From the Service Director & Deputy DASS of Adults, Health and Communities

Regarding the Development of the former Osborne Grove Nursing Home (OGNH) site – financial analysis

Dear Colleague,

I am writing to update you on the financial analysis related to the redevelopment of the former Osborne Grove Nursing Home (OGNH) site, which has been paused. Below, I provide a summary of the key financial metrics and the reasons for our decision, covering the period from July 2019 to February 2023.

The pre-tender document estimated build costs at approximately £49.5 million, based on inflation predictions by the Royal Institute of Chartered Surveyors (RICS) as of February 2023. Additionally, gross operating costs—including personnel expenses (salaries, benefits, training), medical supplies and equipment, facility maintenance, food and nutrition, and administrative overhead—have been thoroughly assessed in accordance with the facility's design and staffing requirements.

The table below outlines these costs and their changes over time:

	Jul-19	Sep-22	Feb-23	change Jul 19 to Feb 23
	£m	£m	£m	
Capital Costs	30.84	49.54	49.5	61%
Borrowing Costs	3.43%		4.50%	31%
Assumed annual capital repayment costs	1.22	2.38	2.57	111%
Gross Operating Costs	5.36	9.95	7.94	48%
Assumed Income	-2.37	-4.66	-3.76	59%
Net Cost	2.99	5.29	4.18	40%
Existing Budgets	-3.69	-4.66	-3.57	-3%
(Surplus)/Deficits	-0.7	1.33	0.61	-187%
Cost avoidance		-2.31	-2.31	
Notional Surplus		-0.98	-1.7	
Cost per bed per week (£)	1,277	2,370	1,891	48%
Average cost per week paid for Nursing bed			1,074	
Max current cost per week (£)			2,213	

The decision to pause the project was influenced by the following factors:

1. **Cost Escalation**: The initial estimate for constructing a 70-bed facility was £30.84 million, but by February 2023, costs had surged to £49.5 million—an increase of 61%, driven by rising construction costs, in particular reflecting the cost of materials and labour post covid.
2. **Borrowing Costs**: Borrowing costs rose significantly from £1.22 million annually in July 2019 to £2.57 million by February 2023, reflecting the increased capital costs and the increased interest rates.
3. **Running Costs**: Operational expenses have increased by 48%, including capital repayment and staffing costs. The design of the building also had an impact on the operating model, necessitating a staffing model of above-market staffing to resident ratios for the style of provision.
4. **Break-Even Analysis**: Our initial financial models indicated a break-even point, that was affordable but with the current cost structure, the project no longer meets this threshold.
5. **Nursing Bed Rates**: The average weekly rate that the council pays for a nursing bed is now £1,075, and our projected rate for the development is £1,892 per week per bed based on current cost assumptions, which means the current cost per bed per week does not pass any value for money tests.

Given the financial pressures the council faces, we must be prudent. Paying anywhere close to £1,892 per week per bed is simply not feasible.

While our health colleagues have been supportive, they have been unable to commit to joint funding or a block purchase of beds. We continue to work with the Integrated Care Board (ICB) and the Whittington Hospital to find ways to provide the best care and support to our residents, and we remain open to future collaboration on this project.

We appreciate your understanding during this pause. As we explore alternative solutions and develop a revised business case, your continued involvement and insights will be invaluable. We will be in touch soon to discuss how we can reflect on lessons learned and improve as we move forward.

Please don’t hesitate to get in touch with me if you have any questions or need further clarification. We greatly value your partnership and commitment to enhancing our community’s care services.

Yours sincerely,

Vicky Murphy
Service Director & Deputy DASS - Adults, Health and Communities