

Health and Adult Social Care Overview and Scrutiny Committee

16 January 2025

Care for Medway: Preliminary Options to Build and Operate a Care Home

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Summary

In 2021, during the budget setting process, a report was submitted to highlight the Adult Care Home Market plateau and put forward the option to consider Medway Council having its own provision. The report outlined the lack of capacity in the care market, especially Residential and Nursing Dementia homes.

Since 2021, the demand for Residential and Nursing accommodation (Care Homes) is still higher than capacity.

This paper makes a preliminary analysis of the need for more capacity in Medway's care home market and recommends that further, specialist analysis be undertaken to fully understand the potential costs and benefits of:

- Designing, commissioning, and building of a care home and the
- Operating model options, including ongoing maintenance and resourcing,

Provision was made available for this in the 2024-2025 budget. It is proposed to invest this, to develop a Care for Medway business case as originally detailed in the Financial Improvement and Transformation (FIT) Plan published in April 2024.

At the Corporate Landlord Board on 31 October 2024, there were concerns raised around investing the full sum to evaluate if the project was viable or not. It was established the full amount would not be required in full immediately and that a proportion of the budget could be used in the first instance.

This report was presented at Corporate Landlord Board on 12 December 2024. The board expressed its support of the recommendations.

Comments from this committee will be integrated into the report presented to the Cabinet for decision on 11 February 2025.

1. Recommendations

- 1.1. The Committee is asked to note the report, review the options presented and recommend Cabinet to agree to proceed with commissioning an in-depth analysis of a business case.

2. Budget and policy framework

- 2.1 The Care Act places duties on local authorities to promote the efficient and effective operation of the market for adult care and support as a whole. This can be considered a duty to facilitate the market, in the sense of using a wide range of approaches to encourage and shape it, so that it meets the needs of all people in their area who need care and support, whether arranged or funded by the state, by the individual themselves, or in other ways. The ambition is for local authorities to influence and drive the pace of change for their whole market, leading to a sustainable and diverse range of care and support providers, continuously improving quality and choice, and delivering better, innovative and cost-effective outcomes that promote the wellbeing of people who need care and support.
- 2.2 Where the care planning process has determined that a person's needs are best met in a care home, the local authority **must** provide for the person's preferred choice of accommodation, subject to certain conditions. This also extends to Shared Lives, Supported Living and Extra Care housing. Determining the appropriate type of accommodation should be made with the adult as part of the care and support planning process.
- 2.3 Priority 1 of the FIT Plan, 'Delivering quality social care and community services' includes the following key action: 'Develop a 'Care for Medway' strategy around increased care provision, including a business case for a care home.' Following further analysis, budget provision was made in the 2024-2025 budget to enable specialist consultants to review the viability of building and operating a care home.
- 2.4 If viable, a future in-depth business case paper, due in Winter 2025, would therefore most likely request an addition to the Capital programme, which will be a matter for Council.

3. Background

- 3.1. Choices on care are an important decision taken by or on behalf of individuals who are often extremely vulnerable. The nature and quality of care has a significant impact on the person's happiness, health, and longevity.
- 3.2. However, there are significant challenges facing Medway Adult Social Care and the choice that it can offer its residents, similar to other local authorities across the UK. Costs are steadily increasing, and this is particularly true of the residential care home sector.
- 3.3. As stated in 2.2, the local authority must ensure that the person has a genuine choice of accommodation. It is important to note that a person must also be able to choose alternatives to those proposed by the local authority, including

a more expensive setting, where a third party or in certain circumstances the resident is willing and able to pay the additional cost ('top-up'). Any additional payment must always be optional and never as a result of commissioning failures leading to a lack of choice.

Medway's Adult Social Care Environment

- 3.4. In year 2023/2024, Medway's total gross spend on Adult Social Care was £139.5million, up from £124.8million in 2022/2023. At end of Quarter 1 2024/2025, the figure was forecast at £145million.
- 3.5. Residential and nursing care costs account for a large proportion of total expenditure. The total gross spend across Residential and Nursing for all Adult Social Care client groups for 2022/23 was £46.9million. It rose to £52.9million in 2023/24, representing 38% of total Adult Social Care spend.
- 3.6. Adult Social Care received 10,933 requests for support from new clients in 2023-24. Of those new requests, 4.1% had an outcome of long-term community, residential or nursing care. 67.1% of the new requests came from those aged 65 and over, which is slightly lower than the 68.1% in 2022-23.
- 3.7. In Medway, it is anticipated that the percentage of residents aged over 65 will increase by 24% by 2040, representing an additional 11,400 people. However, the number of adults aged 18-64 is set to see an increase of only 1% in the same period. The largest increases are predicted in the older age cohorts, with a particularly large increase of 55% in those aged 85+, representing an extra 3,100 people¹.
- 3.8. An ageing population is likely to see increases in conditions such as dementia. There is a predicted 38% increase in the number of older people within dementia between 2023 and 2040. Other projections indicate a greater potential increase, with a rise by 46% over a shorter time period between 2019 and 2030².
- 3.9. Medway Council is facing a shortage of care home provision and new care home placements, which has led to an increase in the average bed cost. In addition, the Council is having to commission placements in Care Homes that are not rated as good or outstanding.
- 3.10. Since 2020 we have observed an increase in planning applications for new care home developments. However, construction costs are high, which, in turn, leads to the costs for care increasing, which are not affordable for the Council. Although capacity is slowly growing, it is not growing at the pace to meet future demand or that creates a competitive market.
- 3.11. There is a growing demand for a specialised care home in Medway that can meet the needs of residents living with dementia in a residential and nursing facility. It is estimated nationally that around 70% of care home residents are living with some form of dementia. Of Medway's total ASC clients, 10% had

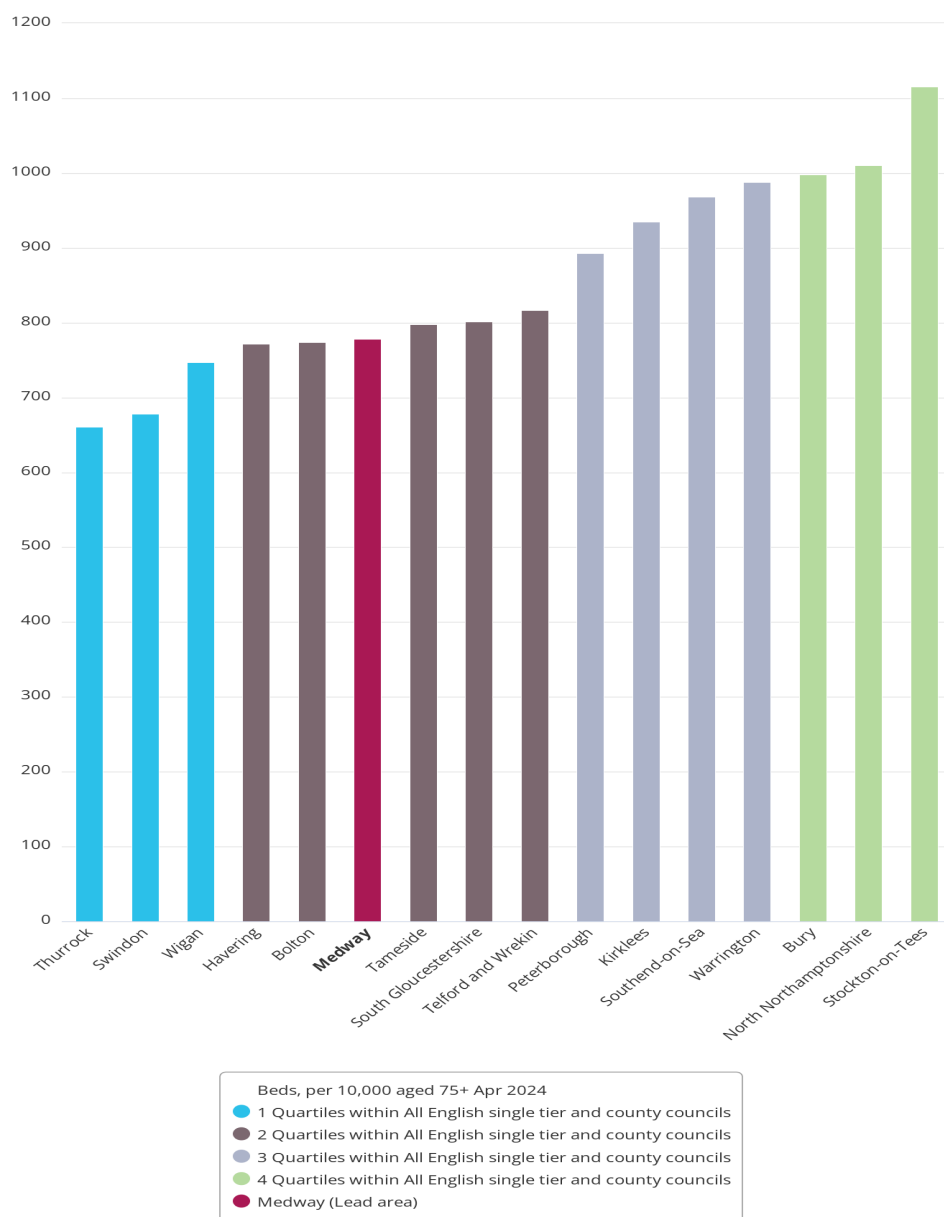
¹ [Medway JSNA: Adult Care and Support](#)

² [Medway JSNA: Adult Care and Support](#)

dementia as a primary care need as of March 2024; 96% of those were over 65.

- 3.12. The strategic approach taken with the annual fee increases this year has resulted in an increasing number of Medway's providers accepting our band rates. Approximately 65%-70% of our new placements are made at band rates, however those that are placed above band are significantly higher, impacting on the average weekly costs of new placements.
- 3.13. There is a clear difference between our (increased) rates and the average weekly cost of our placements. For example, the average weekly cost for residential older persons new placements is £964, whereas our band rates for standard residential and residential dementia are £690.74 and £800.00 per week respectively. For nursing care for older persons, the average weekly cost for new placements is £1,082. Our band rate is £874.64 and for nursing dementia, it is £945.64.
- 3.14. Some of our providers have referenced potential financial instability among their challenges, despite our standard band fee uplifts introduced in April 2024. We look to support providers through these financial challenges, by working closely with individual providers to ensure the placements they hold are cost effective whilst delivering the care the resident needs.
- 3.15. The care home sector in the UK is estimated at around £15.9 billion a year in the UK, and the majority of the sector is operated by independent providers.
- 3.16. Independent providers can charge significantly more than the Council's rates allow, due to demand from the market, including self-funders. For example, new homes opening in Medway are charging private rates of £1,600 per week and some choose not to accept Council-funded clients. The challenge arises when the person's capital depletes, and the Council is subject to funding these high costs. It is important to note that self-funding prices allow providers to accept the costs paid by councils.
- 3.17. The lack of capacity within Medway means a proportion of our residential and nursing dementia clients live in care homes outside of Medway. Not only does this increase the weekly cost; it places pressure on family and carers who need to travel further to visit. In March 2024, this represented 11.4% of our residential and nursing care clients (all ages), a slight but sustained increase from 9.3% in April 2021.
- 3.18. In April 2024 there were 70 care homes in Medway. 16 care homes include nursing provision, and the remaining 54 are without nursing. In terms of beds provided, there were 809 beds in care homes with nursing (note: not all of these will be nursing beds), and 876 beds in care homes without nursing. This is a total of 1,685 beds in Medway in April 2024 - the equivalent of 778.04 beds per 10,000 people aged 75 and over (see Table 1 below). It is important to note that these are the number of beds in Medway and not the number of contracted beds the council has with care homes.

Table 1: Care home beds per 10,000 population aged 75 and above (Apr 2024) for Medway & Medway NHS England Peer Group (Quartiles of All English single tier and county councils)³



3.19. We face a shortage of high quality in care home provision and new care home placements. CQC ratings for homes in Medway tend to be lower than the Southeast region and nationally (see Table 2 below). Medway is committed to supporting providers to improve quality standards within the service provided and continues to work with providers through dedicated resource to support improvements. However, this alone will not guarantee a continuity of supply to meet demand.

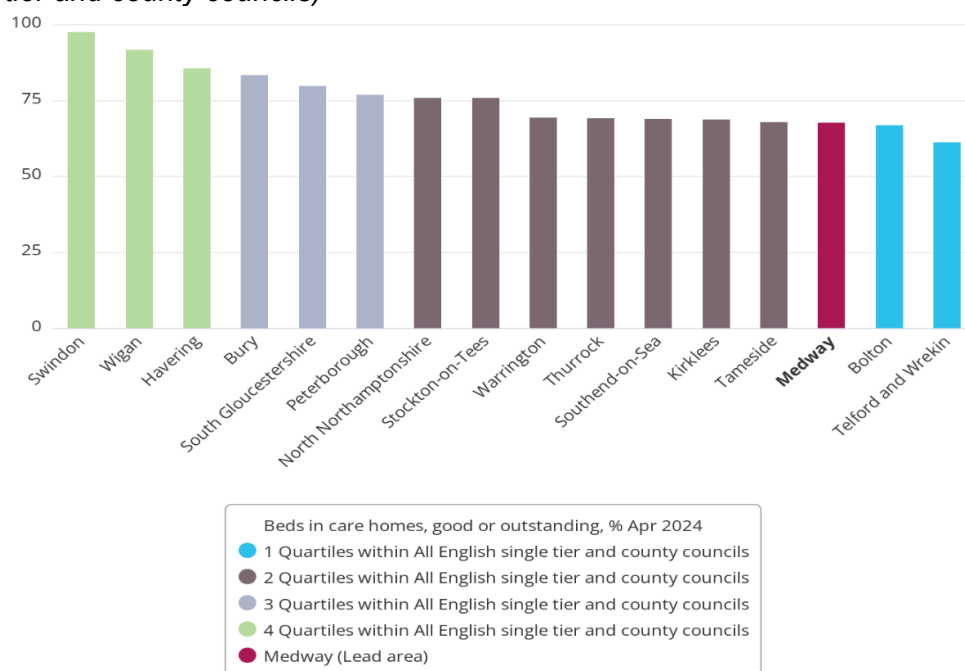
³ Registered adult social care provider market in Medway (Apr 2024), LGA Research using data from Care Quality Commission (CQC) - Care directory

Table 2: Care Home Ratings: Medway & England (Quantiles of All English single tier and county councils)⁴

Area	Care homes, good or outstanding, %	Beds in care homes, good or outstanding, %	Care homes with nursing, good or outstanding, %	Beds in care homes with nursing, good or outstanding, %	Care homes without nursing, good or outstanding, %	Beds in care homes without nursing, good or outstanding, %	Community based locations, good or outstanding, %
Apr 2024							
England	77.2	74.7	74.3	73.2	78.4	76.1	59.1
Medway	67.1	67.9	56.3	63.3	70.4	72.1	30.1
Mean for Southeast (ADASS Region)	76.8	72.6	71.4	70.8	78.9	75.0	58.0

3.20. The combination of lack of both capacity and high-quality provision in the table below (Table 3) illustrates Medway’s current challenge.

Table 3: Percentage of beds in care homes that are rated overall as good or outstanding (Apr 2024) for Medway & Medway NHS England Peer Group (Quantiles of All English single tier and county councils)⁵



3.21. The current lack of capacity does not provide the service to which we aspire for our residents and the Council is not meeting its duties detailed in section

⁴ Registered adult social care provider market in Medway (Apr 2024), LGA Research using data from Care Quality Commission (CQC) - Care directory

⁵ Registered adult social care provider market in Medway (Apr 2024), LGA Research using data from Care Quality Commission (CQC) - Care directory

3.1 of this report. The challenges around capacity will only increase. In Medway for older people living with dementia, there is a predicted 38% increase between 2023 and 2040⁶. Service data indicates a rising prevalence of dementia in care home users, and the number of people with dementia in Medway is predicted to rise by 46% between 2019 and 2030⁷.

- 3.22. Providing a dedicated care facility demonstrates Medway Council's commitment to supporting vulnerable members of the community and our intention to meet our duties laid out in the Care Act. However, there are also economic benefits for Medway as a whole, including job creation and the supply chain by supporting local businesses that provide goods and services to the facility.
- 3.23. Offering specialised support within a care home will also support our Health partners. It is believed that Medway Council can alleviate pressure on NHS services, by preventing unnecessary hospital admissions. This in turn will reduce delayed discharges and improve patient flow. As part of the in-depth analysis recommended in this report, it is proposed to include the potential for submitting a bid for One Public Estate funding (by including assessment beds and reablement provision in analysing the operating model).

4. Options

- 4.1. Specialist consultants are required to examine the case for a care home. Naturally, significant and robust analysis will be required to examine the viability of building and operating such a home. Some preliminary options for build have been explored below, to inform the work.
- 4.2. A basic care home specification has been drafted to provide a basis for case analysis. The specification can be found in Appendix 1.
- 4.3. It is proposed that in addition to meeting the needs of Medway's residents who have a diagnosis of dementia and are no longer able to live in their own home, flexible provision be made available on an upper floor to meet other areas where capacity is challenging. This may include intermediate care/reablement, or assessment beds (defined in Appendix 1). Building a Care Home that incorporates such provisions would provide additional capacity to meet support needs and addresses the shortage in provision in a high-quality setting.
- 4.4. The specification details the requirements for a Council-owned building with flexible capacity to accommodate different units/provisions, namely:
 - A provision for one floor dedicated to specialised care home residential and nursing facility for people living with dementia in Medway: 40 beds. It is the recommendation of CQC to have only ground floor use for people who live with dementia.
 - A second floor dedicated to other types of residential/nursing care, including provision for Working Age Adults, respite/reablement, short term placements and assessment beds: 40 beds.

⁶ Medway's Joint Strategic Needs Assessment: Adult Care and Support, Updated 13/06/2024

⁷ Medway's Joint Strategic Needs Assessment: Adult Care and Support, Updated 13/06/2024

- The outline specification indicates the floor space needed for bedrooms, bathrooms, communal areas, 40% for circulation and ancillary offices.
 - The total gross floor area would be in the region of 2400m² over 2 floors with a similar amount of space required for the external areas.
- 4.5. The options covered below cover the identification of sites and construction costs – i.e. operating costs are not covered. Four options are explored.
- 4.6. **Option 1: Retrofit existing council-owned premises.** In considering Council-owned premises, we have explored options including existing sheltered housing provisions, temporary housing, and unoccupied facilities.
- 4.7. In all cases, it should be noted that there are no immediate ‘quick wins’, especially given the size of the required footprint. After reviewing existing council-owned premises, we do not believe there are suitable premises that could be retrofitted to meet the needs of a care home set out in the specification. Nor have any sites come forward as an option to lease and retrofit.
- 4.8. Furthermore, despite the apparent advantages of retrofitting an existing property, even if one were immediately available, considerable refurbishment and adaptation would be required as a minimum, likely requiring capital investment. It would also be necessary to consider infrastructure and planning constraints, which could also increase the delivery lead time. This option has therefore been ruled out at this stage, though further review may identify suitable sites.
- 4.9. **Option 2: Design and build on existing Council-owned land.** This option is based on using currently available land, which may have been earmarked for other services. To calculate potential costs, we compared two sites which are of sufficient size to accommodate the facility and consolidated the findings.
- 4.10. It should be noted that this is purely an estimate at this stage: no physical design work has taken place, no building methodology has been chosen, and we do not know the locations or capacity of nearby utility services. Estimated costs of construction alone are in the region of £12.225million. It should be noted that these costs exclude statutory fees, utilities fees, VAT, fittings and furniture, including IT, operational costs, including maintenance and the costs of servicing a loan. It is also important to note that this does not include any costs associated with care and support.
- 4.11. The costs of servicing a loan of £12.225million over a 30 year period are estimated to be in region of £14.192million⁸. Total cost of construction and the costs of servicing the loan could therefore be in the region of £26.417million based on a 30-year repayment term.
- 4.12. The advantage of using land that is already owned by the Council is that it is available now, often with some infrastructure in place, and in many instances,

⁸ Estimated at 5.91%, based on 30-year Public Works Loans Board borrowing rate on 30 December 2024.

close to public transport. This provides some confidence as to the lead time required for the home to start operating.

- 4.13. At this stage, this option would appear to be the most viable, in that we would not have to factor in time and capital investment to acquire land.
- 4.14. The disadvantages of this option are potential charges in change of use and delays in planning. There is also the opportunity cost of lost revenue/capital receipts in placing a two-storey building on a site that might otherwise have delivered a multistorey building. Finally, there is the consideration that external agencies, such as the Highways Agency, might raise objections.
- 4.15. **Option 3: Acquire a built site/design and build from scratch.** There are various models for this, but all are based on the premise that in addition to the construction costs above, we would need to factor in the time and resources required to identify suitable sites, negotiate a purchase price, obtain all necessary permits and permissions, etc. The estimates for costs in this option therefore range from £14 million to £33 million over a 40-year period, in the case of turnkey models.
- 4.16. **Option 4: Do nothing.** There is naturally the option to terminate this project at this stage and take it no further. This assumes that we can accept and accommodate escalation in the pressures on capacity and budget. As stated in 4.20 above, the need for residential and nursing dementia care is expected to increase by 38% by 2040. As an illustration, even if this only increased by 30%, it would add an extra £15.9million to nursing and residential care alone.
- 4.17. Regardless of whether we proceed with this initiative or not, we will continue to see high levels of residents requiring access to residential care. Currently we frequently have no recourse other than high-cost placements procured as spot purchases. These are increasingly out of area. Not only is this not good value for money; more importantly it can have a detrimental impact on the resident's wellbeing, as it makes it more difficult for family and friends to maintain contact.
- 4.18. The data provided in the JSNA analysis indicate that it is unlikely that capacity can even remain stable; indeed, it is predicted that the gap between demand and supply will further widen. Unless we increase capacity, we will face further competition from neighbouring authorities for a decreasing number of places, which will inevitably push rates up.

Operating a care home

- 4.19. The costs of building/acquiring a care home are one-off capital costs. The primary cost associated with this project is the ongoing operation and maintenance of a high-quality care home. We have explored the potential annual running costs for illustrative purposes, having consulted with an external partner. Naturally, this is an estimate only: at this stage, it is not established if this project will be taken forward; these rates are current and have not taken account of future rate increases and inflation; finally, the proportion of different types of provision (dementia care, reablement, assessment beds) will affect the rates.

- 4.20. Significant analysis remains to be done with regards to the operating model, and this will be part of the specialist consultancy brief. However, the estimated costs indicate that the annual running costs for the home described in the specification would be in the region of £5.581million, of which £3.038million would account for staffing costs. The costs also include the fitting out and upkeep of furnishings, food, laundry, and so on.
- 4.21. Based on the figures above, the estimated weekly cost per resident is £1,342, based on an annual operating cost of £5.581million and a constant occupancy rate of 80 beds. This is higher than our current band rates and the average current weekly rate of £1,082.
- 4.22. Assuming 100% occupancy may not be reasonable for a number of reasons, such as changes in room occupancy and evolving use of the flexible space on the second floor. For this reason, we propose that future calculations be based on an 80% occupancy (64 beds) to give a more realistic view of unit costs. Taking the above figures, this would give a weekly cost per resident of £1,677.

Estimated annual operating cost	£5,581,046
Annual cost/resident @ 100% occupancy	£69,763
Weekly cost/resident @ 100% occupancy	£1,342
Annual cost/resident @ 80% occupancy	£87,204
Weekly cost/resident @ 80% occupancy	£1,677

- 4.23. This should not be seen as a reason to discount the project. Various approaches can be adopted to offset or absorb these costs. For example, it is proposed to explore offering a certain percentage of beds to other authorities at a rate with a built-in margin (similar to that of private providers). Other models will also be explored by the specialist consultant. It is also proposed to offer a number of beds to self-funders. Both of these approaches would enable us to build in contingencies to cover costs and ensure that the home was financially viable and sustainable.

5. Advice and analysis

- 5.1. This paper presents potential ways forward for the Council to progress with its ambitions to provide a Council-owned and operated care home for Medway residential and nursing dementia service users.
- 5.2. The proposed specification for a care home also includes provisions for assessment beds and reablement, which would increase our capacity and reduce waiting times for clients. The option of using a small number of beds for self-funding clients will also be considered to support financial viability.
- 5.3. It is noted, based on this preliminary analysis, that this project is unlikely to deliver financial savings in the short- to medium-term. However, it will increase the capacity of high-quality care home provision within Medway. Furthermore, the long-term forecast need for residential and nursing dementia

care in Medway indicates that demand for such provision is likely to increase significantly.

- 5.4. Building and operating a care home represents a significant long-term investment and repayment for the Council, and expert and robust scrutiny is necessary. It is proposed to engage specialist consultants to examine the feasibility and potential business case for a care home, delivering the operating costs analysis at the end of Q1 2025/2026, and if the decision to progress to building design is agreed, this will be delivered in Q4 2025/2026.
- 5.5. It is recommended that Cabinet agree to proceed in principle, engaging consultants, to conduct in-depth research and analysis into the viability of the operation and construction of a care home. This recommendation is on the basis that:
 - the need for residential and nursing care is increasing
 - the number of distant placements is increasing
 - the cost of placements is increasing
 - there is a need to improve the quality of care delivered in Medway.
- 5.6. It is proposed that the consultant conducts in-depth feasibility work for a care home that will evaluate the options for an operating model, including costs for ongoing maintenance and resourcing e.g. care home operations, planning, physical massing and examine preliminary planning challenges to any proposed sites.”
- 5.7. If the operating model can evidence value for money, Cabinet will be recommended to delegate responsibility to the Director of People and Deputy Chief Executive and the Chief Operating Officer, in consultation with the Deputy Leader of the Council, to commission the feasibility work for the design, commissioning and building of a care home, with a view to producing detailed recommendations for Cabinet in Winter 2025, with a view to breaking ground in 2026, should recommendations and capital funding be agreed by Council.
- 5.8. It should be noted that building and operating a care home will not in the short-to medium-term deliver costs savings. It will however deliver increased, high-quality capacity, and provide a flexible asset for the Council’s use over the long-term.
- 5.9. As mentioned in section 5.11 the total cost of construction and the costs of servicing the loan could be in the region of £26.417 million. Based on a 30-year repayment term this would be around £881,000 per year, using the same occupancy rate as set out in section 5.23 this would add around £265 per week to the weekly cost per resident, bringing the total weekly cost per resident to around £1,942.
- 5.10. It is naturally difficult to forecast what the care home landscape will look like in 5, 10 or 20 years. However, using the Joint Strategic Needs Assessment (JSNA), we can predict with some confidence that the need for additional capacity will only increase by 46% by 2030.

6. Risk management

6.1. The risks associated with the recommendations of this paper are below.

6.2. Should the decision be to proceed, the second paper in Winter 2025 will outline the risks and implication of proceeding with each option it develops.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Availability of forecasting data	Lack of longer-term trend data may not accurately inform decision making.	The paper has sourced data from JSNA and relevant ASC services: additional work to develop more accurate forecasting is under way.	CII
Financial Risk	The cost of hiring consultants will not produce desired outcomes	Complete analysis in a two-staged approach so that the amount of money spent to determine if the project is viable, is as low as possible	BII
Negative viability	The consultants engaged may conclude that it is neither viable nor necessary to build and operate a care home.	Engaging experts in the market concerned will provide assurance as to the genuine feasibility of the project.	CII
Delays in decision making	Delays in engaging consultants and their production of a report, will push back timelines.	Timely procurement is factored into the timeline outlined in the paper and deadlines will be closely monitored.	BIII

For risk rating, please refer to the following table:

Likelihood	Impact:
A Very likely	I Catastrophic
B Likely	II Major
C Unlikely	III Moderate
D Rare	IV Minor

7. Consultation

7.1. No consultations have been considered necessary at this stage; however the report has been shared with health partners for comment. Nor has an Equality and Diversity Impact Assessment been conducted. Should the project proceed, such assessments will be carried out at the appropriate time.

8. Climate change implications

- 8.1. [The Council declared a climate change emergency in April 2019](#) and has set a target for Medway to become carbon neutral by 2050. It is suggested that increased capacity by the Council to provide residential provision here in Medway is very much in line with this policy. Travel emissions by staff, visitors and associated professionals will be decreased, in some cases significantly.
- 8.2. Should the decision to proceed be approved, sustainability and climate change considerations will be included in the construction specification and also in the operational activities of the home.

9. Financial implications

- 9.1. Funding to develop a Care for Medway business case was made available in the 2024/2025 budget. On the basis that this provision was not used in 2024/2025 the draft budget for 2025/26 includes provision to develop the business case. Should Cabinet agree to proceed, a proportion of the allocated budget will be used to engage consultants who are specialists in the respective areas of construction and operation of care homes. As noted in the risks above, it is possible that the outcome of their findings may be that it is not financially or politically viable to proceed with the build of a care home.
- 9.2. Funding the work to establish the viability of this initiative is a considerable investment; however, given the capital investment required if approved, and the ongoing operating costs, it is recommended that robust, external specialist advice is sought.
- 9.3. By first completing the detailed operating model business case, informed decisions can be made. Further budget allocations for feasibility work related to the design, commissioning, and construction of a care home will only proceed if the operating model proves financially viable.

10. Legal implications

- 10.1. At this stage, no legal implications have been identified. The report on the outcomes of the consultancy will outline the legal implications of proceeding.

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Appendices

Appendix 1 Draft Basic Specification for Care Home

Background papers

- [One Medway Council Plan](#)
- [One Medway Financial Improvement and Transformation Plan](#)
- [Medway Adult Social Care Strategy](#)

- [Joint Strategic Needs Assessment \(JSNA\)](#)
- [Market Position Statements](#)