Adults and Children’s Committee
21 September 2017

Older People’s Accommodation: transforming bed-based care for older people and those with dementia and complex needs
Director of Adult Social Services

Call in deadline: Thursday 5 October 2017 (10 working days after the meeting)

Purpose
To consider the investment business case for development of a dementia nursing home for older people in Kingston.

Recommendations of the Portfolio Holder for Adults Social Care and Health

To resolve that a site from the Council portfolio is allocated for a specialist dementia nursing home for older people to be built by the Council and the Council contracts for the operation of the home with an experienced provider of nursing care - to which end:

(a) the Growth Committee is recommended to approve the asset management aspects of this recommendation (ref. para. 14 of the report);

(b) the Treasury Committee is recommended to approve the capital funding of £10.29m (ref paras. 51-52 of the report) to support the project;

(c) the Director of Adult Social Services is authorised to implement procurements for goods and services as described in para. 12 of this report. (Subsequent approval of the procurement business case and contract award will be undertaken in accordance with Contract Standing Orders through delegated authority to the Director of Adult Social Services in consultation with appropriate portfolio holders, and oversight from the Head of Commissioning.); and

(d) the Director of Adult Social Services is authorised to progress the project as described in paras. 11-13 of this report.

Key Points

A. In 2016 Council analysis demonstrated that increasing demand for older people’s residential and nursing care and tightening supply was making it more difficult and costly for the Council to find bed based care placements. Specific difficulties were identified in finding placements for older people with dementia and / or challenging behaviour. In September 2016 this Committee agreed that work be undertaken to explore the preferred option to address these challenges of: allocating or purchasing a site; building a specialist dementia care and nursing home and contracting for the operation of the home with an experienced provider of nursing care. In March 2017 the Committee agreed that the dementia nursing home project engage prospective services partners in an initial market consultation (soft market test) (ref. Annex 1) designed to explore: the market appetite for the Council’s proposed partnership model; financial modelling assumptions; and innovative approaches to service delivery and building design.

B. This report summarises the market response to the Council proposals and presents a financial business case for the project that has been developed and amended based on provider feedback.

C. The investment appraisal for the project (exempt Annex 2) indicates that if a dementia nursing home is developed in the line with the proposals in the report the
Council is likely to be in a better financial position than if it continues to rely on spot contracting for provision of all dementia nursing services.

**Context**

1. In summer 2016 Adult Social Care carried out an analysis of the local market for residential and nursing care for older people. The analysis demonstrated increasing costs and tightening supply of bed-based care with specific difficulties in finding placements older people with dementia and/or challenging behaviour.

2. The Council currently relies on spot placements (one-off commissioning) in the private sector market to provide most of the bed-based care it requires to meet statutory responsibility for care provision. Increasing demand for places from people who fund their own care and the lack of development of bed capacity aimed at the public sector means that reliance on surplus capacity in the private market is unlikely to be sustainable in the medium to long term (3-10 years).

3. Whilst private investors continue to develop beds aimed at people who fund their own care, nursing and/or residential home beds for the council-funded market on the scale required in Kingston are only likely to be built if the Council contracts for them:
   - either by letting a service contract for the required capacity with a provider
   - or by developing one or more higher acuity care/nursing homes itself or in a joint-venture with a partner or partners and using some or all of the new capacity for Council funded residents.

4. On 29 September 2016 the Adult and Children’s Committee considered the options to assure future supply of bed-based care for older people in the Borough and resolved that work be undertaken to further explore the preferred option of allocating or purchasing a site, building a specialist dementia care and nursing home and contracting for the operation of the home with an experienced provider of nursing care.

5. During winter 2016-2017 a project group chaired by the Director of Adult Social Care and Health developed an investment model for an optimally sized (number of beds/efficiency of operation) dementia nursing home and shaped an initial market consultation (soft market test) to test the Council analysis and approach.

6. On 21 March 2017 the Adult and Children’s Committee resolved that the dementia nursing home project engage prospective services partners in an initial market consultation (soft market test) designed to explore:
   - market appetite for the Council’s proposed partnership model
   - financial modelling assumptions.
   - innovative approaches to service delivery and building design.

7. A Prior Information Notice (PIN) of procurement of goods and services without Call for Competition was advertised on 3 April 2017 via the London Procurement Portal inviting prospective providers of i. design and build services, and ii. operational delivery of nursing and care services to submit expressions of interest in the project. Further information was provided on the micro-site RBKingston.London (this information is still accessible and will be developed should the Committee agreed to proceed to procurement of services).

8. Prospective providers of services were invited to an information event on 4 May 2017 at which the Council presented its approach to developing and operating a nursing home with estimates of projected cost and income and the proposed
arrangement for partnering with an experienced provider of nursing care to run the home.

9. Provider feedback at the event and responses to the questionnaire issued by the Council’s Commissioning Team were used to refine the Council’s investment appraisal and assess the viability of the Council approach to development of a dementia nursing home.

Proposal and Options

10. This report describes the financial modelling developed by the Council and tested with providers during the Initial Market Consultation. A summary of the market response is presented in this report and the amended financial model attached at Annex 2 EXEMPT.

11. The investment appraisal for the project indicates that if a dementia nursing home (‘the Home’) is developed in the line with the proposal the Council is likely to be in a better financial position than if it continues to rely on spot contracting for provision of dementia nursing services.

12. It is recommended that the Council proceed to procure the design and build, and operational services to develop the Home with authority delegated to officers to contract for goods and services required to deliver the project in accordance with the Council’s finance and procurement regulations.

13. It is further recommended that the Council explore the establishment of a Local Authority Trading Company (‘the Company’) to operate the Home and provide high quality, affordable care to people who fund their own care in addition to placements funded by the Council.

14. A key element of the proposal is the allocation of a site from the Council property portfolio development.

Investment Model for Development of a Dementia Nursing Home

15. The investment model developed by the Council for the dementia nursing home is provided in Annex 2 (EXEMPT). Publication of the detailed model could affect the outcome of one or more of the procurements proposed in this report.

16. A presentation of the key aspects of the income and cost estimates for the project will be made at Committee to support Member deliberations.

17. The model draws on the Knight Frank Annual Assessment Of Operating Performance In The UK Care Home Sector 2016. This market-leading report includes analysis of occupancy, fees and profitability on a regional basis.

18. This approach blends the most highly regarded private investment analysis with RB Kingston's intelligence on local rates for bed-based care model. It is based on an 80 bed home and uses:

• Income projections based on the average rate paid for a new nursing placement for an older person achieved by RB Kingston Adult Social Services in 2016-17 and the rate currently charged by a leading non-profit dementia nursing homes in South West London for people fund their own care.

• Costs are based on those incurred in 2016 by efficiently run nursing homes of optimal size (80-100 beds) in London.
● A Commercial loan interest rate charged by the Council for start-up capital for the Home.
● A Commercial lease rate charged by the Council to the Company for use of the Home.

19. The model has been refined in light of comments and feedback from suppliers during the Initial Market Consultation [ref paras. 25-42 of the report, particularly paras. 39-41].

Innovative Aspects of the Investment Proposal

20. Key aspects to this investment proposal are:

i. The Council will build and own the Home.

ii. The Home will be operated by the Council or a wholly Council owned Local Authority Trading Company (the Company). Day to day services will be be provided on behalf of the Company by a commercial nursing services partner (the Service Partner). The Service Partner will employ all staff and deliver services in the Home at cost plus a management fee as a % of income.

iii. The Home will trade services to the Council and to people who fund their own care.

21. This arrangement allows the Council to:

● generate trading revenue to support the development of the Home.
● blend income from public sector clients (RB Kingston, Kingston CCG and, if necessary other Boroughs and CCGs) with income from Kingston residents who pay for their own care.
● meet the needs of all residents, not just those who are eligible for Council funded care
● develop and trade other income generating services to meet the growing demand for dementia support in South West London.

22. Investment risk will be reduced by engaging an experienced provider of nursing care incentivised to meet the operating targets for the Home and generate income to cover the cost of developing the Home.

23. In entering the market for dementia nursing care the Council is addressing the growing strategic risk of market failure to provide essential services. The Home itself will generate income sufficient to cover the cost of development and operation. The Council as landlord will charge the Home a commercial lease for use of premises.

24. The Director of Adult Social Services has obtained initial expert advice on potential trading arrangements and the commercial structure required to achieve the Council objectives. Subject to a decision to proceed by this Committee, further more detailed work will be undertaken to determine the most economically advantageous position for the Council within the legal and financial regulations within which the Council operates.
Consultation

- Outcome of the Initial Market Consultation

25. The Provider information event held in the Guildhall on 4 May 2107 was attended by 16 prospective providers of services. The Council’s overall approach and cost and income modelling were shared with providers. A questionnaire was issued to all providers after the event.

26. A copy of the questionnaire is provided at Annex 1 to this report.

27. Nine providers completed the questionnaire by the closing date of 11 May 2017.

28. This level of interest from providers is reasonable for an early stage consultation. If the project proceeds to the procurement stage the Council can expect a good level of competitive response from the market for both the design and build elements and service elements of the project.

Summary of Analysis of Provider Response

(a) Market response to the Council’s proposed contractual arrangements for developing and operating the Home.

29. Prospective providers were invited to respond to the Council’s intention to build and own the Home and let a separate contract for day-to-day management and operation of the Home.

30. The Council’s general approach was understood by providers and all respondents indicated an interest in bidding to provide services should the Council proceed to procurement. Seven expressed an interested in providing design and build services only; two expressed an interested in providing both design and build services and services for the management and operation of the home.

31. The Council’s early engagement of both prospective designs and build partners and service partners was welcomed as a way of ensuring that the home met the required operational specification and could be operated efficiently.

Conclusion:

32. The Council’s general approach is understood by the market and the Council can expect a competitive response to an invitation to tender.

33. The procurement proposed by Adult Social Services in consultation with the Council’s Procurement and Property Services Teams will ensure early and continuing engagement of operational service expertise in the design of the Home.

(b) Innovative approaches to service delivery and building design.

34. The Council’s approach to ownership and operation of the home is innovative. There were no substanttive additional innovations suggested by providers.

35. Three providers noted the Council intent to trade services and blend income from publicly funded and privately funded placements in order to operate the Home and indicated that this was an important consideration for optimal operation of beds, and
that the design and siting of the Home was an important consideration in appealing to self-funding clients and their families.

36. One provider made comments on energy and quality standards these will be an element in the building design.

Conclusions:

37. The Council’s overall approach, including blending income from people who fund their own care and publicly funded placements reflects current market developments.

38. The Home should be designed to the meet high standards of resident requirement and operational efficiency (early discussions have taken place with the University of Stirling Centre for Excellence in Dementia Design (CEDD) with the intention of engaging the CEDD in the design phase of the project).

(c) The Council’s financial modelling assumptions and what it will take to establish and maintain a successful, high quality dementia nursing home in the Borough.

39. The Council provided modelling of the size, build cost and site requirements for a home of approximately 80 beds and an income and cost model based on this home as the basis for discussion with providers.

40. Overall the Council’s figures were regarded as reasonable and achievable.

41. Amendments were suggested for:

- **site requirement** - the minimum site requirement has been adjusted from 0.4Ha to 0.5Ha
- **build cost** - the estimated construction cost has been increased to £9.45m

Conclusion:

42. The initial market consultation has given officers confidence that the capital and revenue figures used in the initial investment business case are sound. Provider comments have been used to adapt the investment and operating model which is presented as an **EXEMPT Annex 2** to the report.

**Further Testing and Development of the Council Approach**

43. In addition to the Initial Market Consultation the Council’s plans have been shared with an existing service partner to the Council; Royal Star and Garter Homes. This charity runs a newly built 67 bed nursing home in Surbiton. The home has recently achieved Level 1 accreditation of the Dementia Care Matters Kitemark indicating that the home is demonstrating ‘exceptional person-centred dementia care of the highest quality of life level’. Only 1% of care homes within the UK have achieved a Level 1 distinction.

44. The income and cost modelling and blended occupancy proposed by the Council is highly consistent with the operational pattern at the Royal Star and Garter home in Surbiton and gives Adult Social Care confidence that the finance model can support the development of high quality dementia nursing care in Kingston.
Sharing Learning with Other Boroughs

45. The Adult Social Care Project team is sharing project learning and analysis with other London Boroughs. Commissioning leads from 17 other Boroughs attended a workshop event in Kingston on 5 July 2017 at which the Council’s analysis and learning to date was presented.

46. The Council’s experience in the care market and the difficulty in finding bed-based nursing care for older people with dementia is common across London and a number of Boroughs have expressed interest in following the development of the project in Kingston.

Procurement Approach & Timescale

47. Subject to a decision by this committee to accept the recommendations in the report and agreement of Growth and Treasury committees to allocate funds, procurement of services to implement the decision will be in two parts:

48. **Element 1 - Service provider of Dementia Care** (day-to-day management of the Home and provision of care and nursing services). A competitive exercise under the Light Touch Regime of the Public Contracts Regulations (PCR) will be carried out to appoint a preferred provider. The preferred provider will have opportunity to input to the Design and Build of the Home (Element 2) prior to contract award.

49. **Element 2 - Design and Build of the Home.** This element will be procured as an open procurement. The Service Provider of Dementia Care will have input on the specification to ensure the building can be operated efficiently to provide the highest standard of dementia care.

50. **High Level Procurement Timetable** : The following timetable is proposed:

   **2017**
   
   October - Service Provider (Element 1) - Tender Document Finalisation & Contract Notice
   
   November - January - Initial Evaluation (Element 1)
   
   December - Design & Build (Element 2) - Tender Documentation
   
   **2018**
   
   January - Issue Tender (Design & Build)
   
   February - Tender Evaluation (Elements 1 & 2)
   
   March - Award Recommendation (Elements 1&2) - Award Contracts
   
   April - Provider Mobilisation
   
   **2020**
   
   (Subject to planning timetable) Home Commissioned
Resource Implications

51. The approach recommended in this report will require a capital allocation of £10.29m (build, fixtures and fittings, project costs) with a net benefit to the Council in line with the investment business case at Annex 2 to this report. Final costs will be subject to the outcome of one or more procurements (paras. 48 and 49 of this report).

52. Non-capitalised project expenditure will be met within existing funds.

Legal Implications

53. Initial expert legal advice on potential trading arrangements and the commercial structure required to achieve the Council objectives has been obtained. Subject to a decision to proceed by this Committee, further more detailed work will be undertaken to determine the most economically advantageous position for the Council within the applicable legal and financial regulations.

Risk Assessment

54. The key project risks and mitigating actions are identified in the table below:

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<th>Risk</th>
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| a. Build (& other setup costs) exceed estimates.                     | Moderate   | Moderate | i. Build and setup estimates have been modelled against an initial design, benchmarked against recent local developments, and tested with build and design partners during the initial market consultation.  
ii. Contract prices for the development and setup of the home will be agreed following a competitive procurement process, the Council confidently expects there to be healthy competition for the contract and to achieve prices at, or close to estimates. |
| b. Income and costs used in this model are not achieved              | Moderate   | Moderate | ii. An experienced commercial partner will be contracted to manage service delivery within defined quality, income, and cost parameters.  
ii. Modelling is based on moderate costs. The Council will be more ambitious in seeking best-in-class performance in cost control. |
| c. Future unit cost of dementia nursing care in the general market is lower than those projected | Low        | Low    | i. The costs to RBK is modelled on 16/17 average costs for a dementia nursing placement and a low/moderate rate for people funding their own care. Prices would need to fall below this to impact the business case. There is no indication that prices of nursing care in London will fall. |
| d. Potential benefits from alternative uses of the capital sum deployed are significantly better than those offered by this project. | Moderate   | Moderate | i. The Council is making this investment in order to address the risk of strategic market failure (see risk e.) and a rapid increase in cost of care in the market and/or of emergency alternative provision. Alternative uses of resources deployed (site, capital borrowing) have been assessed (disposal, housing) and none achieve a sufficiently high... |
### Equalities Impact Assessment

55. An initial screening assessment has been undertaken. A full EQIA will be completed prior to implementation.

### Road Network Implications

- none at this stage

### Environmental and Air Quality Implications

- none at this stage

### Background papers

- Report to the Adults and Children’s Committee - 29 September 2016
  [https://moderngov.kingston.gov.uk/documents/g7997/Public%20reports%20pack%20Thursday%2029-Sep-2016%2019.30%20Adults%20and%20Childrens%20Committee.pdf?T=10](https://moderngov.kingston.gov.uk/documents/g7997/Public%20reports%20pack%20Thursday%2029-Sep-2016%2019.30%20Adults%20and%20Childrens%20Committee.pdf?T=10)

- Report to the Adults and Children’s Committee - 21 March 2017

- Care Homes Trading Performance Review 2016, Knight Frank