Review of Priory House Business Plan

Confidential

This report has been prepared by Philip Mickelborough of Laing & Buisson for Southend-on-Sea Borough Council

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Summary

We have considered the plan and do not think it offers a viable option for Priory House. Our reasons for this are the following.

- The plan depends on attracting self-funding residents. We do not think the structure of the building is suitable for that, owing to the room sizes and the lack of en-suite bathrooms.
- The proposed fees for self-funding residents are at the top end of the range in the area; well above average and a position not justified by the facilities Priory House could offer.
- The plan assumes an occupancy rate of 100 per cent, whereas independent sector care homes in the area are operating at 91 per cent.
- We question whether the plan to provide day care within Priory House is viable, in relation to the residents' wishes and the physical facilities. The service is currently unprofitable and the plan does not show that it would be profitable inside the care home.
- The plan envisages the loss of four jobs across the care home and day care, while the care home expands. It has not been demonstrated that care quality will be maintained.
- The plan allows for a reduction in the non-staff costs (including PII) of 17 per cent. We think this is too optimistic in the time specified.
- The plan appears not to allow for the staff and facilities that will be needed to manage the new organisation.
- There is disagreement between the plan and the Council over the need and urgency of major capital expenditure, but delaying it as the plan suggests may hinder attempts to attract self-funders.

Review of Priory House Business Plan for Southend-on-Sea Borough Council

1. Background and objectives of this report

1.1 Background

Southend-on-Sea Borough Council owns and operates two care homes for frail older people and people with dementia, Priory House and Delaware. Council officers have prepared and put out to consultation proposals for the future of these two homes. These include a recommendation to close Priory House.

Councillor Woodley has prepared an alternative business plan for Priory House for consideration by the Council; this will be referred to as the 'plan' in this report. Council officers have asked Laing & Buisson to review this plan before presentation to the Council.

1.2 Supporting documents

In preparing this report we have relied primarily on the following:

- <Priory Delaware House - Business Plan.xlsx> an Excel workbook with sheets labelled 'Priory – Financial Analysis', 'Redundancy Costs', 'App 3-Redundancy Costs' and 'App 4 Capital Programme'
- <Briefing Paper Priory House Version appendix 8.docx> entitled 'Financial Plan Briefing Paper/Assumptions'.

We have also had regard to:

- <Business plan v 1 (2).docx>
- <Appendix 7 - Professional Services Draft.doc>
- <Appendix 6.pdf>
- <Appendix 5.pdf>
- <Appendix 4.pdf> handwritten but also appearing as sheet 'App 4 Capital Programme'
- <Appendix 2.pdf> handwritten but also appearing as sheet 'Redundancy Costs'
- <Appendix 1 (2).pdf> handwritten but with the plan's figures used in the sheet 'Priory – Financial Analysis'
- <App 3.pdf> handwritten but typed up as sheet 'App 3-Redundancy Costs'
- <Final_Relatives_Presentation_for_Delaware_and_Priory_Consultation_1st_August_2013.pdf>.

We have undertaken a survey of care homes locally to determine their fees. We contacted the Clinical Commissioning Group but they felt unable to disclose the fees they paid for step-down beds.

1.3 The plan

The plan envisages setting up an arm's length local authority trading company for professional care services for older people to be known as Southend-on-Sea Professional Elderly Care Services (SPECS). This would operate Priory House and Delaware, although the plan deals only with Priory House.

The other key aspects are:

- Priory House will increase from 28 to 32 beds by converting the day centre into four bedrooms
- day care will be provided using the existing care home facilities
- over three years the current Council-supported residents will be replaced by a mixture of self-funders, NHS step-down and Council-supported residents

- most staff will TUPE across to SPECS; there will be minor job losses with redundancy costs that are much less than the Council-proposed ones
- the repairs and refurbishments deemed necessary by the Council will be delayed and only essential work will be undertaken
- there will be less contract monitoring.

2. Income projections

2.1 Demand

The plan assumes that the demand for care home places will increase over the next two years, in line with an increase in the population at or over age 65. While we have not undertaken one of our Age–Standardised Demand analyses, which would usually look 10-20 years ahead and projects demand by age band, we think that this is likely to be correct. We say this with the proviso that some of this demand will be met by alternatives to care home placements, such as extra care housing and intensive homecare, in line with central and local government aims.

The plan notes that the generations of care home residents over the next few years will have sufficient private resources to fund themselves in care homes. In the East of England region 50 per cent of residents self-fund; the percentage in Southend is likely to be not far from this and we agree with the plan that this is likely to continue to be the case over the next few years.

2.2 Care home survey

We surveyed 20 care only homes within one mile of Priory House. These had an average of 23 beds with a range from ten to 53 beds. The average occupancy of 16 of these was 91 per cent. None of the 16 we asked reported no en-suites, but some have a washbasin and WC only.

We obtained fees in 18 care only homes; these ranged from £435 to £850 per week, with an average fee of £575 and a median of £576 per week.

2.3 Care home income

Care home fees

The plan envisages a resident mix within three years of two Council-supported residents, six NHS-funded ones and 24 self-funders, paying £430, £952 and £800 per week respectively. Our survey showed that the mean fee for self-funders within one mile is £575 per week, markedly less than the £800 planned for two years thence. We have not managed to confirm or otherwise the accuracy of the NHS fee.

Each bed at Priory House currently costs approximately £785 at 100 per cent occupancy (see below); under the plan the cost per bed in 2014/15 at a similar occupancy will be £752. Both of these figures are well above the £430 that the Council can pay for an independent sector place.

Care home occupancy

The plan envisages 100 per cent occupancy; private and voluntary sector care homes within one mile of Priory House are operating at 91 per cent occupancy, which is probably a long-term sustainable average, and the plan offers no reasons why the revised Priory House with its new mix of residents should be different. This lower occupancy would bring down revenues by ten per cent. It is true that there is a ten per cent contingency allowance in the plan, but we think that this should be available for unexpected and unplanned contingencies rather than forecast deficits.

Self-funding residents are the goal of all care homes; throughout the country self-funding residents subsidise local authority-funded ones. For reasons that will be explained below we have serious doubts whether Priory House will be able to attract them against the competition.

Residents' expectations

Self-funders generally, and increasingly, expect en-suite WC, washbasin and bath or shower. Within one mile all the homes we asked had en-suite rooms, although this was sometimes only a WC and basin. New purpose-built care homes have all three in every room and in the East of England 78 per cent of homes have them. We understand that none of Priory House's rooms have these en-suites, so we expect it would be a struggle to attract significant numbers of self-funders. We accept that some of the competition may not have them either, but the pattern in the country is for small homes to close (the average size of a residential home that deregistered in 2012 was 20 beds) and be replaced with fewer new larger purpose-built homes that have en-suite facilities.

We do not know the room sizes in Priory House, but they may not meet the expectations of sufficient self-funders. If we quote from Laing & Buisson's Care of Elderly People Market Survey 2012/13 "*Most new care homes now being developed primarily for a private pay clientele are 'future proofed' with much more generous room space of 14, 16 or even over 20 m2 excluding en-suite facilities.*" Some care homes are attracting self-funders with *'care suites'*; a bedroom and sitting room with full en-suite enabling people to entertain family and friends in comfort and privacy.

The NHS does pay well for care home places, but the reasons for this include the need for spacious rooms to allow access on both sides and the placement of equipment, the higher staffing costs of looking after NHS patients and the shorter lengths of stay which lead to longer void periods. Again they are attractive to care homes and there can be strong competition for NHS residents, so even if Priory House was able to win NHS contracts the plan appears not to allow for these extra costs.

In summary, we think the planned revenue is unlikely to be achieved because of questions over the fee rates, the unlikely occupancy rate and doubts over the Priory House's ability to attract sufficient self-funding and NHS residents.

2.4 Day care

Viability of day care in Priory House

The plan assumes that day care can be provided in the care home. This raises certain questions not addressed in the plan and which we cannot answer:

- Priory House is home to (currently) 25 and potentially 32 residents. Will these residents, particularly self-funding ones, wish to have 12 strangers coming into their home every weekday?
- Does the care home have the facilities to provide day care to 12 people, including the physical space, sufficient assisted bathing, adequate kitchens?
- Will the Council wish to purchase day care there? The Council is providing day care at the annex to Priory House because it owns and operates the building, but if it did not would Priory House be the most economic and convenient place to purchase day care for 12 people?

Day care income

The Council pays £45 per day for day care, so delivering day care to 12 people for 52 weeks of five days would produce the plan's estimate of £140,000. The staffing and food costs of providing that care currently exceeds this sum; we assume that the plan envisages redundancies on the day care side, and we cannot comment on whether adequate day care would be provided with fewer staff.

3. Staffing

3.1 Staffing levels

The plan envisages redundancy for 3.5 staff; we assume this means that four members of staff will be made redundant, of which one is part-time. The planned salary costs indicate that these staff will not be replaced in 2014/15, 2015/16 or 2016/17.The plan does not indicate what jobs these are, but we assume that they relate to the integration of day care with the care home.

This staff reduction occurs at a time when the number of demanding self-funders and high-dependency NHS patients is increasing and the size of the care home has increased from 28 beds to 32 beds. We have not analysed the current staffing levels in Priory House but this does raise some serious doubts about the capacity of the remaining staff to meet registration requirements and to provide a good quality of service. In mitigation, if the occupancy rate drops to 91 per cent the expansion to 32 beds will have less effect.

In summary, we recognise the reasons why the plan does not go into sensitive details about the jobs that will be lost, but this aspect of the plan does give us cause for concern.

3.2 Staff costs

Agency staff costs

The plan envisages eliminating the use of agency staff. This is good for three main reasons: better continuity of care, the increased safety that comes with staff who are familiar with the home and the cost saving that results.

This should be achievable if the right steps are taken; many if not the bulk of care homes operate with minimal if any agency staff. On the other hand all care homes would like to operate without agency staff and a significant number fail to do so despite taking all the steps they can think of.

We understand that the present high level of agency staff usage is in part due to potential recruits' uncertainty over the future of the care home and the Council's wish not to increase redundancy costs. We cannot therefore pass an opinion as to whether the plan's intention to eliminate agency staff usage would be achieved.

In comparing the 2012/13 actual staffing costs with the plan's 2014/15 estimates we have allowed for half the agency staff costs to be counted as staff; as agency fees are approximately double staff wages.

Source of the saving

The sum of 2012/13 actual staffing and recruitment costs including half the agency staff usage is £956,363, and allowing for 1.5 per cent annual pay rises for two years makes this £985,269. The plan estimates the equivalent cost in 2014/15 to be £859,792, £125,477 less. Allowing for superannuation at approximately 13 per cent and National Insurance at seven per cent suggest salary cost savings of £102,700.

We assume that this saving comes from the 3.5 / 4 redundancies, suggesting that the lost jobs carry salaries of on average around £30,000.

Staffing costs per service user per week

Each service user (resident or day centre attendee) received £677 worth of staff costs per week in 2012/13 projected to 2014/15 costs, compared with £517 per week in the plan. This implies a saving £160 per service user per week, and at local authority terms and conditions that may be a huge reduction to achieve without a drop in quality of service.

4. Other revenue costs

4.1 'Miscellaneous costs'

We have used the current inflation rate of 2.7 per cent to project 2012/13 actual costs to 2014/15 prices so that we can compare them.

Achievability

The plan allows for a reduction in the non-staff costs (including PII) of 17 per cent from the 2014/15 projection of the 2012/13 actuals. There is no doubt that purchasing often can be made more economically, and that an arms-length body might do its best to address this.

To put this into perspective, the 2010 spending review estimated that there would be a 14 per cent real-terms reduction in local authority income between 2010/11 and 2014/15. Local authorities are struggling to achieve this over four years with the option of cutting services. It seems optimistic, therefore, to assume that an arms length body will achieve a greater saving in one year during which it is being established and where few purchases could be eliminated.

Major savings

The reduction in expenditure on repairs and maintenance will be considered later.

The plan proposes a 38 per cent reduction in expenditure on *'Sundries and Transport'*. It is possible that there is that much unnecessary purchasing of these items, but we think that this saving is unlikely.

The plan proposes a 79 per cent reduction in expenditure on '*Photocopier/printing'*. The increasing use of the internet will lead to a reduction in these costs, but unless the current home is particularly profligate in its use of these, and there are no long-term photocopier contracts, 79 per cent appears optimistic.

We would express similar opinions on the 50 per cent reduction in telephone and associated costs.

4.2 Recharges

The plan proposes to replace '*Support Service Recharge'* and '*Departmental Support Charge'* totalling £142,925 at 2014/15 prices with a '*Departmental Support Charge'* of £18,750. While we are not familiar with the internal charging processes within the Council, we assume these are charges for services provided to the home by the adult services and other Council departments. It would be reasonable therefore that these should not be paid by an arms-length body that does not take these services, and the reduction appears reasonable.

Many of these services will still have to be provided, however, and the plan appears not to allow fully for the staff and facilities that will be needed to manage the new organisation. The £18,750 seems very low to cover costs that include accountancy, auditing, legal services, purchasing, premises, human resources. Furthermore the new body will need a board of directors with secretarial support.

The plan proposes a 23 per cent reduction in *'Depreciation/building rent'* charges, replacing depreciation with a rental payment. This appears reasonable to us.

As far as we can tell the capital revenue charge does not allow for the capital expenditure in converting the day centre to four bedrooms. Setting up the body and transferring assets will incur legal and other costs that should be reflected somewhere.

5. Capital programme

5.1 Conversion costs

We are unable to identify any reference to the capital cost of converting the day centre to four bedrooms, or any costs involved in providing day care in the care home, such as extra assisted bathing facilities. We cannot estimate what these costs would be, but clearly the capital and its revenue implications should be taken into account when considering the financial implications of the plan.

5.2 Planned capital expenditure

The Council believes that £1.09m must be spent on the building over the next ten years; 21 per cent within three years, 58 per cent between three and five years and the 21 per cent after five years. The plan suggests that the Council's view of the state of the building is unduly pessimistic and the home requires only £803,000 over the next ten years; 21 per cent within three years, 30 per cent between three and five years and the 49 per cent after five years.

We are not in a position to judge which view is correct but we should point out the following:

- emergency repairs or replacement of equipment is usually more expensive than planned work or replacement; predicting the life expectancy of lifts and boilers is not an exact science but more a matter of probability
- the building has a limited life as a care home however well-maintained because of the shortage of en-suite rooms, people's increasing expectations for bedroom sizes and the poor economics of operating a care home of 28-32 beds. A replacement roof and new equipment would not be used for its planned life and so the annual depreciation would be higher than if the home were to continue indefinitely

- self-funding potential residents and their relations are likely to expect more of the physical environment than Council-supported ones, and the requirement to undertake repairs and decoration would be higher.