Benefits Proposal

Opportunity Name:	Adults Commissioning for the Future		
Opportunity Description	To set out the opportunity for the Council to directly intervene in areas of market failure, and bring forward the development of new, high quality residential care capacity – improving outcomes for residents, attracting inward investment, increasing market sustainability and delivering material financial savings and income for the Council. This paper summarises the opportunity and the proposed approach and seeks approval to proceed with a market engagement exercise to capture the data required to inform the detailed options appraisal and associated business case, including full financial implications.		
Existing MTFS lines relating to opportunity	*None*		
Quantified opportunity over MTFS Financial Value (net of ongoing costs and net of existing MTFS value)	**£1.59m**	**Confidence level of value**	*High confidence in achieving £1.59m. Achieving upside through commissioning savings requires market engagement, options appraisal and a fuller business case to determine.*
Further benefit beyond the MTFS	Full run rate is achieved within the MTFS		

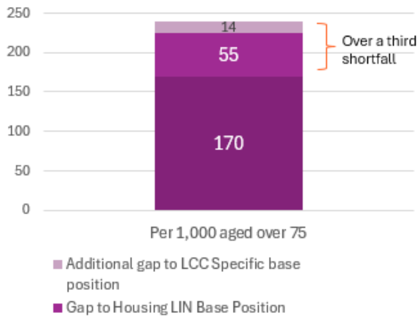
Evidence behind opportunity, local levers and proposed solutions:

The recent Adults and Communities Strategy, and most recent Market Position Statement for Residential and Nursing care both point to a need to increase the supply of quality, local, specialist accommodation for our older people.

Leicestershire has 25% less specialist older person housing than the Housing LIN base position, at just 170 specialist older persons housing per 1,000 people over the age of 75 – vs a base position target of 225, and a health and deprivation adjusted figure of 239 – representing significant under provision.

Prevalence rate of specialist older person housing

Leicestershire has 170 specialist older persons housing units per 1,000 residents over 75, compared to the Housing LIN's base position of 225*. This creates a gap of 55 homes, or 69 homes when adjusting to deprivation



This translates to a gap of around 1,800 units – and is expected to grow. 21% of residents are already over the age of 65, and it's estimated the number of people 65+ in Leicestershire will increase by 28% by 2035.

Just to maintain a sufficient and sustainable care market, there needs to be an increase in the rate of new residential supply by over 400% a year, otherwise there will be a 571-bed supply gap for LCC-funded places by 2032.

This would result in a forecasted cost pressure of £14.9m annually by 2032, a significant increase from the existing supply driven cost pressures of £8.56m today. Without change, this poses a risk to service delivery and outcomes for residents, and the council will face increased pressure on existing facilities, higher costs for both in and out-of-area placements, and potential safeguarding challenges.

The need for change was identified through:

- Demand modelling and the development of a 'care economics model'
- Market analysis revealing limited plans and appetite for new developments under traditional procurement models.
- Supply analysis of the utilisation of existing care assets and any expansion or reduction plans.

Leicestershire Older Peoples Accomodation Model	Market Indicators				
District	% LCC Funded Resi (Vs Supply)	Current LCC Funded Resi Placements	Difference between actual cost and target cost	Resi % Increase required 2040	Resi Cost Variance to Average
Blaby	23%	129	-£ 646,197.12	4%	112%
Charnwood	53%	329	-£ 1,974,230.30	57%	114%
Harborough	84%	277	-£ 1,980,178.82	83%	117%
Hinckley and Bosworth	78%	317	-£ 2,199,960.98	79%	116%
North West Leics	83%	247	-£ 3,015,899.64	129%	128%
Melton	59%	159	-£ 995,594.40	22%	115%
Oadby and Wigston	61%	204	-£ 638,683.20	10%	107%

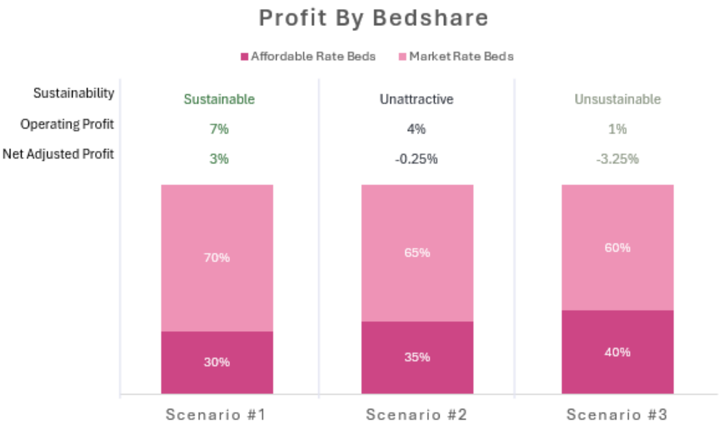
The three districts where the Council funds the vast majority of available residential care beds, are also the three districts with the greatest supply gap, and the three districts with the highest average weekly care costs. These three districts alone account for over two thirds of the total opportunity, and would cost £7.2m less per annum if they could be delivered closer to the target affordable weekly rate.

Although much smaller in scale, a similar scenario appears for nursing care:

Leicestershire Older Peoples Accomodation Model	Market Indicators				
District	% LCC Funded Nursing (Vs Supply)	Nursing Placements	Difference between actual cost and target cost	Nursing % Increase Requried 2040	Nursing Cost Variance to Average
Blaby	32%	19	-£ 120,953.24	998%	113%
Charnwood	66%*	32	-£ 823,174.98	282%	152%
Harborough	15%	42	-£ 273,945.00	137%	113%
Hinckley and Bosworth	40%	51	-£ 657,311.46	552%	126%
Melton	7%	11	-£ 30,420.94	148%	106%
North West Leics	23%	44	-£ 580,867.76	298%	127%
Oadby and Wigston	17%	30	-£ 244,202.40	132%	116%
**manually adjusted, see comments*					

The correlation is equally strong in nursing, with four of the districts where LCC funded placements are the highest, also being the four districts with the greater supply shortfall and the four districts with the highest average weekly bed costs.

From a market sustainability perspective, it's important the Council seeks to ensure that no more than 30% of nursing beds are purchased at Council affordable care rates, and no more than 50% of residential beds. The illustration below shows how the wrong ratio of affordable to market beds will increase costs to the Council:



It is proposed that we focus on the area of most pressing demand and divide the programme into "Waves". Wave 1 would focus on securing the development of 8-10 new dual-registered homes, with dementia specialism, where we already have supply issues today. This would create up to 400 Council funded beds by the end of 2029. Wave 2 would then meet the remaining demand pressures through creation of an additional 6-8 homes by 2032. For wave 1, these extra up to 400 beds would meet the current forecast demand increase, plus secure an additional c20 beds in each district, and over a period of 12-18 months, enable us to fill them by diverting beds from current, higher cost providers. Whilst this scale of impact may not seem significant, and does not represent many residents at a district-by-district level, overall it will be sufficient to have a cooling effect on the market and reduce some of the higher weekly rates we pay across the County, whilst also avoiding significant projected future cost increases. Whilst this is an economics-based assessment, and the fuller business case will delve into further detail, at a high level, it suggest a worst case scenario of several million in benefits, potentially worth in excess of £10m a year – justifying the investment required in building the business case.

This market intervention is expected to deliver two main savings:

Income – the delivery model would include securing a number of new care homes, then leasing these out to providers who would then operate services, with the Council therefore retaining control of the asset and quality of service provision, but also making a small surplus, with the lease income (estimated at 7.5%) exceeding the repayments (estimated at 6.25%). This could create an annual surplus of £1.5m - £2.0m

Commissioning – block buying beds at an affordable rate, or nomination rights, would deliver a saving against todays average weekly bed rate in several districts, and an even greater saving when compared to the projected cost in a do-nothing scenario, where demand materially outstrips supply.

There are several mechanisms by which the Council can seek to secure the addition beds it requires. Each will have different cashflow implications and wider considerations, and it's proposed they are explored through a comprehensive options appraisal as part of a business case development exercise, engaging closely with the market.

	1: Do nothing	2: Build, Own and Commission an Operator	3: Seek a commercial partner to Build and Operate	4: Build, Lease back and Commission an Operator	5: Build, Own and Operate	6: Full market-based approach	7: Joint Venture – build, own, operate
Summary	This approach involves relying exclusively on existing properties and purchasing individual placements from the independent care market.	The council would invest in constructing its own care home facilities, providing around 80 beds per site and commissioning an external operator to run services.	This option would see the council collaborating with an investment and delivery partner, who would build and operate care home facilities providing 80 beds per location.	In this model, a commercial partner builds the facility, the council leases it back, and services are commissioned to an operator.	Here, the council constructs care home facilities and manages operations directly through its own staff.	The council relies entirely on the independent care market for placements, with no direct involvement in facility ownership or operation.	This model involves forming a partnership with another organisation to share the building, ownership, and operation of care homes.
Advantages	Avoids any upfront capital investment. Continues current practice without disruptive changes.	Greater control over investments/design. Long-term value for money as properties appreciate. Stable bed capacity and service continuity, mitigating risks of market exits or provider breakdowns. Revenue generation possible through rent charged to the operating partner. Ability to design facilities for long-term efficiency and cost-effective maintenance.	Reduces the council's need for direct capital investment. Leverages commercial expertise in construction and operation.	Relieves the council of large upfront construction costs. Allows for commissioning of an operator to maintain service standards. Potentially faster development timelines due to commercial partner efficiency. Typically, lower cost per unit due to market efficiencies/competitive advantages over the Council directly delivering	Full control over service quality, staff training, and operational standards. Stable bed capacity and long-term value for money, with all revenue retained for reinvestment. Care provision can be aligned with council's strategy. Reduces risk of market disruption from provider breakdowns.	No capital investment or operational demands fall on the council. Competitive market pressures may drive innovation and cost-effectiveness.	Shared capital and operational risks and costs. Access to partner expertise in construction, care delivery, or operations. Opportunity for innovation and increased efficiency. Retains partial council ownership and influence over quality and strategic direction. Advantages increase as scale of delivery increases, most suitable at £100m+ PA delivery.
Disadvantages	High risk of bed shortages if market prices rise or supply contracts, especially for skilled or complex care beds. Potential need for out-of-county placements, which may inconvenience service users and families. Minimal council control over market stability, care quality, or costs. Exposure to risks such as provider breakdowns or market exits.	Requires significant upfront capital investment. Demands extensive planning, project management, and resource allocation. High risk in terms of delivery, especially in relation to cost and time overruns. Recently PWLB cost increases reduce attractiveness to occupiers/operators, increase risk for Council and have negative impact on prudential indicators/MRP	Higher construction and borrowing costs may be passed to the council. Limited council control over facility design and ongoing maintenance costs. Financial commitments tied to long mortgage terms may hinder flexibility. Risks remain around provider breakdowns and market exits.	Long-term lease agreements may become less cost-effective over time due to escalating costs. Reduced council influence over facility design, possibly failing to fully meet local needs. Complexity and cost in exiting or renegotiating lease terms if requirements change. Operational risks remain with quality and continuity if operators change.	Council assumes full responsibility for recruitment, retention, and workforce management—resource-intensive and demanding specialist expertise. Significant upfront capital and ongoing operational costs increase financial exposure. Subject to regulatory and demand fluctuations.	Minimal control over placement quality, availability, and affordability, making the system vulnerable to market fluctuations. Risk of higher costs or fewer placements if the market contracts or providers exit. Short-term financial savings may be outweighed by long-term risks.	Complex and time-consuming to establish and manage joint ventures, requiring robust agreements on governance and profit sharing. Potential for disagreements or misaligned objectives between partners, leading to delays or operational conflict. Council remains partly exposed to cost, operational, and market risks. Strong legal frameworks are needed to ensure alignment with council goals and delivery of high standards.

Business Case Development:

Recognising any investment in building new capacity would represent a major decision and commitment for the Council, it's proposed that this opportunity progresses to more detailed design. Following stakeholder and market engagement over the next few weeks, the project team will develop a business case aligned with the Green Book Principles/ to HM Treasury 5 case standards. The business case will be presented to CMT in May 2026. In addition to the standard business case areas, it's expected the business case will address the below key questions:

- Strategic Case
  - A robust case for change, how this programme supports Council priorities, is aligned with LGR, the outcomes we will achieve and how it will be delivered. It will also clearly articulate the forecast demand pressures at a local/district level and how this translates to home by home requirements.
- Economic Case
  - An options appraisal against no change, traditional model using PWLB, a Public Private Partnership model, and other key models. This will include specific questions on aspects like land availability, key priorities for the Council, and how the various options compare on a whole life cost basis. It will also set out the underlying care economics model and how the preferred options demonstrate the best value for money to the Council. This section will include risks and mitigations, optimism bias and approach to monitoring and evaluation. This section will also explore self-funder demand and ability to pay, and the impact of the two tier care model on the preferred option, risk and underlying financials.
- Commercial Case
  - How we will procure this and approach the market, including specific procurement advice on the route to transaction (Public works vs exempt lease transaction), how we will engage providers, approach to competitive dialogue, heads of terms for any future lease and how we will manage the contracts effectively throughout their life, including any commercial risks and mitigations.
- Management Case
  - How we will deliver the programme, a detailed delivery and project plan, resources, accountability, proposed governance and key milestones. How we will fill the homes, the demand, profile and risks. Subject to Economic and Commercial case, this will also set out how the Council would deal with any freehold or land implications and how we will manage assets from an estates and risk perspective.
- Financial Case
  - A detailed financial model, setting out all financial implications, at an in year, MTFP and whole life level, approach to time or cost overruns, and some technical decisions, including any specific tax or VAT implications, accounting implications and balance sheet impact, and key financial risks and mitigations.

Delivery approach and timelines

This is a major decision, and it's recommended that this opportunity moves to market engagement and detailed business case development, including a comprehensive options appraisal on delivery mechanisms, and a full assessment of the financial implications – however, initial viability modelling has proved positive.

This business case will also need to determine the scale of the intervention and how many homes to build and at what pace.

Governance and high-level milestones:

Governance and milestones for the overall programme will be set out in the business case. Key milestones in the run up to business case in June include:

- April 2026 – design engagement methodology, approach and collateral, agree “design standard” for new homes, commence market and stakeholder engagement.
- May 2026 – complete engagement phase and develop business case.
- June 2026 – present business case to CMT.
- July 2026 – assuming approved at CMT, move to delivery, initiate competitive dialogue to agree specific homes and impacts.
- September 2026 – bring back specific business cases for cabinet approval.
- November 2026 – appoint developer and commence delivery
- Mid-2028 – planning approvals and “breaking ground” – construction starts
- Late 2029 – opening of new homes and delivery of benefits.

Benefit Profile

	Lease Income	
	In-year spend reduction	**Cumulative benefit**
FY 26/27	-	-
FY 27/28	-	-
FY 28/29	£1.43m	£1.43m
FY 29/30	£0.16m	£1.59m

Benefit profile assumptions

Project start date: 1st August 2026

Mobilisation, market engagement and build: 21 months

Time to fully utilise capacity: 12 months

Lease income realised once capacity has been created

Risks & Dependencies (Known today)

Risks will be fully assessed during the options appraisal and business case development, as they vary depending on the proposed mechanism, but key risks include:

Insufficient demand for beds	We are only addressing c30% of forecast gap and will further mitigate though the stakeholder engagement phase
No appetite in market/deal can't be done	Mitigated through the stakeholder engagement phase and structure of competitive procedure
LGR is disruptive	Ensuring delivery commences ahead of LGR and building "place based" so easy to divide by future council areas.
Delays to completion or cost overruns	PPP where Council does not incur any cost until asset is operational and sub-leased
Land availability and planning	Working with development partner rather than direct Council acquisition. Using CMT’s relationships with districts to help accelerate

Council has limited capital/revenue to invest and some of the savings are avoided cost	Delivery model that sees the Council not incurring any cost until homes are up and running, and an operator is appointed - delivering small annual rent premium to Council, direct savings from nursing and residential care budget, and some significant avoided cost. Detail to be included in business case.
Expected impact	
Staffing impact	Limited
Service levels impact	Limited
How would LGR impact this opportunity?	This opportunity will become less attractive post-LGR, as a number of the delivery mechanisms are only attractive at scale, that future, smaller Council's may struggle to achieve.
Officer Recommendation for next steps	Approval to proceed with a market engagement exercise to capture the data required to inform the detailed options appraisal and associated business case, including full financial implications.
Newton Recommendation for next steps	Recognising the scale and complexity of this opportunity, and capex exceeding £100m, recommend proceeding to market engagement to capture missing data, undertake detailed options appraisal and develop Greenbook business case, returning early summer for a decision.