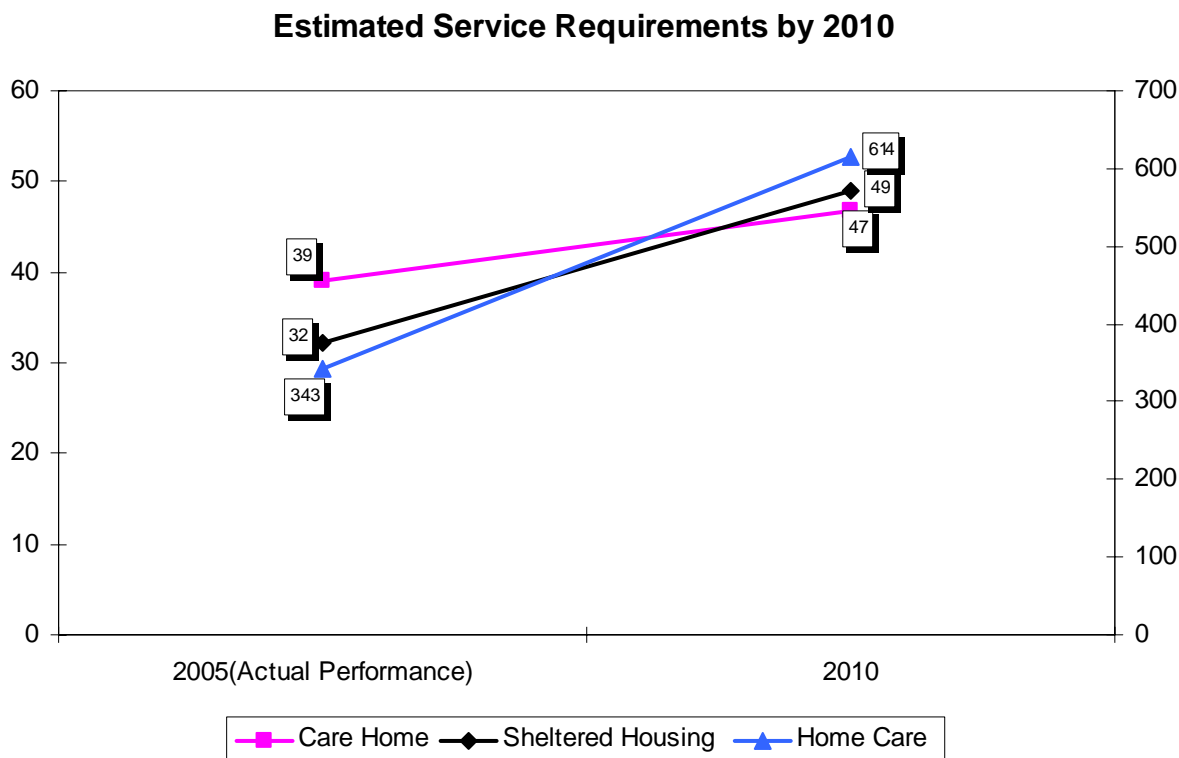


Figure 2

3.5 Care Home Services in Highland

3.5.1 The Highland Council currently purchases in the region of 1183 care home places for older people. The Council itself provides for 286 care home places (although only 82.5% of places are occupied). The Council therefore externally purchases 76% of services and itself delivers 24%.

3.5.2 The pattern of independent sector provision is primarily concentrated within and around the main settlements in Highland. The capacity of the independent sector care home market in Highland is 1615, delivered across 50 independent sector care homes. Across the sector, the market is operating at 94.2% occupancy (March 2006). Out of all the available independent sector care places, The Highland Council currently purchases 73.3% beds on a spot purchase basis. The remaining places are bought privately or by other local authorities, whose clients choose to receive care home places in Highland, for whatever reasons.

3.6 Budgetary Position

3.6.1 The budget outlook faced by the Council is the most challenging in recent years and the level of savings needed to balance the budget for the year ahead are of a level previously seen only in the early years of the Council. Savings of £6.841m require to be made across the Council during 2006-2007, with even more demanding savings, of the order of £20m, required in 2007-2008. Given this level of savings, all Services

are required take the necessary steps to ensure that the proposals identified are implemented and expected savings achieved. Services will need to consider contingency arrangements should there be a risk of savings not being achieved in order that the Council can manage within the agreed budget.

3.6.2 Within the context of this Council wide position, Social Work are experiencing their own pressures. The most recent set of management accounts for the service (covering the 11 months to the end of February 2006) show an overspend of £751,000 against budget, and this position must be recovered before the service embarks upon their attempts to secure the budget efficiencies in financial years 2006-2007 and 2007-2008. This overspend has arisen as a result of many separate pressures upon the service, but the single largest pressure arises from the demands on the service to provide support to people living in their own homes.

3.7 Working with the NHS

3.7.1 The Council is already working with the NHS across a range of issues relating to services for older people now and in the future and both agencies are exploring areas of further joint work, particularly around supporting older people to be healthy in the community.

3.7.2 In relation to the Joint Future agenda, there is significant joint activity currently being progressed, in relation to the required service redesign and reinvestment to meet need and improve performance against government and local targets, through taking account of projected population changes to 2024. Examples of joint initiatives include the rapid response service, the delayed discharge action team, the project in Nairn to prevent emergency admissions and the e-care project linked to developments in care management.

3.7.3 The NHS is represented within the officer governance arrangements overseeing the care home procurement exercise.

3.7.4 The need for palliative provision within care homes is currently being explored with the NHS and the availability of these services may form part of the specification of services to be secured by the Council through the care home procurement.

3.8 Summary of Strategic Context and Business Need

3.8.1 In planning the future profile of services the Council therefore needs to take cognisance of:

- a) The demography of Highland in 2024, and the projected increase in people aged 60/65+ (37%) and 75+ (79.9%);
- b) Older people wanting to stay at home;
- c) The need to ensure adequate levels of provision are available to meet the needs of future services users, both terms of the type of services available and the volume of provision;
- d) The budgetary pressures facing the Council over coming years;

- e) The requirement to deliver more services within current resource levels.

4.0 Overview of Existing Services Provided

- 4.1 The Council has many small care homes in rural locations. The average size of Council care homes is 14.7 beds and the unit cost of service delivery across all the care homes is £754 per person per week.
- 4.2 The profile of the care home assets varies. All of the care homes need work to be undertaken, to varying degrees, in relation to room sizes, the availability and size of en-suite facilities, corridor and communal bathing spaces, general accessibility within and to/from the facilities, sprinklers, fire alarms, additional and also swing free fire doors.
- 4.3 Refurbishment work has commenced and is progressing for some of the smaller care homes in rural locations, where there is limited or no alternative provision. The larger care homes within the more populated areas are proposed to be included within the tender.

5.0 Summary of the Council's Objectives

- 5.1 The range of objectives that highlight the business need and which inform the Council's required actions are identified as follows:
- 5.2 The Council's objectives are:
 - a) To modernise services for the benefit of older people;
 - b) To improve the quality of living conditions and ensure a better quality of life for older people living in care homes;
 - c) To ensure the availability of appropriate services for the next decade and beyond;
 - d) To secure quality services which meet National Care Standards, Fire Service, Disability Discrimination Act and other relevant legislative requirements;
 - e) To deliver flexible services which prevent the need for older people to move from residential on to nursing care and which can deliver for frailer residents in the future;
 - f) To free up resources by securing services at the best price;
 - g) To demonstrate best value;
 - h) To reduce costs in residential care;
 - i) To increase spend on home care with funds released from residential care;
 - j) To benefit from independent sector capital investment.
- 5.3 The key outcomes that the Council is seeking to secure, can be summarised as follows:

- a) Provision of services which meet the required standards;
- b) Availability of higher intensity and nursing services;
- c) Release of resources to invest in home care services;
- d) Availability of capital funding.

6.0 Options Appraisal

- 6.1 A total of six options have been explored as possible ways to meet the Council's required objectives/outcomes. Each option considered associated pros, cons, revenue and capital costs.
- 6.2 In each option, estimates of capital and revenue costs have been provided for both 2005-2006 and 2008-2009, to reflect current prices and those estimated for a reasonable build period for any new facilities.
- 6.3 The various options have been provided below:

6.3.1 Option 1 – Do Nothing

It is not considered practical to do nothing. This option has not been explored further.

6.3.2 Option 2 - Build New Care Homes to Same Size

Costs

The capital costs are estimated to be **£18,637,000** (2005-2006)/**£21,111,000** (2008-2009) and revenue costs (including loan charges) would be **£5,505,000** (2005-06)/**£6,002,000** (2008-09).

Pros

- Residents would continue to be cared for by the Council.
- Likely general support to this option.
- The sites of the current care homes could be disposed of, following the residents move to the new care home, and the capital receipts from their disposal, be used to off set the capital costs of the project.

Cons

- The Council would require to borrow funds to meet the capital costs, and would incur significant annual loan charges.
- Site acquisition costs would also be incurred.
- The Council would continue to experience high operating costs.
- A significant amount of funds would remain tied up in institutional care and there would be no opportunity to divert funds in to home care services.

6.3.3 Option 3: Build New Care Homes to Bigger Size (5 x 32 bed care homes)

The example that follows, has assumed there to be 1 new facility in Inverness, 2 in Ross and Cromarty, 1 in Lochaber and 1 in Badenoch and Strathspey.

Costs

The capital costs are estimated to be **£18,961,000** (2005-2006)/**£21,478,000** (2008-2009) and revenue costs (including loan charges) estimated to be in the region of **£5,528,000** (2005-06)/**£6,028,000** (2008-09).

Pros

- Residents would continue to be cared for by the Council.
- Likely general support for this option.
- The sites of the current care homes could be disposed of, following the residents move to the new care home, and the capital receipts from their disposal, be used to off set the capital costs of the project.
- The services provided would meet all required standards and deliver buildings for the future.

Cons

- The Council would require to borrow funds to meet the capital costs, and would incur significant annual loan charges.
- Site acquisition costs would also be incurred.
- Replacing the current 7 care homes with 5, will result in services being moved from areas where they are currently available.
- The Council would continue to experience high operating costs as any economies of scale from operating a larger unit are likely to be minimal.
- A significant amount of funds would remain tied up in institutional care. There would be no opportunity to divert funds in to home care services.

6.3.4 Option 4: Refurbish Care Homes

Costs

The estimated capital costs to refurbish the care homes would be **£6,927,000** (2005-2006)/**£7,847,000** (2008-2009). The estimated revenue costs (including loan charges) would be in the region of **£4,673,000** (2005-06)/**£5,059,000** (2008-09).

Additional one off costs would also be incurred of **£2,365,000** (2005-2006)/**£2,862,000** (2008-2009) for decant and ongoing costs of **£421,000** (2005-06)/**£510,000** (2008-09) would also be incurred in replacing lost bed provision under this option.

Pros

- The capital costs would be significantly less than those associated with new build.
- No site acquisition costs would be incurred.
- There is likely to be public support to the continued use of the existing buildings.

Cons

- There is likely to be continuing high maintenance costs as well as refurbishment costs to ensure that buildings remain fit for purpose.
- Decanting of residents would be required.
- Unlikely to be decant capacity in the independent sector market.
- It is expected that a number of beds would be lost as a result of the refurbishment, leading to higher unit costs.

6.3.5 Option 5: Mix of Rebuild and Refurbish

Costs

The estimated capital and revenue costs would range between the lowest and highest costs identified from options 2, 3 and 4 above.

Pros

As above.

Cons

As above.

6.3.6 Option 6: Procurement

Costs

As the tender process has not yet been conducted, there are no firm costs upon which to compare the Council's provision. From the current purchase price of independent sector provision however, it is reasonable and realistic to assume that tenders will provide prices for the delivery of quality services at significant less cost.

Pros

- The Council would not be required to find capital funds.
- Decant arrangements may not be required.
- Delivery of flexible services;
- Potential discount to the Council for block purchasing services over a long term period.
- Further efficiencies in single successful provider.
- Any new build proposals are likely to result in more efficient service delivery as the experienced sector apply their efficient operating model.
- The Council would be responsible for the admission criteria operated by the care home.
- The Council would actively monitor the quality of services provided.
- Residents and future service users could be involved in commenting on designs for any new build facilities.
- The services provided would meet all required standards and deliver buildings for the future.
- Funds could be freed up to invest in home care services.

Cons

- There is some public resistance to this approach.
- The process of change to a new provider may pose some problems in relation to staff retention.

6.4 A high level summary of the various options and the extent to which they meet the Council's key objectives, is provided at **Figure 3** below.

OPTIONS							
OBJECTIVES		1	2	3	4	5	6
		Do Nothing	New Build (to existing size)	New Build (to 32 bed size)	Refurbishment	Mix of Refurbishment and New Build	Procurement Exercise
	Meet Required Standards	X	✓	✓	✓	✓	✓
	Deliver Higher Intensity and Nursing Services	X	✓	✓	✓	✓	✓
	Release Resources to Invest in Home Care	X	X	X	X	X	✓
	Funding of Capital Investment	X	X	X	X	X	✓

Figure 3

6.5 The comparison of options highlight that the procurement route is the only option to deliver all the Council’s objectives, including a key objective of enabling investment in home care services.

7.0 Contingency Options

7.1 Pursuing the procurement route will involve tenders being sought, returned bids compared against the Council’s own estimated costs and a recommendation made to members following this evaluation process. In the event that there are no bids returned, or where the returned bids are more expensive than the Council’s estimated costs, there will be a need to consider contingency options. This would also apply if the procurement did not proceed.

7.2 In the event of such a situation arising, the other options from the above options appraisal would form the basis of the available contingency solutions and a report would require to be presented to members in relation to the options, estimated costs and associated implications.

7.3 Progressing to implement any of the identified contingency options in the event of an unsuccessful procurement, would require significant amendment of existing capital programmes and/or new resources to be identified by the Council. The scale of the

required resources has been highlighted earlier in this report.

7.4 In such an event, the Council would require to identify how such a level of resources could be generated. An outline of how the required resources could be acquired is provided below:

7.4.1 Increase council tax

a) An increase in council tax to fund the additional loan charges relating to new capital investment would range from **£6.00** (2005-2006)/**£6.79** (2008-2009) for refurbishment, to **£16.43** (2005-2006)/**£18.61** (2008-2009) for the provision of new facilities. Any other variations in operational costs (excluding loan charges) would also need to be considered in terms of relative impact on council tax.

7.4.2 Reconsideration of Council's agreed capital programme

a) The Council's agreed capital programme for the next five years could be reconsidered with a view to removing projects to free up capital funding to provide refurbished or new build care homes.

7.4.3 Reduction in budget to all services

a) The Council could seek to secure the required funding by reprioritising spending across the Council. Given the level of resource injection required and therefore the subsequent reductions to service budgets, this approach would lead to cuts in services across the Council and would have a significant impact on the level of services currently provided by the Council.

7.5 The need to pursue or implement any of the above options would pose significant challenges for the Council. Furthermore, the need to consider or implement these options would undoubtedly lead to a delay in delivering compliant facilities and may pose separate difficulties with regard to compliance with the Care Commission where no advanced and confirmed action plan is in place to meet the required standards by the required timescales.

8.0 The Way Forward

8.1 The procurement route has been identified as the only option most likely to achieve all of the Council's required outcomes.

8.2 Simultaneously to this procurement exercise, detailed work needs to commence in planning the strategic procurement of home care services to meet future needs and aspirations.

8.3 In order to achieve the Council's required outcomes, the Project Team, under the direction of the Project Board, will progress with the procurement process as soon as possible, seeking external advice as required and in accordance with the Council's Contract Standing Orders.

9.0 RECOMMENDATIONS

Members are asked to **note** the contents of this report.

Signature

Designation

Director of Social Work

Date

25 April 2006

Background Papers

1. Report to Housing and Social Work Committee, 25 September 2002, (agenda item 7. Towards a 20/20 Vision; Caring for People the Highland Way: A Strategic Review of Community Care Services for Older People)
2. Report to Housing and Social Work Committee, 19 May 2004, (agenda item 3(v) Social Work Capital Programme – Modernising our Care Establishments for the 21st Century)
3. Report to Housing and Social Work Committee, 10 November 2004 (agenda item 5iii “Update on Social Work Service’s Capital Programme”)
4. Elected Member Seminar, 13 April 2005
5. Report to Housing and Social Work Committee, 18 May 2005 (agenda item 2iii “Update on Social Work Service’s Capital Programme”)
6. Report to Housing and Social Work Committee, 10 August 2005 (agenda item 3iii “Update on Social Work Service’s Capital Programme”)
7. Report to Housing and Social Work Committee, 9 November 2005, (agenda item 5 “Modernising Services for the Elderly: Update on Second Stage Tender”)
8. Reports to Care Home Sub Committee on 20 December 2005
9. Report to The Highland Council, 2 February 2006 (agenda item 2, “Revenue Budget 2006-2007”)
10. Reports to Care Home Sub Committee on 16 February 2006
11. Reports to Care Home Sub Committee on 8 March 2006
12. Report to Housing and Social Work Committee, 15 March 2006, (agenda item 9, “Annual Uplift, Fees and Charges”)

Author/Reference