

Residential Care for the Elderly in Southend – outcome of Delaware / Priory Consultation and the future of the 2 homes

Additional information received from Cllr Woodley on 22nd October

Southend-on-Sea Borough Council

Corporate Director of Director of Support Services
to

Pre-Cabinet Scrutiny

on
8th October 2013

Report prepared by: Ron Woodley
Councillor Thorpe Ward

Agenda
Item No.

The Establishment of Local Authority Trading Company in relation to the Future Care of the Elderly at Priory House and the possibility of continuing the Economic Model for Delaware House.

A Part 1 Public Agenda Item

1. Purpose of Report

Following the recommendations of a working party to close Priory House, this report offers an alternative approach to safe guard the current residents, safeguarding approximately 40 FTE jobs and recommends a way forward. This is to establish a new Local Authority Trading Company initially for Priory House and then to investigate the possibility to include Delaware House into the company. The following report sets out the case for the creation of another trading company for trading Professional Care Services for the Elderly.

2. Recommendations

- 2.1 To note the business plan in the establishment of a Local Authority Trading Company for Professional Care Services for the Elderly. (Southend-on-Sea Trading Corporation – STC).**
- 2.2 To note the business plan and make recommendations to the Cabinet in the establishment of a Local Authority Trading Company for Professional Care for the Elderly in a home deemed a centre of excellence, Southend-on-Sea Professional Elderly Care Services. (SPECS)**
- 2.4 To approve the business plan and establishment of Local Authority Trading Company for professional care services, In respect of Priory House, subject to financial examination of the council 151 officer.**

3. Background

- 3.1 10th January 2012 Cabinet, based on a report on the establishment of Local Authority Trading Companies, approved the creation of two trading companies**
 - **Telephony Services – STC Southend Trading Corporation**
 - **Community Equipment Services – Southend Equipment Supplies**

- 3.2 These two companies have been created in accordance with the Local Authority Good and Services Act 1970 – establishment of a Local Authority Trading Company (LATC).
- 3.3 Further research to be undertaken into the viability of a third trading company for the selling of Professional Services.
- 4.0 Professional Services

The proposed LATC provides a vehicle by which professional services currently operated by the Council could trade with non-public bodies should the opportunity arise. These services include (but are not limited to) the following:

- Financial Services
- Accountancy
- Payroll
- Exchequer services
- Internal audit
- Human Resources & Training
- Recruitment
- HR advisory
- Training
- Property Services
- Design
- Project management
- Client side management
- Legal services
- ICT support
- Procurement
- Health & Safety

For illustrative purposes based on income forecasts it is anticipated the Company would have the following expenditure and turnover:

Please refer to appendix 1 and 2

5. Benefits of LATCs

The establishment of the LATC will provide the following benefits:

- ✓ Ability to trade on the Council's professional care services for the elderly.
- ✓ A Company would be able to use the reputation and brand of Southend-on-Sea Council;
- ✓ Provides the ability to trade whilst remaining owned by the Council;
- ✓ Allows the Company to develop its social care skills;
- ✓ Provides the ability to trade whilst remaining owned by the Council;
- ✓ Allows the Company to develop its commercial skills;

- ✓ The Council would continue to have an influence on the use of surpluses and future strategic direction of the Company in the short to medium term;
- ✓ The Company could be used as a vehicle for the externalisation of other Local Authority services in the future within Adult Social Care;
- ✓ The Company would only require reasonable start-up capital (i.e. working capital) which could be provided by the Council on a commercial basis.
- ✓ Once established to move all adult care within the council control under the trading company umbrella.

6. Other Options

In order to trade with non-public sector bodies a company needs to be formed. A workshop was held to ascertain those services that would be able to generate additional income these two services were considered the most viable. It is proposed to bring forward other trading opportunities in the future.

7. Reasons for Recommendations

The Local Government Act 2003 requires approval by Cabinet of the Business Plan of any proposed Local Authority Trading Company.

8. Corporate Implications

8.1 Contribution to Council's Vision & Corporate Priorities

These proposals will contribute positively to the following Council priorities 2011-12:

- Maintain improved outcomes for vulnerable adults and older people
- Encourage the prosperity of Southend-on-Sea and its residents
- Deliver strong, relevant and targeted services that meet the needs of our community;
- Positive public relation to residents;

8.2 Financial Implications (refer to appendix 3)

The LATC will require working capital to finance initial capital expenditure and cash flow prior to receipt of customer income. We have estimated this requirement to be a facility of £275,000. Compared with the cost associated with the councils preferred option of closure in redundancy costs (**refer to appendix 3**) of £533,000 and the loss of 45 FTE jobs actual 58 plus corporate job losses which cannot be recovered then this option will repay the initial finance.

The income flow and therefore financial benefit to the Authority is not just the profit after tax but also those charges and contributions the Company is making which is income that would not otherwise be generated and offsets existing revenue expenditure. The financial benefit to the Authority is summarised in **appendix 1 under total support charges**.

There will be a capital expenditure requirement and is referred to in appendix 4.

8.3 Legal Implications

The Local Authority Trading Companies are formed under the powers provided by the Local Government Act 2003. The companies once established will operate under the Companies Act 2006.

8.4 People Implications

The saving of 58 jobs (43 FTE) would be seen as a positive contribution by the council to the economic viability of the town in these most testing financial times. All employees will remain on their existing terms and conditions.

There are no specific human resource implications for the establishment of the Southend-on-Sea Professional Elderly Care Services SPECS; LATC at this time.

8.5 Property Implications

None as the retention of Priory House as a care home whilst still remaining as a capital property asset for the council.

8.6 Consultation

To date no consultation has been undertaken with regard to these proposals as they do not represent a change in service to users or the transfer or change in the terms and conditions of staff.

The proposal to establish the Southend-on-Sea Professional Elderly Care Services SPECS; has been discussed with officers for their opinion and advice with no discerning comments and there have been no objections raised

8.7 Equalities and Diversity Implications

None

8.8 Risk Assessment

The key delivery risks and their likely impact are summarised below along with mitigating actions. A robust risk management plan will be developed.

SPECS				
Ref	Risk	Likelihood	Impact	Mitigating Actions / Factors
1	Increased market competition from private sector	H	L	<ul style="list-style-type: none"> ▪ Secure barriers to entry through market share
2	Failure to secure forecasted	M	H	<ul style="list-style-type: none"> ▪ Growth assumptions very prudent.

SPECS				
Ref	Risk	Likelihood	Impact	Mitigating Actions / Factors
	private clients			
3	Insufficient on-going working capital and cash-flow difficulties	M	L	<ul style="list-style-type: none"> ▪ Forecast of cash flow requirements are of medium value.
4	Insufficient management capacity	L	L	<ul style="list-style-type: none"> ▪ Mitigated by being part of a specialist area of experience and being part of a larger Local Authority Group
5	Failure to exploit potential opportunities	M	H	<ul style="list-style-type: none"> ▪ Relevant services to be given income generation targets & to be closely monitored.

8.9 Value for Money

The proposals provide the opportunity to generate additional income that otherwise would not be available to the Authority.

9. Background Papers

Cabinet Paper 10th January 2012

10. Appendices

10.1 Appendix 1

Financial Analysis

10.2 Appendix 2

Revenue and redundancy Cost business Plan

10.3 Appendix 3

Breakdown of Redundancy Costs.

10.4 Appendix 4

Capital Programme

10.5 Appendix 5

Report on Condition Survey and Site Visit

10.6 Appendix 6

Business Plan Briefing Paper

10.7 **Appendix 7**

Professional Services-Local Authority trading Company

10.8 **Appendix 8**

Briefing Paper

**APPENDIX 1
PRIORY HOUSE BUSINESS PLAN - FINANCIAL ANALYSIS**

Inflation	Expenditure	Care Home		Day Centre		Combined		Plan 14/15	Plan 15/16	Plan 16/17
		Actual 12/13	Actual 35 fte	Actual 12/13	Actual 8 fte	Actual 12/13	Actual 12/13			
	Actual Staff 44/14	641,974		111,522		753,496		703,058	710,089	717,189
	Salaries							9,072	9,253	9,346
	Vacancy Allowance	8,982		2,879		11,861		4,383	4,427	4,471
	Overtime/cover pay	4,297		0		4,297		0	0	0
	Statutory sick pay/protected pay	225		96		321		48,513	48,998	49,488
	Allowances	46,984		6,380		53,364		94,766	95,713	96,671
	National Insurance	81,719		15,040		96,759		0	0	0
	Salaries superannuation	66,325		3,504		69,829		859,792	868,480	877,165
	Agency staff	850,506		139,421		989,927		1,115	1,120	1,125
	1% Total Staffing Costs	1,104		558		1,662		0	0	0
	Professional Indemnity Insurance	900		450		1,350		1,115	1,120	1,125
	Recruitment	2,004		1,008		3,012		25,000	25,000	25,000
	Associated Staff Costs	24,507		4,300		28,807		20,856	18,750	18,750
	1% Repairs & maintenance contracts	18,917		-		18,917		4,820	5,060	5,312
	5% Energy cost (gas & electricity)	4,370		-		4,370		24,394	24,994	25,618
	5% Water services & rates	1,447		35,913		37,360		2,895	2,967	3,042
	2.50% Sundries /Transport	2,755		-		2,755		13,676	13,676	13,676
	2.50% insurance premises/Premises provision	13,676		-		13,676		13,920	14,269	14,626
	Tools/Equipment/Furniture	13,250		934		14,184		40,771	41,790	42,835
	2.50% Cleaning materials	38,806		5,083		43,889		663	670	676
	2.50% Catering/food/beverages	2,645		291		2,936		1,198	1,228	1,258
	1% Photocopier/printing costs	1,140		1,120		2,260		3,000	3,000	3,000
	2.50% Telephone & associated costs	3,000		-		3,000		151,193	151,404	153,793
	Subscriptions	124,513		47,641		172,154		-	-	-
	Total Miscellaneous Costs	57,328		18,460		75,788		18,750	18,938	19,127
	Support Service Recharge	47,885		11,836		59,721		-	-	-
	1% Departmental Support Charge							-	-	-

Inflation	Expenditure	Care Home		Day Centre		Combined		Plan		
		Actual	12/13	Actual	12/13	Actual	12/13	14/15	15/16	16/17
		35 fte	8 fte							
	Actual Staff 44/14	61,732	0	0	61,732			50,000	50,000	50,000
	Depreciation/Building rent	166,945	30,296	197,241				68,750	68,938	69,127
	Total Support Charges			0				13,520	13,520	13,520
	Capital Revenue Charge							1,094,370	1,103,462	1,114,730
	Total Expenditure	1,143,968	218,366	1,362,334						
	Revenue - Current Value									
	Income - Care Home - 30 residents	366,459		366,459				976,529	1,153,714	1,257,610
	Income - Day Centre - 12 clients		13,170	13,170						
	Total Income	366,459	13,170	379,629				976,529	1,153,714	1,257,610
	Actual Net Profit / (Loss)	(777,509)	(205,196)	(982,705)				(117,841)	50,252	142,880

**APPENDIX 2
REVENUE BUSINESS PLAN/REDUNDANCY COSTS**

CURRENT	12/13 Actual	13/14	14/15 Plan	15/16 Plan	16/17 Plan	
Care Home 28 Bed) Based
Southend Rate			380,120	178,880	44,720)
Hospital Step Down/Up			148,512	297,024	297,024) at
Independent Care			416,000	665,600	915,200)
			<u>944,632</u>	<u>1,141,504</u>	<u>1,256,944</u>) current rates
Bed taken up as planned						
Revenue						
Southend Rate			17	8	2	at £430 p/wk
Hospital step down (patient hotel)			3	6	6	at £952 p/wk
Independent care			10	16	22	at £800 p/wk
Day Care	13,170		140,400	140,400	140,400	
TOTAL REVENUE	<u>253,847</u>		<u>1,085,032</u>	<u>1,281,904</u>	<u>1,397,344</u>	Gross

Contingency @ 10%	108,503	128,190	139,734
Net Revenue	976,529	1,153,714	1,257,610
Cumulative Earmarked reserves for Capital Investment	(117,841)	(50,252)	92,628
Redundancy Costs 3.5 staff			£33,057
Council Planned			
Redundancy Cost			£468,000
Redundancy Cost			£65,000
Net difference			£499,943

There will be Corporate Redundancies to be included in both plans

APPENDIX 3 - REDUNDANCY COSTS

Council planned redundancies = 35 fte posts	468,000	Care Home
Council planned redunancies = 10 fte posts	65,000	Day Centre
Total Revenue Costs Council planned = 45 fte posts	533,000	Combined
Revised Plan Costs = 3½ posts	20,057	Total

APPENDIX 4 - CAPITAL PROGRAMME

Item	Year 0-3	Year 3-5	Year 5-10	Total
	£	£	£	£
Roof	150,000			
Boilers		150,000	250,000	
Electrical		13,000	110,000	
Lift Upgrade		78,000		
Lift (new) not necessary				
Fire detectors	9,000			
Ventalation to toilets	7,000			
Vanity units			32,000	
Kitchen	3,000			
Total Capital Requirement	169,000	241,000	392,000	802,000
Revenue implications	13,520	19,280	31,360	
Cumulative	13,250	32,800	64,160	

**APPENDIX 4
CAPITAL PROGRAMME**

ITEM	YEAR 0-3	YEAR 3-5	YEAR 5-10	TOTAL
	£	£	£	£
Roof	150,000			
Boilers		150,000	250,000	
Electrical		13,000	110,000	
Lift Upgrade		78,000		
Lift [New] Not necessary	-	-	-	
Fire Detectors	9,000			
Ventilation to toilets	7,000			
Vanity Units			32,000	
Kitchen	3,000			
TOTAL CAPITAL REQUIREMENT	<u>169,000</u>	<u>241,000</u>	<u>392,000</u>	<u>802,000</u>
Revenue Implication	13,520	19,280	31,360	
Cumulative	13,520	32,800	64,160	

PRIORY HOUSE REPORT ON THE CONDITION SURVEY AND SITE VISIT

It is not possible to express an opinion as to the competence of the report other than in general terms. To critically comment on the conclusions of the report would require a fresh survey which is clearly impossible. What I can say is that the breadth of the report is reasonable. The external works, the fabric, the structure, foundations, finishes and services are all covered and specialists called in where required with one exception which I refer to later. There is however a general point to be made, the structural survey has not been completed by a chartered structural engineer. If I want a consultant to advise me I want a fully qualified and experienced one.

As to what the report shows I have the following comments to make; Firstly it has to be acknowledged that the building is 50 + years old. It is towards the end of its design life. However those blanket judgements apply to so many buildings and are not of themselves sufficient reason to write it off. That argument also applies to elements within the building and I raise this because the mechanical, electrical and lift services* have been written off as life expired and require replacement at some £720,000 – almost 75% of the total cost. I would have expected to see a considered appraisal of the services in those circumstances to justify that level of expenditure.

The second point to make is that the report represents an indictment of the standard of maintenance in the Council, an indictment in terms of the failure to routinely monitor the buildings condition and thereby take timely action to prevent greater deterioration and therefore more costly repairs. This indictment continues in showing up poor workmanship and/or poor supervision of maintenance work. The report shows clear photographic evidence of long term outstanding defects and innumerable examples of defective/sloppy repairs. It is to be hoped that the Council will give careful consideration to the need for a more structured and systematic approach to maintenance in the future.

We can only be grateful that the residents appear to have received better care than the building.

Having stated that the building is coming to the end of its design life this does not mean that the building is not capable of a continued useful life as a care home. This sort of sloppiness does not give any credit to the authors of this report.

During this inspection there were clear evidence of general neglect on the outside of the premises, although the structure is clearly fit for purpose the lack of detailed maintenance does not reflect favourably on the council or officers in applying due diligence to the building and outside housekeeping where there are instances of broken furniture etc. lying in situ and not removed from site and this even related to the garden shed showing signs of rot which had electrical equipment still being stored inside.

This general neglect even extended to the cutting of grass which at the time of my inspection was clearly in need of attention and areas of pathway either covered in moss or a hazard for anyone to walk on.

As to the outside of the building itself there were a number of instances of redundant holes that have been left and not filled after the removing pipe work or pipe clips that have been either removed or not in situ in the first place, piles of broken brick work or damage to walls that have been left to create further structure problems in the future. Doors and frames not being repaired or painted and are now showing signs of rot. Painted metal poles or hand rails where the paint is peeling of and showing bare metal.

I cannot explain fully in a report the extent of neglect of the outside of the building and the surrounding grounds relating to the care home. Clearly whoever is responsible for the general upkeep of the area needs educating and this also covers areas such as the boiler/ plant rooms where obsolete parts and packaging have been left behind adding to the feeling of neglect.

The condition survey was carried out in November 2012 and was requested by the head of service in line with the work being undertaken by the working party. When asked about the last time a detailed condition survey was carried out the reply was not in working memory.

A number of photos show poor installation/ workmanship of remedial work to the building. This also indicates poor/inadequate supervision. What evidence is there that this is an isolated/ exceptional case or is this situation typical of the Council's building maintenance approach.

Moving on to the roof, it seems apparent that this is original when the care home was built in the middle sixties, in my reckoning that makes the roof in excess of 46 years old, way past it's sell by date and as my detailed report from 1998 indicates, has had its problem in relation to leaking and being patched from that date.

In contrary to other Councillors statements that the boilers are virtually at the point of total collapse, I believe this is an incorrect statement and although the boilers are past the recommended life expectancy this is only by 3 years and again problems of loss of heating can be related back to February 1999 with similar problems then as now. The general consensus is that the boilers are capable of a further life span of between 3 and 5 years.

There are further examples of general lack of maintenance to the basic fabric of the building and other external sundry items all of which should have been carried out in a routinely way and would have avoided the scale of the current problems.

Therefore in conclusion to this part of my report there are annual mechanical inspections, quarterly to the lift and 5 yearly to the electrical elements of the building. The report on the condition report of Priory House leads to more questions about the quality of maintenance of other capital assets that the council is responsible for, I believe this should be investigated further to ensure that these assets are protected in the future.

Regardless of the outcome of the Priory home issue; there are serious deficiencies in the Council's Asset Management strategy which need to be addressed. Asset management means just that: managing the property portfolio to maintain or enhance its value and ensure the safety and comfort of the users be they office workers, children in schools or elderly people in care homes. How officers can produce tables on life expectancy of components having singly failed to adhere to the requirements is beyond me especially having underspent on the priority/urgent repair budget (normally the first excuse for lack of maintenance). Maybe the way the parts of the Council are structured needs to be looked at so that building maintenance is seen as an integral and essential part of the asset management/facilities set up.

Therefore the above should be treated as a courtesy in keeping council members and various officers abreast of my findings and will form part of my final report on the future development of the building and the financial mismanagement in the past of the maintenance of Priory House Care Home.

Finally the condition survey provides only part of the information on which to make a judgement about the building and the service it provides. How is that service to be provided in the future if the building goes? What are the future cost implications of alternatives? What is the land on which the building sits to be used for? What are the cost implications for that? These issues need to be explored and finances assessed before irrevocable decisions are made.

In Conclusion

I am concerned that if the Council's budgetary based decision to pursue the planned closure of Priory House proceeds this will have a significant and detrimental effect on the health and wellbeing of many residents.

It appears to me from information provided, that the Council's decision to proceed with its preferred option to close Priory House is, in part, based on the Council's inability/unwillingness to fund future maintenance works, the cost and nature of which, were 'identified' by the Council's in-house Survey. The quality of the data and figures produced by such an in-house survey must be influenced by the quality of the brief given to those undertaking the survey and by a lack of any expectation upon them to produce figures to support any particular outcome. Having produced an 81 page detailed survey document the authors have, I presume for ease of reading for the Task and Finish Panel and residents families, summarised and presented their findings as a one page attachment.

Having had the opportunity to review the detailed survey report provided it becomes increasingly difficult not to view with scepticism the nature of, and priorities attached to, certain works 'identified' at Priory House and as a consequence to question the resultant sums of money needed and their time scales. Ignoring for now the numerous items of a largely aesthetic nature and the questionable classification and priorities attached to many items, it is the 4 specific major elements i.e. Roof, Lift, Electrical Wiring and Boiler Plant which account for the bulk of the £0.8 million pound funding estimate over the next 10 years.

Whilst in a world without budgetary constraints all the major works identified could be carried out and within the time frames outlined. There could be an alternative to simply replacing/renewing all major items. Therefore it may not be unsafe or unreasonable to continue (apart from the roof) as previously been prepared to do for some time and that is to repair and make do as and when required.

I would also suggest that numerous minor items as identified e.g. wallpaper/cracks/etc. fall under routine maintenance and the works and estimated costs shown in the report could be managed by the creation of a 'work to schedule' for implementation within a reasonable time frame by the Council's existing maintenance employees and at a considerably lower cost. If this somewhat more reasonable and pragmatic approach to the on-going maintenance issues at Priory House were applied, whilst clearly not a solution to revenue funding matters. This above would at least contribute to a situation whereby existing residents could be allowed to live out their days at Priory House. (Not withstanding a revised business strategy for the future).

It would avoid a sad indictment on the Council if the words and assurances offered by those put forward to publicly represent them are subsequently shown to be hollow and disingenuous and I can only hope that the ultimate decision taken can accommodate a more caring approach toward those residents in place at the time this process began in summer of 2012.

Ron Woodley

Independent Councillor Thorpe Ward

Introduction

Southend Borough Council has entered into the arena of traded services as part of the initiative to sweat assets and generate income. As part of this we can offer the following elderly care facility which will attract large savings to the council and eventually income generation.

Priory House

As an Arms-Length trading company Priory House will be in a position to exploit the increasing age and health profile of Southend-on-Sea. The initial investment in capital will in return enhance the council's reputation as a provider of excellence in elderly care.

Local Authority Trading Company

Cabinet has approved the establishment of a Local Authority Trading Company (LATC) ¹.to provide services to the public and private organisations.

The LATC will provide a separate trading company that has been registered as a Private Limited Company with a name of Southend Trading Corporation Limited; its registration number will need to be registered.

Its core offering will include:

- The provision of care for the elderly in a centre of excellence and be a model for other care homes in the independent sector.
- There may be a possibility to expand into providing expert advice to the independent sector for additional income. Although this has not been included in the business plan.
- The opportunity to include Delaware House in the company model.

Financial Forecast

Profit & Loss Account

The budget profit and loss account for 2014-15, 15/16 and 16/17 is set out below. The income forecasts are based on predictions of residents against a margin of 90% of residents in care. If the idea of a trading company is adopted then the forecast revenue will be accelerated to improve the first year results.

The following does not allow for debtors at year end or any consideration for VAT.

	3 year forecast		
	2014/15	2015/16	2016/17
Revenue	£976,529	£1,153,714	£1,257,610
<u>Expenditure</u>	£1,094,370	£1,103,462	£1,114,730

¹ Office of the Deputy Prime Minister (2004): *General Power for Local Authorities to Trade in Function Related Activities Through a Company – guidance on the Power in the Local Government Act, 2003*. Plus the later guidance related to changes in the Corporate Performance Assessment Framework Communities and Local Government (2007) *Amendments to Paragraphs 1-30*. The Government has recently proposed extending the power to all relevant local authorities following an impact assessment and the demise of the CPA Framework in March 2009. See CLG *Local Authorities' power to trade following the end of categorisation under CPA*, October 2009

Overheads & Support services

It is anticipated that the surplus revenue after year 3 will be moved into earmarked reserves for future capital spending on Priory House.

These figures incorporate that after the first 3 years of trading there will be the repayment of the initial loan of £275,000 for the initial cash flow

There are opportunities to be allowed in these figures for the possibility of apprentice care workers and use Priory House as a seed bed for future carers.

Overheads & Support services

The contribution to departmental and corporate overheads will be based upon the requirement of the asset management team.

The LATC will require working capital to finance staff prior to receipt of customer income. We have estimated this requirement to be a facility of £275,000.

Income Flow to Authority

The income flow and therefore financial benefit to the Authority is not just the profit after tax but also those charges and contributions the Company is making for staff time, which is income that would not otherwise be generated and offsets existing revenue expenditure. The financial benefit to the Authority is summarised below.

Income flow into the Council	2014/15	2015/16	2016/17
Rental of Priory House	£50,000	£50,000	£50,000
Full cost recovery Recharge of staff	£18,750	£18,938	£19,127
Total income flow into SBC	<u>£68,750</u>	<u>£68,938</u>	<u>£69,127</u>

Marketing

The service will primarily be selling its services to individuals. After this has been established and we have a settled service, there will be a marketing campaign launched within the community for the inclusion of Delaware House into the trading company.

The service will be promoted as follows:

- Direct mailing
- Communications within the local community as a beacon of excellence.
- Presentation will also be given at the above if possible with the advantages and cost savings being the main drive of the campaign i.e. "Why wouldn't you move to STC a beacon of excellence in care"
- Details would be distributed at local business events including promotional events by the innovation centres or seedbed centres.
- Use of Google adwords
- Local press advertising



Professional Services - Local
Authority Trading Company

Outline Business Plan

October 2013

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Executive Summary

This document sets out the LATC Business Plan in respect of professional care services provided by the Council. It is proposed to transfer existing services into the LATC in relation to providing services to residents and will be directed via the Company and the Council will recharge in respect of any costs incurred. This LATC provides a vehicle whereby opportunities for income generation can be pursued as they arise.

The services to be provided by this LATC include (but are not limited to) the following:

- Financial Services
 - Accountancy
 - Payroll
 - Exchequer services
 - Internal audit
- Human Resources & Training
 - Recruitment
 - HR advisory
 - Training
- Property Services
 - Design
 - Project management
 - Client side management
- Legal services
- ICT support
- Procurement
- Health & Safety in respect to the provision of care for the elderly;

This LATC will purely provide a vehicle through which Council services are able to trade. It would not have or require permanent management or overheads.

For illustrative purposes based on income forecasts it is anticipated the Company would have the following turnover:

	<u>Year 14/15</u>	<u>Year 15/16</u>	<u>Year 16/17</u>
Income	£ 976,529	£ 1,153,714	£ 1,257,610

Based on the above it is anticipated the following additional income can be generated for the Council.

	<u>Year 14/15</u>	<u>Year 15/16</u>	<u>Year 16/17</u>
Income Flow to Local Authority / reserves for capital investment	£ (49,091)	£ 119,190	£ 212,007

We believe the establishment of a LATC for Professional Care Services provides the following benefits:

- ✓ Ability to exploit commercial opportunities and generate additional income for the Authority;
- ✓ A Company would be able to use the reputation and brand of Southend Council;
- ✓ Provides the ability to trade whilst remaining owned by the Council;
- ✓ Allows the Company to develop its social care skills;
- ✓ The Company would only require reasonable start-up funds capital (i.e. working capital)

Introduction / Background

The Council is seeking to generate additional income by trading its services as a care provider to individuals. Whilst the Goods and Services Act 1970 provides the Authority with the ability to trade with other public bodies in order to trade with private organisations and individuals the Authority would need to establish a Local Authority Trading Company (LATC).

An LATC has the following features:

- Power to trade provided by Local Government Act 2003;
- Guidance – ODPM July 2004;
- Amendments to Paragraphs 1-30 – DCLG April 2007;
- Power withdrawn if fall below this rating;
- Only trade in 'functional related' activities;
- Able to use 'well being' powers – whereas activity or service likely to promote or improve economic, social or environmental well being of its area;
- The power cannot be used to authorise trading in anything which an authority is statutorily obliged to do in relation to a person;
- Charging is only limited to recovery of cost of providing services whereas trading can be at a profit;
- Trading only exercisable through a company.

Production and acceptance of a Business Plan is a requirement of the Guidance developed by central Government for the establishment of such companies by Local Authorities¹. This document sets out the LATC Business Plan in respect of professional and 'back office' services provided by the Council. It is not proposed to transfer existing services into the LATC rather activity in relation to trading with third parties will be directed via the Company and the Council will recharge in respect of any costs incurred. This LATC provides a vehicle whereby opportunities for income generation can be pursued as they arise.

¹ Office of the Deputy Prime Minister (2004): *General Power for Local Authorities to Trade in Function Related Activities Through a Company – guidance on the Power in the Local Government Act, 2003*. Plus the later guidance related to changes in the Corporate Performance Assessment Framework Communities and Local Government (2007) *Amendments to Paragraphs 1-30*. The Government has recently proposed extending the power to all relevant local authorities following an impact assessment and the demise of the CPA Framework in March 2009. See CLG *Local Authorities' power to trade following the end of categorisation under CPA*, October 2009

Service Offering

The proposed LATC provides a vehicle by which professional care services currently operated by the Council could trade with individuals should the opportunity arise. These services include (but are not limited to) the following:

- Financial Services
 - Accountancy
 - Payroll
 - Exchequer services
 - Internal audit
- Human Resources & Training
 - Recruitment
 - HR advisory
 - Training
- Property Services
 - Design
 - Project management
 - Client side management
- Legal services
- ICT support
- Procurement
- Health & Safety

This LATC will purely provide a vehicle through which Council services are able to trade. It would not have or require permanent management or overheads.

SWOT Analysis

The strengths, weaknesses, opportunities and threats of the business are summarised in the table below:

Strengths	Weaknesses
<ul style="list-style-type: none"> • Council reputation & reliability • Services already established • Economies of scale • Managerial capacity • Medium start up costs 	<ul style="list-style-type: none"> • Uncertainty of potential opportunities and market • Lack of marketing expertise
Threats	Opportunities
<ul style="list-style-type: none"> • Other organisations offering similar services • Reputation risk • Need to ensure full cost recovery 	<ul style="list-style-type: none"> • Provides vehicle to exploit income generation opportunities that otherwise would be unavailable

Financial Projections

Introduction

Financial forecasts have been prepared for the first 3 years of operation. These figures are purely illustrative – as it is difficult to accurately forecast the income levels as it will tend to be opportunistic – and demonstrate how costs will be charged and recovered. These forecasts and the assumptions underlying them are set out below.

Revenue & Expenditure

The illustrative revenue and expenditure is set below.

Revenue & Expenditure Account

	<u>Year 14/15</u>	<u>Year 15/16</u>	<u>Year 16/17</u>
Income	£ 976,529	£ 1,153,714	£ 1,257,610
<hr/>			
Direct Costs:			
Cost of services	£ 1,094,370	£ 1,103,462	£ 1,114,730
<hr/>			
<hr/>			
<hr/>			

Overheads

Contribution to Departmental and
Corporate Overheads

£ 68,750 £ 68,938 £ 69,127

**Earnings Before Interest,
Taxation, Depreciation &
Amortisation (EBITDA)**

£
(£117,841) £ 50,252 £ 142,880

**Contribution to reserves
cumulative**

(£117,841) (£67,589) (£75,291)

Income

The income figures provided are purely illustrative and are based on a 100% mark up of the direct cost of services.

Direct Costs

The direct cost of services is based on full cost recovery of time and materials of services provided, as per appendix 1.

Overheads & Support services

The contribution to departmental and corporate overheads is based on the service charge from financial services and rent.

Working Capital

The LATC will require minimal working capital to finance administrative costs. We have estimated this requirement to be a facility of £ 275,000. This facility would need to be provided by the Council on a commercial basis.

Taxation- to be advised

Income Flow to Authority

The income flow and therefore financial benefit to the Authority is not just the profit after tax but also those charges and contributions the Company is making which is income that would not otherwise be generated and offsets existing revenue expenditure. The financial benefit to the Authority is summarised below. Although after 5 years it is expected that the gross profit would be in the region of £142,880 per year in addition to the income flow to the local authority.

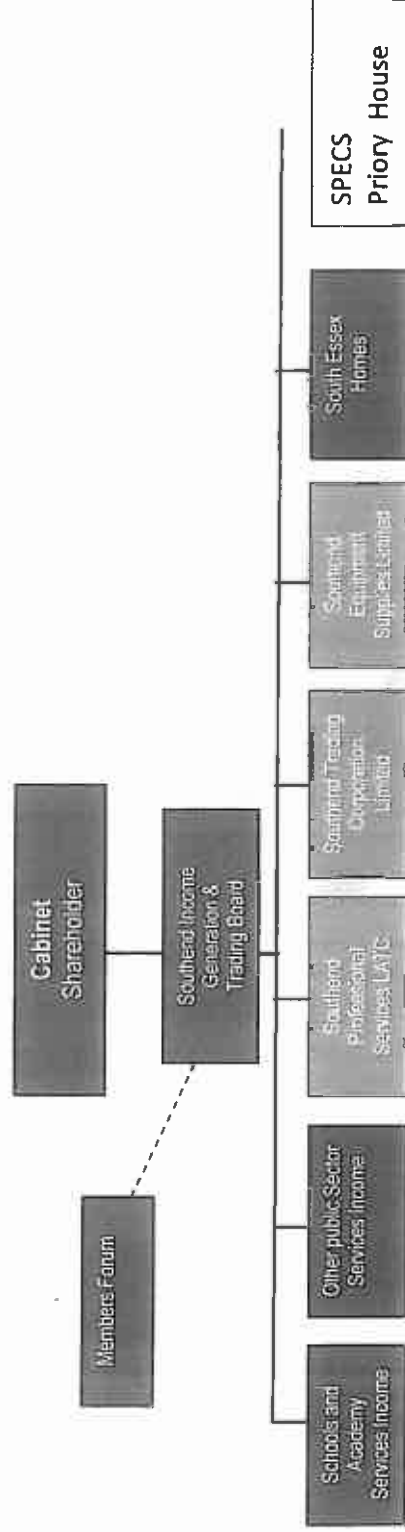
	<u>Year 14/15</u>	<u>Year 15/16</u>	<u>Year 16/17</u>
Income Flow to Local Authority	£ 68,750	£ 68,938	£ 69,127

Following Years as guidance will be year 4 = £69,818 year 5 £70,516 year 6 = £71,221 +1% onwards, this assumes full pay back of start up capital and full payment of capital investment by year 10 of the plan.

Structure & Governance

The LATC will be a registered company under the Companies Act 2006. As such we require a Board of Directors. The 100% shareholding would be held by the Cabinet on behalf of Southend on Sea Borough Council.

It is important that the arrangements for this LATC are compatible with the overall arrangements for managing Southend's wider income generation activity. It is summarised in the diagram below.



Governance Arrangements

The key functions, responsibilities and membership are shown in the table below.

Function	Roles & Responsibilities
Council shareholder	<ul style="list-style-type: none"> Exercised by Cabinet Confirmation of key appointments

	<ul style="list-style-type: none"> • Dividend distribution • Capital investment decisions • Performance scrutiny
Southend Income Generation and Trading Board	<ul style="list-style-type: none"> • Key Strategic Council Directors • Strategy Approval • Budget & forecast approval • Performance Review
Board of Directors	<ul style="list-style-type: none"> • Director of Corporate Services • Strategy formulation • Budget setting • Service operations • Business development

There are a number of miscellaneous governance and legal issues that should be noted:

- The LATC will be subject to the corporate Value Added Tax and Corporation Tax regimes; not the local authority regimes. Therefore, it will be necessary for the company to make its own arrangements to manage its taxation.
- The company will be subject to the Data Protection Act 1998 and will be required to register with the Office of the Information Commissioner under the Act.

- The provision of 'State Aid' by the Council to the LATC is limited and therefore finance extended to the company must generally be at market rates and the Council must not subsidise the company.

Risks

The key risks along with potential mitigation are set out below.

Ref	Risk	Likelihood	Impact	Mitigating Actions / Factors
1	Failure to secure forecasted private new clients	M	L	<ul style="list-style-type: none"> ▪ Growth assumptions very prudent
2	Failure to exploit potential opportunities	M	H	<ul style="list-style-type: none"> ▪ Relevant services to be given income generation targets & to be closely monitored
3	Increased market competition from private sector	H	L	<ul style="list-style-type: none"> ▪ Secure barriers to entry through market share
4	Insufficient ongoing working capital and cash-flow difficulties	M	L	<ul style="list-style-type: none"> ▪ Medium working capital requirements
5	Insufficient management capacity	L	L	<ul style="list-style-type: none"> ▪ Mitigated by being part of larger Local Authority group

Financial Plan

Briefing Paper/Assumptions

The purpose of this briefing paper is to outline the assumptions in the financial plan going forward for Priory House. As stated if the Pre-Cabinet Scrutiny believes that this could be a way forward it could make recommendations to the cabinet as an alternative solution to the closure of Priory House Care Home.

If adopted, then the Scrutiny Committee to set up a restructured committee to look into these possibilities for the future of Delaware House on the Priory House model.

Background

In 2010, the office for National Statistics (ONS) estimated that the total population for Southend-on-Sea was 165,300 and this is forecast to grow to 170,700 by 2015.

The proportion of the population aged 65 and over is 18.5% (30,700) and is expected to rise to 19.3% (33,700) by 2015. This is higher than the regional average of 17.7% (source: projecting Older People Population Information website).

The vast majority of older people live active and independent lives or they receive their help and support from family members or other unpaid carers. Of the current 30,700 people aged 65 and above, only 2,668 were being helped to live independently at home. A further 1,586 people were living in care homes; approximately 900 of these people had arranged their own care, these people are the market that Priory House will be aiming for and is set to increase to 1,043 by 2015.

It should be noted that this is the golden generation that have generated wealth and in the authors' opinion are capable of funding their individual care in the final stages of their lives. This situation I believe will be the case for the next 20-25 years, the average optimum stay in the home should be based upon 2 years with 3 years being the maximum length.

The main assumptions to be considered are as follows:

- It is recognised that Priory Care Home is an elderly care facility of excellence and is considered that it has set an example to other care facilities within the town.
- That Priory Care Home will be re-structured as a Trading Company

- That ultimately Priory Care Home will be a 30 bedroom facility and will be achieved with minimum funding.
- That the Priory Day Care Centre will be incorporated into the main management structure of the trading company.
- The breakdown of offering care facilities and revenue funding will be on the basis of 22 bedrooms at fully funded at £800 per week to the private sector, 6 bedrooms at fully funded at £952 per week as a step down facility to Southend-on-Sea Hospital or a combination of both but delivering the same level of revenue and finally 2 bedrooms to Southend-on-Sea Council for residential care. This will be delivered over a 3 year period to achieve the full annual revenue.
- That there will be funded by the council of 12 day-care residents at a cost to the council of £225 per week per day care resident.
- All staff associated with the financial plan will be TUPE across on the same terms and conditions.
- The revenue is based upon realistic uptake of residents and that revenue will grow with market forces, but for the purpose of this report will remain static.
- There will be a net saving cost of redundancies of £499,943
- Expenditure costs to grow as listed in appendix 1
- Initial Capital project funding as in appendix 4.
- Initial working capital/cash flow funding as in appendix 7.
- The possibility of placing solar panels on the roof of Priory House to be considered as a possibility of reducing energy costs and capital costs in the future.
- To consider using Priory House as a seed bed for training future carers.
- Staffing implications to be reported verbally at the scrutiny meeting and the implications attached to this report.
- As a facility of excellence there could be a reduction in contract monitoring by the council as Priory House has staff already in place that are fully compliant.
- After the initial capital injection of funds to the requirement of the maintenance to the roof, all other capital requirements will come from the reserves gained from year 3 of the plan.

It should be noted that due to the publicity on Priory House closure, this has had a detrimental effect of residents wishing to be house. There will be a need to have a positive publicity campaign to counteract the situation.

Priory House Review by Laing & Busson

Summary Page 1

Summary – We do not think it offers a viable option. Reasons:

- On page 4 of their report, they state they do not know the room sizes. This is a final last years of life plan. Not a long term residential care home plan.
- The fees are not top end of the range, but middle of the range fees. The lack of en-suite facilities is made up of excellent care facilities. Managers and staff believe these revenue charges are achievable.
- The plan assumes a 90% occupancy rate. Note 100%.
- Day care will be separate, but under one management structure.
- The loss of 3.5 F.T.E. jobs are not in the care staff. That is to remain as excellence.
- The reduction of non-staff costs are not too optimistic.
- It does allow for staff and facilities to manage the organisation.
- There is no disagreement between the council or the plan in urgency of major capital expenditure.

Page 2 of Review

The fees quoted in the plan have been obtained by the Director of Health and are as follows:

Costs are per day bed

Acute hospital setting	£219
Community hospital	£252
Residential care home	£136
Nursing home	£132

Local average cost per bed day £184.94 (variation 20% above to 22% below) used as step up and step down facility.

Priory House will increase to 30 beds. Already has the rooms available.

Day care will be separate, but under one management

Page 3 of Review

- Incorrect statement that the repairs and refurbishments deemed necessary by the council will be delayed.
- Care home survey – fees in Southend-on-Sea range up to £1,200 per week with one care facilitator per 7 residents. Priory plan equates to one care facilitator per 4.25 residents. This is to sustain the excellent quality of care.

Page 4 of Review

- Does not assume 100% occupancy only 90%.
- Residents expectations – are for end life care and it is the quality of care not the facilities that are of interest.
- Refer to page one, where they state owing to the room sizes: - yet state here they do not know the room sizes.
- Priory House does have spacious room sizes.

Page 5 of Review

- Quoted as saying that the plan envisages reductions in care costs. This is not the case.
- There are no reductions in care staff and the rate of staff care facilitators = 4-25 at maximum occupancy against the private sector of 7 per resident.

Pages 6/7 of Review

- Miscellaneous costs. Used inflation rate of 2.5% and 1% for staff costs.
- Achievability. Quoted a reduction of non-staff costs to be 17% when actually the plan shows a reduction of 8%.
- Major saving. Quoted a reduction of 38% in expenditure of sundries and transport. This is incorrect as the savings in the plan are 17%.
- The plan proposes a 78% reduction in photocopier/printing costs. This is correct as there will be a saving in combining the two offices and removing the printer/photocopier.
- Only covers accounting and auditing. All other services are covered by existing staff through training and support.

- There is no cost associated with conversion of day centre to four bedrooms as it is not intending to do so.

Page 8 of Review

- Agree with the statement and it will be so.

Ron Woodley

Independent Councillor

Thorpe Ward

09-10-2013