EPH Modernisation Programme Board - Minutes

Weds 30 April 2014 –2.30-4.15pm

Present: Ruth Barton, Alice Beckwith, Tracey Carter, Paul Edmondson-Jones (Chair), Ian Floyd, Stewart Halliday, Andy Heslop, Melanie Hopewell (Minutes), Steve Tait (for Debbie Mitchell), Graham Terry, Max Thomas, Steve Waddington, Chris Weeks.

Apologies: Debbie Mitchell.

<u>Minutes of last meeting</u>

1. The minutes of the last meeting on 27 March were agreed.

<u>Introduction</u>

2. Paul reminded the meeting of the key decision that needed to be reached today – whether to proceed with the current procurement exercise <u>OR</u> to suggest an alternative option to Members. The project team had been asked to produce a brief financial and qualitative analysis of two options to help Board reach this decision.

    - Option 1 – continuing with the current procurement exercise and building two care homes and a community village
    - Option 2 – gradually closing our EPHs and purchasing all new placements from the private sector

3. It has taken several meetings to arrive at this information – including sessions with Board on 18 and 27 March, and with Ian/Paul on 23 April. Paul reminded everyone that as this information (and presentation format) had been jointly agreed and signed off by Graham and Finance ahead of this meeting we should not re-visit discussions from previous meetings about the assumptions behind the info/data provided. This represented the best possible information we could produce in the time available and Board **must** reach a decision today as it is over 10 weeks since we paused the dialogue process with bidders.

    EPH Board 30.4.14 Financial he... Impacts - Option 1 and Option ...

<u>Options Analysis</u>

4. Graham briefly introduced the summary sheet of the financial analysis. It shows that both options have the potential to realise significant savings over the life of the contract, although for Option 1 this will be dependent on mitigations being realised. Both options have significant transition costs. Option 2 could potentially realise double the financial savings by Year 15 but then, once the capital repayments stop, Option 1 makes an additional £1M saving every year thereafter. Steve Waddington commented that if we were a private business we would be taking a longer term (25-30 year) view on this.

5. Ian asked for clarification around the difference in transition costs between the two options. Graham explained that the EPH budget is made up of £2.8M (net budget) + £2.6M projected income from self-funders (approx 25% of our residents) and part-contributions from other residents. In Option 1 we will be keeping our three dementia/high dependency care homes full and across the other homes managing resident numbers down to 142 permanent places before decanting to the two new care homes. This means we will lose income from a proportion of the 64 beds we purposefully keep vacant. In Option 2, however, we would be ceasing admissions across all seven homes and so the loss of income would be both greater and felt more quickly.

6. In terms of the possible mitigations, Tracey queried the achievability of a £2M reduction on build cost. Pre-mitigations the cost of capital borrowing is based on £17M – a £15M build cost + the £2M the project has always been expected to pay for the Lowfield site. Two of the bidders have suggested that the build costs could range between £11-£15M so in the 'with mitigations' analysis the capital borrowing costs are based on £15M - £13M build cost (a mid-point) + the £2M for the Lowfield site. Tracey also asked how realistic the mitigation around negotiating profit levels down would be. Andy Heslop's view was that it was certainly something worth having a discussion with bidders about. He felt that they would flex to a point, but that their main preoccupation will be where the balance of risk sits.

7. Graham provided some further context around the journey we have taken to get to this point, and the challenges facing the project.

    - The project's engagement of residents, relatives, staff, older people, voluntary sector partners, and other key stakeholders, in the vision and design of the care home modernisation programme was hailed at the time, and is a blueprint for our current re-wiring approach. We have invested 3 years work and £400k project costs to get to this point.
    - The project has already taken out £1.62M of revenue savings as a result of the closure of two care homes (Fordlands and Oliver House) and a reduction of staffing levels.
    - The project is funding the capital repayments out of its net budget and income.
    - The project is also paying £2M for the 6 acres of land at Lowfield (above the market rate).
    - The project is also covering the cost of community placements for frail elderly people who will not be using these new schemes.
    - And yet, despite all of the above, the project **still breaks even in Year 3** (if the mitigations are achieved), and will deliver significant savings over the life of the contract, with the promise of even greater savings from Year 16 onwards when the capital repayments fall out of the equation. And....the Council will own two significant assets in the care homes that in time it would have the option to sell if it so chooses.
    - And, in terms of outcomes, the project will deliver on the vision that includes:
        - Two modern care homes providing lifetime care
        - Guaranteed access to the type of specialist dementia/high dependency care places that we most need

– A high level of specialist dementia design and care support that is fully in keeping with York's ambitions to become a dementia-friendly city
– A household model that facilitates flexible, individualised care
– A community village at Lowfield comprising of 85+ units of housing accommodation for older people and a community hub
– Continuity of care for current residents who will move to the new homes with other residents and staff that they are familiar with.

8. Graham recognised that there are a number of other risks and hurdles that may yet lead to the project falling over (e.g. Burnholme site issues) but argued that – given all of the points made above – there should be enough evidence here to persuade the Board to choose Option 1 over Option 2 and to continue the procurement exercise with a view to delivering the vision we have a Cabinet/public mandate to deliver.

9. Paul also summed up from his perspective. Whilst recognising that Option 2 makes greater financial sense (delivering as it would greater savings over the first 15 years, and delivering them more quickly) it comes with an unpalatable level of risk and potential negativity. The timing of this decision is crucial too coming, as it does, at a point when we are about to publically launch a 're-wiring public services programme' founded on transforming services and doing things differently, based on co-production with our staff, Trade Unions, York's residents and other key stakeholders. Given the significant public consultation and co-production involved in getting the EPH project this far, if we were to back-track now our credibility would be questioned. Paul also described other factors in favour of Option 1:

   - Lack of confidence that there are/will be sufficient places available in the market.
   - Concerns about our continued ability to deliver quality care in times of uncertainty about the future.
   - It will deliver facilities that are light years ahead of our current care homes and 'raise the bar' of care provision in the city. The provider should have no difficulty in attracting self-funders into such facilities.
   - Offers lots of positives to build on, where Option 2 presents a raft of risks and negatives to manage over a protracted period of time.

10. Ian recognised that Option 1 was far more preferable to Option 2 qualitatively speaking, but he still had reservations about it because of the risks involved and the significant hurdles still needing to be overcome in order to deliver it. Option 1 is still only affordable in the long-term if the mitigations play out as we would hope and, even then, there are still significant short-term costs to manage. We will need to make Members clear that even if we proceed with Option 1 there is still a high risk that the procurement could fall over and that it cannot be delivered. For this reason, Ian felt that the project team also needs to be working up another, alternative option that could be presented to Members in that scenario. Option 2 will simply not be palatable to Members.

11. Stewart questioned the approach of Option 1 as he could not see other local authorities embarking on this type of investment. Graham advised that some authorities that were investing major sums in Sheltered with Extra Care schemes as an alternative to

residential care were now experiencing difficulties either financially or in having too much reliance on one solution to meet future demand. There are also factors which are unique to York in our region, namely the dominance of the self-funder market. Homes in York have 96-98% occupancy levels and therefore CYC has little influence over the market in comparison with more deprived areas where homes are heavily dependent on the Local Authority. The analysis of Option 2 supports this dynamic and why the EPH project has always been tasked with guaranteeing access to the beds we need for York citizens. The JRF review of research concluded that there will always be a need for dementia care in residential and nursing settings, but the threshold at which someone moves into that care can be raised to reduce the demand for it. In York we have four Sheltered with Extra Care (SHEC) schemes (that are under review) and a vibrant private market. Option 1 can remove the risk of CYC being unable to meet its statutory responsibilities by being unable to access sufficient places.

12. Tracey raised again the option of refurbishing our existing care homes as a cheaper alternative. Graham reminded the Board that Ian Asher's team had provided a detailed analysis of the 'extend and refurbish' option for the original Cabinet report in July 2011. It concluded that to create the en-suite rooms and wider corridors expected in a modern care home would require significant work to the structure of the buildings and would make our already small homes (by today's standards) even smaller and more unviable. In addition it would not reduce our running costs or deliver the income required to repay the capital cost of refurbishment, nor meet the demand for dementia and high dependency care beds.

Board Decision

13. The Board agreed that we should re-engage with the bidders and test out their appetite for the mitigations we are proposing for closing the affordability gap. The challenge for the bidders is to demonstrate that they can make this affordable over the life of the 15 year contract. It was felt that we should be able to gauge quite quickly whether any or all of the bidders are still interested and willing to engage in meaningful dialogue. If they are, it was recognised that we will need to urgently re-consider how we resource the project in order to ensure a far slicker dialogue process than we have managed to date.

14. The Board also asked Adult Social Care/the Project Team to work up an alternative Plan B. Option 2 presented here was felt to be unpalatable but it was recognised that – even if bidders do re-engage – there is still a considerable risk of the procurement falling over (because of affordability issues, the Burnholme site issues, etc). The Board feel we need a more viable Plan B to present to Members should the procurement fail for any reason.

15. Paul will update and James and Linsay on the outcome of today's Board meeting. We will then look to update Members further after our initial meetings with the bidders. These will hopefully have happened ahead of the next Board meeting on 13 May.

Date of next meeting

16. Tuesday 13 May, 2-4pm.