

## **SHAW HEALTHCARE CONTRACT WITH PARTICULAR REFERENCE TO LEADON BANK, LEDBURY**

**Report By: Head of Commissioning and Safeguarding &  
Interim Finance Manager**

### **Wards Affected**

County-wide

### **Purpose**

To notify members of the current position on the contract between the Council and Shaw Healthcare to manage and develop older people's homes with particular reference to Leadon Bank, Ledbury.

### **1 Financial implications**

The impact of loss of income, currently projected at £154k, may threaten the viability of the project

- I. Failure to obtain Value For Money from a significant investment
- II. Duplication of costs where service users are accommodated elsewhere
- III. Potential for additional costs to fall on HCC if the rents are considered unreasonable and housing benefits are only partly grant funded on that basis

### **Background**

A complex series of agreements with Shaw Healthcare Ltd were put together in 2004 with the objective of modernising care facilities for older people in a cost-effective way. This contract was entered into at a time when the local government financial environment was less flexible than it is today.

The contracts run in the main for 30 years and six homes were originally transferred (Woodside, Leadon Bank, Waverley, Orchard House, Elmhurst and Frome Bank). The agreement covers the significant re-development of Woodside, Leadon Bank and Waverley. Woodside was completed in December 2006, Leadon Bank on 21<sup>st</sup> December 2007 and completion of the second phase of Waverley is imminent, with the new service due to commence in April this year. The total capital cost of the redevelopment work was approx £14.9m at 2003/4 prices, excluding finance charges.

The whole project is managed through a special purpose vehicle (SPV), Shaw (Healthcare) Herefordshire Ltd., wholly owned by Shaw Homes Ltd

In addition to managing the development work, the SPV also manages the new facility and provides domiciliary services and care through contracts with the parent company.

Leadon Bank was transferred on 21<sup>st</sup> December 2007 and the new building provides 35 rented extra care flats, to which the Council has nomination rights, 10 residential reablement beds, 20 day care places on a 7-day a week basis, communal areas,

including restaurant facilities, laundry, treatment rooms and a further 17 flats for private sale. The old Leadon Bank care home has now been demolished.

The model for the whole facility fits within the Council's policy of ensuring high quality support for older people, which helps maximise their independence and reduces the need for institutional care. The opening of Leadon Bank creates more choice for older people with significant care needs in the east of the county and provides a really positive alternative to residential care.

## **2. Development progress**

**Waverly House** (Leominster) opens in July as a specialist care home with EMI (elderly mentally infirm) nursing. It also has 7 reablement beds. The building has been completely rebuilt in a phased development to minimise disruption for residents. All Residents who remained during the development have now moved into the new service and the service will be fully occupied.

**Orchard House** (Withington) opens at the end of July as a care home providing EMI services. Further plans are in place to develop this as a specialist resource centre, providing intermediate care, day care, permanent residential beds, in partnership with the Hereford PCT. Residents who don't have mental health problems have all been offered alternative placements, some will be moving to Rose gardens extra care.

**Elmhurst** (Hereford) was transferred on 4 year contract after which the current building would be vacated as it does not meet modern care standards. Elmhurst provides some EMI services and these elements will transfer to Orchard House at the end of July.

**Woodside** (Ross) has been converted to a day service with 2 emergency respite flats which are ready for occupation.

## **3. Leadon Bank development and Operational Issues**

Leadon bank care home was replaced by a purpose built extra care facility capable of providing an alternative to residential care, providing a range of services to enable older people to stay independent within their own home environment.

The financial model assumed all the extra care flats and the reablement beds would be fully utilised from the date of opening, however this has not proved to be the case. At the time of agreeing the contract the Council believed that 35 residents of the care home would move into the extra care facility. This did not sufficiently take into account the fact that over the 3 year period; the needs of some of the residents became significantly more complex, resulting in the admission of a number of residents to nursing homes. There are also 10, two-bed roomed apartments, that are proving difficult to let. In addition fewer permanent residents were admitted during this time with the facility increasingly being used for respite and emergencies. In December 2007 there were only 9 residents able and willing to move directly into the new extra care unit. 4 others were transferred to the reablement unit to assess their ability to cope in independent flats.

The length of time it would take was underestimated for potential residents and their families to visit the unit and consider the implications of moving there and make arrangements to do so, currently approximately 6 weeks. The timing of opening, just before Christmas, also made it difficult to encourage take up from appropriate referrals. All these factors have meant that it has been a much slower process to fill the rented units than had been planned. A locality manager from adult social care has been seconded to work as a project manager since mid -February on the Shaw contracts and

this is helping to ensure that new referrals are being identified and followed up. 19 of the rented units are now occupied. However, it has been estimated that it could be towards the end of 2008 before all the flats are occupied.

The financial risk of empty flats i.e. no rents or service charge, is borne by the SPV, who currently estimate their loss of income on this basis to be around £154k. Clearly, this may have implications for the long term viability of the SPV; however Shaw has indicated there is no immediate risk. On the other hand, sale of the private flats has progressed more quickly than had been forecast but has recently shown a downturn.

There was an assumption that the existing residents of Leadon Bank residential home would transfer to the new development, generating substantial savings for HCC as they would be able to claim housing benefit and supporting people funds. The reality is that at least seven residents have been moved to alternative residential care, generating no saving at all. The savings will come from reducing the overall number of new admissions to residential care, with some individuals being able to move into extra care instead. This is beginning to happen but at a slower rate than the financial model allowed for.

The Council retains nomination rights for a period of 6 weeks, after which the SPV can bring in other tenants, but they are unlikely to be able to do so as we are all drawing from the same pool. Nomination rights subsequently revert to the Council, when the unit next becomes available, but in the interim, the use of the facility is lost to the Council.

The Council is also committed to pay for domiciliary services and care services provided by the SPV, on the basis that they are available, even if they are not fully utilised (current cost around £3k per week). However, the volume of service secured in this manner is less than the likely total need for service at full occupancy, with the balance being spot purchased as necessary.

As a result, HCC is not yet deriving full VFM from this resource, on which it is also paying financing charges. There is a cost of £236, known as the unitary charge, per extra care flat per week to be paid by the Council, with effect from 21<sup>st</sup> December 2007. This is the sum of money in the financial model agreed by the Council when the contract was let, to cover the balance of the capital development costs of the whole project. There is no direct correlation between the costs attributable to Leadon Bank as the cost relates to the total contract and all the developments.

A further difficulty is that rents are high (£236 per week including service charge) although this is fully covered by Housing Benefit, except in the case of a couple in a 2 bed roomed flat where the need for 2 bedrooms cannot be adequately demonstrated by reference to the specific needs of the tenants. The issue is that as the SPV is not a Registered Social Landlord (RSL), and any excess of what is deemed to be a reasonable rent (including eligible service charge) and the actual rent will only be grant funded 60% with the balance falling on HCC. An RSL would receive the full 100% although the rent levels are likely to have been lower due to the availability of Housing Corporation capital funding. The current rent level has been deemed reasonable. Under the suite of contracts the rents must be reasonably affordable to tenants. Affordability will be largely determined by the availability of housing benefit. This will only be an issue in the event that the Council are required to limit housing benefit awarded to tenants (potential tenants) of the scheme. However, in such an event the risk will fall on the SPV which again may impact on the overall viability of the project.

## **4 Actions**

Significant efforts are being made to let the flats. Regular meetings are taking place between Shaw and the Council and a number of options are either under consideration or being progressed to address the issues:

### **A Maximising usage by the council**

- I. The reablement unit can and is being used to accommodate temporarily individuals initially reluctant to consider moving but for whom some potential to reconsider may exist.
- II. The initial catchment area was East locality. This has now been widened to ensure that all localities have been asked to consider Leadon Bank as an option for those considering residential care or with very complex care packages at home.
- III. Individuals who had expressed an interest in Rose Gardens and have not been successful are being approached for consideration of Leadon Bank.
- IV. Shaw and HC have agreed to open access to the facility on a short-term basis, up to 6 months, for a small number of individuals (4), just below the lower age limit of 55, who have similar care needs and who would benefit from a period of time in extra care to assist them in moving from residential homes to more independent living. Such arrangements could become long-term where these are in the best interests of the service user and the needs remain compatible with the scheme overall.

### **B Alternative options to increase occupancy put forward by Shaw**

- I. Shaw lets a number of the 35 units directly at a market rent (Shaw requested a reduction in the 6 week nomination period which we have not agreed). However this option is unlikely to progress.
- II. An increased number of units are sold by Shaw (This would need to be at higher rates than present for sale units to compensate for the complete removal of the unitary charge)

### **C Options to seek capital funding to reduce the revenue cost to adult social care of the unitary charge**

- I. Sale or transfer of the freehold of Leadon Bank to a Registered Social Landlord. Shaw currently has a 99-year lease on the 17 private flats and 35 extra care flats at Leadon Bank. Consideration is being given to approaching a number of RSLs, in line with financial regulations, to establish whether there is any potential for obtaining grant funding from the Housing Corporation to reduce the rents and capital charge to the Council
- II. Sale of one or more of the other facilities – Orchard House, Waverley House, Woodside to Shaw. A valuation of the various properties has taken place and indicates that without the care services the accommodation is unlikely to be attractive to potential purchasers.

**RECOMMENDATION**

**THAT (a) The Committee recommend that:**

- (1) the Council make full use of discretion in setting Housing Benefit awarded to potential tenants of Leadon Bank at levels that meet rental requirements necessary to secure ongoing viability of the project, including subsidising the rent of the 2-bedroomed units;**
- (2) that strenuous efforts continue to be made to let the vacant apartments;**
- (3) that all options are considered to reduce the unitary charge and increase the value for money of the existing contract;**

**and;**

- (b) that regular progress reports be presented to this committee.**

**BACKGROUND PAPERS**

- None identified other than those specified in the attached report.