

Item: 15

Policy and Resources Committee: 16 February 2021.

Proposed New Care Facility, Kirkwall.

Joint Report by Chief Officer/Executive Director, Orkney Health and Care and Head of Finance.

1. Purpose of Report

To advise of anticipated increases to the capital costs associated with the new replacement care facility in Kirkwall, as well as the anticipated programme timeframe.

2. Recommendations

The Committee is invited to note:

2.1.

That, on 30 June 2020, the Council resolved:

- That the revised Stage 2 Capital Project Appraisal in respect of the proposed new Kirkwall care facility be approved, namely provision of a 40-bed facility at a capital cost of £12,270,000, with a revised start date for construction in Spring 2021 and delivery in Spring/Summer 2023, subject to approval by the Integration Joint Board.
- That the project be funded through a capital contribution from the Strategic Reserve Fund of £7,362,000 and General Fund borrowing of £4,908,000.

2.2.

That, on 9 December 2020, the Integration Joint Board endorsed the revised scope of the proposed new Kirkwall care facility, namely provision of a future-proofed 40-bed facility, with a revised start date for construction in Spring 2021, and delivery in Spring/Summer 2023.

2.3.

That, following receipt of recent construction tenders that were well in excess of budget estimates, officers have taken the opportunity to review the capital costs of the proposed new Kirkwall care facility.

2.4.

That the estimated capital cost in respect of the new Kirkwall care facility has been revised from £12,270,000 to £13,450,000, as detailed in the revised financial assessment of capital expenditure attached as Appendix 2 to this report.

2.5.

That, due to the requirement to provide two covered walkways linking the accommodation wings, the floor area has increased from 3,088m² to 3,208m².

2.6.

That construction of the new Kirkwall care facility is now anticipated to begin in Autumn 2021, with delivery anticipated in Winter 2023.

It is recommended:

2.7.

That the existing provision within the General Fund capital programme in respect of the new Kirkwall care facility be increased by £1,180,000, from £12,270,000 to £13,450,000.

2.8.

That the total cost of the new Kirkwall care facility be funded by General Fund borrowing of £13,450,000.

2.9.

That, to assist with affordability of the current five-year capital programme for 2020 to 2025, powers be delegated to the Head of Finance to apply a contribution of £8,070,000 from the Strategic Reserve Fund to fund projects on the General Fund capital programme.

2.10.

That the revised project programme, detailed in section 5.4 of this report, be approved, namely construction of the new Kirkwall care facility anticipated to begin in Autumn 2021, with delivery anticipated in Winter 2023.

3. Introduction

3.1.

On 30 June 2020, the Council considered a revised Stage 2 Capital Project Appraisal in respect of the proposed new Kirkwall care facility.

3.2.

The Council subsequently approved the revised Stage 2 Capital Project Appraisal in respect of the proposed new Kirkwall care facility, namely provision of a 40-bed facility at a capital cost of £12,270,000, with a revised start date for construction in Spring 2021 and delivery in Spring/Summer 2023, subject to approval by the Integration Joint Board.

3.3.

The Council further resolved that the project be funded through a capital contribution from the Strategic Reserve Fund of £7,362,000 and General Fund borrowing of £4,908,000.

3.4.

The full extract from the Minute of the Special General Meeting held on 30 June 2020 is attached as Appendix 1 to this report.

3.5.

On 9 December 2020, the Integration Joint Board endorsed the revised scope of the proposed new Kirkwall care facility, namely provision of a future-proofed 40-bed facility, with a revised start date for construction in Spring 2021, and delivery in Spring/Summer 2023.

4. Gestation of the Replacement Kirkwall Care Facility

4.1.

A Health Needs Assessment was undertaken in 2008 and identified the need for an additional 40 residential care home places in Kirkwall in addition to a further eight care home places in Stromness.

4.2.

Proposals at that time considered the construction of a new residential care facility in Kirkwall, as part of a larger “care campus”, embracing a new hospital, GP surgery facilities and day care facilities, as well as a new residential care home. However, following much deliberation, the decision was taken by the Council not to proceed in that basis.

4.3.

The reduction in available funding to local authorities as an ongoing consequence of austerity measures, led the Council to consider refurbishment and extension of the existing residential care home, St Rognvald House. Proposals for the refurbishment of St Rognvald House were therefore approved by the Council in July 2013. The extension approved was to increase capacity to 60 places and was based on demographic projections updated from the earlier work.

4.4.

As work continued on the detailed specification and planning for refurbishment and extension of St Rognvald House, it became apparent that refurbishment of the existing care home was becoming increasingly untenable. This, coupled with the fact that at best the refurbishment would still be lacking in terms of current guidance for care facilities, led the Council to reconsider and, in March 2015, the Council resolved to reconsider construction of a new residential care home, as a direct replacement for St Rognvald House.

4.5.

Following a further report, in September 2015, the Policy and Resources Committee requested a Stage 2 Capital Project Appraisal in respect of a new 60-bed residential care home, in Kirkwall, as a replacement for St Rognvald House. The Committee also recommended removal of the refurbishment of St Rognvald House from the capital programme. The Stage 2 Capital Project Appraisal was to be completed no later than September 2016.

4.6.

As requested, the Stage 2 Capital Project Appraisal for the replacement 60-bed residential care facility was presented to the Policy and Resources Committee, in September 2016, and recommended for inclusion in the capital programme. This was subsequently approved by the Council, in October 2016.

4.7.

The revised proposals for the new 60-bed facility were noted by the Integration Joint Board, in September 2016.

4.8.

Ongoing consequences of the financial pressures experienced by local authorities, in recent years, affected the allocation of capital programme funds, resulting in a slight revision of the programme timetable and commencement of construction works. Work around design of the care home had, however, continued.

4.9.

More recently, concern was raised around the reliability of the Care Home Bed Numbers assessment and the Health Needs Analysis, in the context of national policy changes, and additional information that included assumptions based upon demographic data only, upon which the recommendation to build a 60-bed facility was based, in 2016.

4.10.

In addition, workforce availability is an increasing concern, which may be mitigated, in part, by the availability of alternative service delivery models, such as community-based care, as well as the use of assistive technology. Lack of revenue funding is also an unresolved issue.

4.11.

It should also be noted that the additional residential bed capacity afforded by the opening of Hamnavoe House is not yet utilised and does not have a revenue budget identified.

4.12.

These concerns and considerations contributed to a decision to revisit the capacity of the proposed facility and, in June 2020, the Council received a report recommending the replacement of St Rognvald House with a 40-bed residential care facility.

4.13.

The report also recommended that the risk to the service of not having sufficient residential care places by 2035, as a consequence of the projected demographic increase in the ageing population, could be mitigated by adopting a proposal to build a 40-bed facility that was 'future proofed', with scope to build additional bed spaces in blocks of 10, should the need arise in future years. The Council approved the recommendations, subject to approval by the Integration Joint Board.

4.14.

A report detailing the recommendations of the Council was presented to the Integration Joint Board at a special meeting in August 2020. Several misgivings around the number of proposed residential beds, as well as input from clinical sources, were raised. As a consequence, the Integration Joint Board deferred endorsement of the proposed 40-bed facility pending receipt of a further report, following wider engagement with stakeholders, addressing the following points:

4.14.1.

The need to replace the ageing facility at St Rognvald House needs to be made more prominent in the revised report – the facility was currently unsatisfactory for both residents and staff.

4.14.2.

Further clarification needed to be made about potential future numbers and need.

4.14.3.

There would be aspects of the review of the IJB's Strategic Commissioning Implementation Plan that might affect the proposed new care home, such as the need for a 'step-up/step-down' care pathway, or the impact that recent initiatives, such as Technology-Enabled Care, Community Led Support and Self-Directed Support, might have, which suggests that the care facility design should incorporate a modular approach.

4.14.4.

The need for flexibility in design and use was considered paramount since things can change quickly in the dynamic world of social care.

4.15.

Officers held a seminar in November 2020, attended by Elected Members of Orkney Islands Council and the Board of NHS Orkney. Discussion and debate centred around the need to replace the existing facility, which is no longer fit for purpose, and also how to ensure that care home places could be used differently with the adoption of a Home First model. Also, it was recognised that extra care housing played a pivotal part. It was noted that the other existing care home facilities in Orkney had the ability to have extra care housing in close proximity; however, it was further observed that this matter was outwith the remit of the Integration Joint Board.

4.16.

This seminar was followed by a meeting, hosted by the Area Clinical Forum, in December 2020, attended by all NHS Orkney professional staff, as well as social work colleagues.

4.17.

The outcome of both sessions was a desire for flexibility at the proposed facility; a building which could continually meet people's changing needs, including extra care housing, where possible, all within the context of a Home First ethos. Despite vigorous debate and challenge, ultimately neither session dismissed the need of a replacement for St Rognvald House.

4.18.

The Integration Joint Board met in December 2020, to receive the requested report from officers, following the wider engagement they had previously requested. The Board noted the constraints of St Rognvald House; the inadequacy of the existing infrastructure and the move to Home First and Discharge to Assess, and endorsed the proposed, future-proofed, replacement 40-bed care home.

5. Revised Project Cost and Programme

5.1.

The substance of the revised Stage 2 Capital Project Appraisal approved by the Council on 30 June 2020 will not be changed as a result of this report as there will be no change to the scope or specification for the new care facility. However, as a result of recent construction tenders received, which have been in excess of approved budgets, officers have taken the opportunity to review the project cost for this project. There is a projected 9.7% increase in the pre-tender estimate for the construction work as building work has become more expensive, as a result of shortages due to COVID-19 restrictions and price increases for material that have been compounded by the United Kingdom's exit from the European Union.

5.2.

The cost estimate for the project has increased from £12,270,000 to £13,450,000 as a result of a review of the budget estimate having regard to recent tender submissions. The increase in project costs is primarily due to the increase in material prices as indicated in recent tender submissions, however it should also be noted that the floor area has increased due to the requirement to provide two covered walkways linking the accommodation wings. The floor area has increased from 3,088m² to 3,208m².

5.3.

Due to the increase in project costs and revised timescales, Annex 1 to the revised Stage 2 Capital Project Appraisal approved on 30 June 2020, relating specifically to the financial assessment of capital expenditure, has been revised and is attached as Appendix 2 to this report. There is no change to the forecasted revenue costs.

5.4.

The programme for the project has also been reviewed and is detailed in the table below. The timescale has changed from that contained in the approved Stage 2 CPA, with the design work now due to be completed in May 2021, procurement will follow, with construction due to start in October 2021. Completion of the construction phase is due in December 2023, with the facility operational early in 2024. The change in the programme is to take account of both the service needs and the affordability of the project. Another factor that should not be forgotten is the ability of the local construction industry to finance and manage a project of this nature.

Description	Start	Finish
Detail design	December 2020	May 2021
Procurement	June 2021	September 2021
Construction	October 2021	December 2023
Client Fit out	December 2023	January 2024
Operational	February 2024	
Demolition (if required)	February 2024	July 2024
Redevelop site	July 2024	February 2025

6. Corporate Governance

This report relates to the Council complying with governance and its financial processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

7. Financial Implications

7.1.

The revised capital project costs for the proposed New Kirkwall Care Facility has increased by £1,180,000 from the approved project budget of £12,270,000 to £13,450,000 as detailed in Appendix 2 to this report.

7.2.

The estimated cost of demolition and redevelopment of the St Rognvald House site for housing, at £500,000, has not changed as a result of the project review.

7.3.

A review of the affordability of the current five-year capital programme has concluded that there is sufficient headroom across the programme to accommodate the increase in project costs. Whilst noting that limited capacity exists to add any works to the current five-year capital programme, this has been made possible on this occasion by reducing the long-term pooled interest rate assumptions to 2.5%. This assertion also assumes that going forward the loan charges budget and General Capital Grant funding allocations are maintained at existing levels, and that the policy of accelerated debt repayments is retained.

7.4.

In September 2016, the Policy and Resources Committee recommended that the proposed new 60 bed care facility, at gross capital cost of £15,000,000, be funded on a 60:40 split of Strategic Reserve Fund contribution: General Fund Capital Debt. This principle of shared contributions had been carried through to the 40-bed project at £12,270,000 with an agreed 60:40 split and a Strategic Reserve Fund contribution of £7,362,000 and General Fund borrowing of £4,908,000.

7.5.

The recently published Independent Review of Adult Social Care in Scotland has however raised some doubts regarding the previously agreed funding approach. It is considered that the Council may be better able to maximise local investment through funding the revised Kirkwall care facility project budget of £13,450,000 through General Fund Capital Debt and redeploying a Strategic Reserve Fund contribution of 60%, or £8,070,000, against other projects in the current five-year capital programme.

7.6.

The operating cost neutrality assumptions of the care facility have not changed from the previous Capital Project Appraisal.

8. Legal Aspects

8.1.

In terms of Section 95 of the Local Government (Scotland) Act 1973, the Council must make arrangements for the proper administration of its financial affairs. As part of that, the Council is expected to have regard to economy, efficiency and effectiveness in its use of resources.

8.2.

In terms of Section 35(1) and (2) of the Local Government in Scotland Act 2003, the Council must determine and keep under review the maximum amount which it can afford to allocate to capital expenditure. In so doing, the Council must comply with regulations made by Scottish Ministers.

8.3.

The recommendations in this report to increase the existing provision within the General Fund capital programme for the new care facility in Kirkwall from £12,270,000 to £13,450,000 and for this to be funded by General Fund borrowing are contradictory to the decision of the Council on 30 June 2020, detailed in section 3 above.

8.3.1.

In terms of Standing Order 23.1, a motion shall not be competent if it is contradictory of a previous decision of the Council made within the last twelve months. However, in terms of Standing Order 23.2, it will be competent for the Council to review a decision before the end of the 12 month period provided that the Chief Executive is satisfied that a material change of circumstances has occurred.

8.3.2.

It is submitted that the projected 9.7% increase in the pre-tender estimate for the construction work as building work has become more expensive, as a result of shortages due to COVID-19 shortages and price increases for materials, constitutes a material change in circumstances.

8.3.3.

In addition, the recently published Independent Review of Adult Social Care in Scotland has prompted a reassessment of the previously agreed funding approach of a combination of a contribution from the Strategic Reserve Fund and borrowing from the General Fund. This is also a material change in circumstances and it is considered that the Council would be better able to maximise local investment through funding the revised project budget through General Fund capital debt and redeploying the Strategic Reserve Fund contribution against other projects.

8.3.4.

As such it is submitted that Standing Order 23.2 is engaged and that it is therefore competent to review the decision of the Council of 30 June 2020 without any requirement to suspend Standing Order 23.1.

9. Contact Officers

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10. Appendices

Appendix 1: Extract from Minute of Special General Meeting of the Council held on 30 June 2020.

Appendix 2: Revised Annex 1 to Stage 2 Capital Project Appraisal approved on 30 June 2020.

Appendix 1.

Kirkwall Care Facility

Revised Stage 2 Capital Project Appraisal

Extract from Minute of Special General Meeting held on 30 June 2020.

The Council noted:

15.1. That the proposal to increase care beds in Kirkwall to 60 was first approved in 2013 as an extension to St Rognvald House and was based solely on the anticipated increase in the elderly population.

15.2. That, although the Stage 2 Capital Project Appraisal to replace St Rognvald House, approved in October 2016, was based upon the same level of analysis, that analysis did not take account of changing models of care and, therefore, incorporated wide assumptions that the increasing elderly population translated directly into the need for additional care home beds.

15.3. That, in October 2016, when the project was approved, it was recognised that the increased revenue costs had not been identified.

15.4. That, following a review of the data used previously, the risk to the service of not having sufficient residential care places by 2035, as a consequence of the projected demographic increase in the ageing population, could be mitigated by adopting a proposal to build a 40 bed facility that was 'future proofed', with scope to build additional bed spaces in blocks of 10, should the need arise in future years.

15.5. That, although Hamnavoe House, Stromness, which opened in January 2020 with an additional eight permanent residential beds, increased the current number of residential beds in Orkney from 110 to 118, that additional provision was not included in the original data for the Needs Analysis.

15.6. That there was currently no revenue budget provision in respect of the additional residential beds, referred to at paragraph 15.5 above, as that was not identified as part of the original Stage 2 Capital Project Appraisal process.

15.7. The estimated capital and additional revenue costs for three options in respect of the proposed new care facility in Kirkwall, as detailed in section 12.1 of the joint report by the Chief Executive and the Chief Officer/Executive Director, Orkney Health and Care.

15.8. The estimated additional revenue costs for staffing a 60 bed care facility at £858,580 per annum, for which there was no budgeted provision going forward, with additional service efficiencies being required in addition to existing efficiency targets to fund that in advance of opening the new facility.

15.9. That the available workforce capacity was unlikely to support human resource-intensive models of care, such as residential care homes, in the future, and that assistive technology and community-based alternatives must be maximised to reduce dependency on residential care provision.

15.10. That enactment of the Public Bodies (Joint Working) (Scotland) Act 2014 required options for models of care and managing services within revenue budget to be the responsibility of the Integration Joint Board, whereas the provision of capital and buildings remained the responsibility of the Council.

15.11. That, although it was still too early in the development and deployment of Tech Enabled Care and support to understand the full potential of the opportunities that that approach currently offered, it was expected that Orkney Health and Care would continue to develop that new approach and significant progress would have been achieved by the time the new facility was ready for opening.

15.12. That the current revenue budget for St Rognvald House was £2,407,500 for 2020/21, with the assumption that a new 40-bed facility would not have additional revenue implications.

15.13. Options for the existing St Rognvald House site, including marketing for sale once construction of the new Kirkwall care facility had commenced to test whether that would be financially advantageous over redevelopment of the site, with the potential to generate a substantial capital receipt from disposal or redevelopment of the existing St Rognvald House site.

The Council resolved:

15.14. That, subject to approval by the Integration Joint Board, the revised Stage 2 Capital Project Appraisal in respect of the proposed new Kirkwall care facility, attached as Appendix 2 to this Minute, be approved, namely provision of a 40-bed facility at a capital cost of £12,270,000, with a revised start date for construction in Spring 2021 and delivery in Spring/Summer 2023.

15.15. That the project be funded through a capital contribution from the Strategic Reserve Fund of £7,362,000 and General Fund borrowing of £4,908,000.

15.16. That the construction contract for the proposed new 40-bed Kirkwall care facility should include an option to demolish the existing St Rognvald House building and redevelopment of the site, with provision of £500,000 for demolition and site redevelopment included in the capital programme on a cost neutral basis.

15.17. That the existing facility and site at St Rognvald House, Kirkwall, be offered for sale on the open market, for a period of one year, after commencement of construction of the new facility.

15.18. That, should no interest be received from advertising the existing facility at St Rognvald House, for sale, the Council should undertake demolition of the existing St Rognvald House and redevelop the site for serviced sites and/or social housing.

PROJECT APPRAISAL REPORT - STAGE 2
FINANCIAL ASSESSMENT OF CAPITAL EXPENDITURE

Committee:	OHAC
Capital Programme:	General Fund
Project Name:	Replacement Kirkwall Care Home

CAPITAL COSTS	Total £ 000	Previous £ 000	2019/20 £ 000	2020/21 £ 000	2021/22 £000	2022/23 £000	Onwards £ 000	Notes
1. Initial Costs (at inflated prices)								
Site / Property Acquisition	277.0	277.0	-	-	-	-	-	2
Other Site Costs (including Fees)	-	-	-	-	-	-	-	
Construction / Improvements	11,308.0	22.3	-	-	4,510.0	6,050.0	725.7	
Information Technology Costs	200.0	-	-	-	-	100.0	100.0	
Plant & Equipment	-	-	-	-	-	-	-	
Vehicles	-	-	-	-	-	-	-	
Professional Fees - Consultant	1,665.0	203.5	72.7	433.0	340.0	305.0	310.8	
- Client	-	-	-	-	-	-	-	
Gross Capital Expenditure	13,450.0	502.8	72.7	433.0	4,850.0	6,455.0	1,136.5	1
2. Initial Funding (at inflated prices)								
Government Grants	-	-	-	-	-	-	-	
Other Grants	-	-	-	-	-	-	-	
Other Financial Assistance	-	-	-	-	-	-	-	
Total Grants Recievable, etc.	-	-	-	-	-	-	-	
Net Capital Cost of Project	13,450.0	502.8	72.7	433.0	4,850.0	6,455.0	1,136.5	
Net Council Capital Expenditure	13,450.0	502.8	72.7	433.0	4,850.0	6,455.0	1,136.5	
Net Present Value	10,814.7	478.9	65.9	374.0	3,990.1	5,057.7	848.1	
Cost of Capital	5%	5%	5%	5%	5%	5%	5%	
Year		1	2	3	4	5	6	

Notes

1 Expenditure based on traditional procurement programme with an estimated start on site of October 2021

2 Site cost based on internal transfer of land

3

4

PROJECT APPRAISAL REPORT - STAGE 2
FINANCIAL ASSESSMENT OF CAPITAL EXPENDITURE

Committee: Orkney Health and Care

Capital Programme: General Fund

Project Name: New Build of St Rognvald House

REVENUE COSTS / (SAVINGS)	Total £ 000	2020/21 £ 000	2021/22 £ 000	2022/23 £ 000	2023/24 £ 000	2024/25 £ 000	2025/26 £ 000	Onwards £ 000	Notes
1. Full Year Operating Costs (at inflated prices)									
Staff Costs	16,727	2,183	2,248	2,316	2,385	2,457	2,531	2,607	1
Other Staff Costs (incl. recruitment, relocation, etc.)	-	-	-	-	-	-	-	-	
Property Costs	1,165	152	157	161	166	171	176	181	
Supplies and Services	759	99	102	105	108	111	115	118	
Transport, Vessel and Plant Costs	23	3	3	3	3	3	3	4	
Administration Costs	15	2	2	2	2	2	2	2	
Apportioned Costs	-	-	-	-	-	-	-	-	
Third Party Payments	-	-	-	-	-	-	-	-	
Transfer Payments	-	-	-	-	-	-	-	-	
Miscellaneous Expenditure	-	-	-	-	-	-	-	-	
Gross Revenue Expenditure	18,689	2,439	2,512	2,588	2,665	2,745	2,827	2,912	
2. Full Year Operating Income (at inflated prices)									
Government Grants	-	-	-	-	-	-	-	-	
Other Grants	107	14	14	15	15	16	16	17	
Rents and Lettings	-	-	-	-	-	-	-	-	
Sales	138	18	19	19	20	20	21	21	2
Fees and Charges	-	-	-	-	-	-	-	-	
Miscellaneous Income	-	-	-	-	-	-	-	-	
Gross Revenue Income	245	32	33	34	35	36	37	38	
Net Revenue Expenditure of Project	18,444	2,407	2,479	2,554	2,630	2,709	2,790	2,874	
Existing Budget	16,849	2,407	2,407	2,407	2,407	2,407	2,407	2,407	
Increase / (Reduction) in Revenue Costs	1,595	-	72	147	223	302	383	467	
Net Present Value	1,362	-	68	134	198	261	321	380	
Cost of Revenue	3%	0%	3%	3%	3%	3%	3%	3%	
Year		1	2	3	4	5	6	7	

Notes

1. This is on the assumption that the current level of staffing and other costs will not increase and therefore based on current budget.
2. The fees and charges sit within a separate cost centre but there may be a reduction in income due to 4 less beds depending on the mix of self funded to funded places occupied.