

Assessing the 'usual cost' of care in Plymouth

There are two key elements in assessing the 'usual cost':

1. The Cost of Care (including: staffing costs, repairs and maintenance and non-staff costs)
2. A contribution recognising a Return on Capital be that the cost of debt and/or a return on owners funds/equity.

A Financial Survey form was sent out to care homes to complete, providing information relating to:

- Description of care home including the effective maximum occupancy, the level of occupancy 2012/13 and 2013/14, the approximate capital value and the type of ownership.
- Staffing levels for both care staff and qualified nursing staff.
- The cost of care based on a full year's costs.

The information provided by the care homes was used to enable Plymouth to calculate a 'usual cost' based on the 2013/14 year. There were two care homes who provided 2012/13 financial information and this was inflated using the recommended inflationary uplifts provided by PricewaterhouseCoopers. (PwC), our appointed advisors.

PwC did not undertake an audit of the financial model or verify the input data but did review the assumptions made and confirmed that the methodology used in Plymouth's model, which provides for a weighted average in many of the costs, follows PwC's own approach and is more specific than multiplying costs by a simple average of provider information.

I. EFFECTIVE MAXIMUM OCCUPANCY

Based on the feedback from last year's consultation with care homes in Plymouth it was felt to be important that we looked at the number of beds now available within care homes rather than the number according to CQC. This is because since initially registering their beds a number of care homes have converted double rooms to single rooms thus reducing their overall availability. This reduction in beds has not always been registered with CQC as there is no requirement to do so. Two care homes were contacted as the reduction in the number of beds declared was greater than 10%. In both cases it was because double room had been converted to single rooms. One care home declared more beds than registered with CQC saying that the CQC figure was wrong and they had been trying to correct this for some time. The QAIT team confirmed this.

Beds	Plymouth	Range	
	Average	From	To
Number of beds available	39	14	77

The larger bedded homes were generally those who provided both nursing and residential care.

2. OCCUPANCY

Returns from the financial survey.

Occupancy	Plymouth	Range	
	Average	From	To
Occupancy 2012/13	87%	76%	98%
Occupancy 2013/14	91%	70%	95%

Independent Survey

An independent survey of the number of available beds in Plymouth and type of occupancy levels within older people care homes was undertaken in partnership with Plymouth Care Home Providers Ltd, South West Care Homes Ltd and Plymouth City Council. This was completed in December 2013, based on information for week commencing 4 November 2013, with 29 responses from care homes.

The average occupancy was 93.6% with the range of 71.4% to 100%. Nine homes reported 100% occupancy. Average residential occupancy was 95.4% and nursing 91.1%. The report commented on these occupancy rates being above the national average.

The independent survey looked at the source of fees, ie whether the residents were funded by Plymouth City Council, Health, Private or other. These findings are now compared to the data available for the actual percentage of beds funded by the Council and by Health for 2013/14. The independent survey broke down the source of fees as compared to the occupancy level and not the available beds.

Purchaser compared to occupancy level	Plymouth CC	Health	Private and Others
Independent survey wb 04/11/13	53.0%	17.3%	29.7%
PCC care home payment system	50.9%	21.9%	27.2%

When comparing purchased beds to available beds the percentage of publically purchased beds reduces.

Plymouth City Council and Health's purchase compared to available beds	Plymouth CC	Health	Remaining Beds Available
PCC care home payment system	44.8%	20.2%	35.0%

3. STAFF HOURS PER RESIDENT PER WEEK

The number of care hours provided per resident per week is an important indication of dependency levels in a home and can be a reflection of the overall quality of care provision. The required information was provided by all homes that completed the return.

Our assessment of hours per resident per week is based on the occupancy levels for the year and the number of staffing hours per week provided by the care homes.

3.1 Care Staff

Blended care hours	Plymouth	Range	
	Average	From	To
Blended care hours incl activity co-ordinators	24.12	19.6	27.6
Blended care hours excl activity co-ordinators	23.28	19.0	27.0

One care home stated that all staff, including gardener, maintenance, laundry personnel etc, are actively involved with residents engaging them in the areas of work they are involved in as well as other activities. For this calculation we used the average number of hours for the activity co-ordinator across the other care homes for this one home.

We then needed to differentiate between the hours provided for older physically frail and dementia residents, both in residential and nursing care homes. In 2008 Laing and Buisson stated that there continued to be no consistent evidence of any significant difference in the level of care staff in nursing homes whether for the physically frail or those with dementia. In keeping with our policy to reflect the greater needs for staffing levels in nursing homes providing care for residents with dementia we have applied, within our split of the blended care hours, the same level of differential between the physical frail and those with dementia as in residential care homes. In order to do this we used the Laing and Buisson original hours per resident per week to split the blended hours above.

Split care hours	Plymouth split pr pw	L&B 2008 pr pw	Increase
Nursing – older frail	21.27 hrs	20.5 hrs	0.77 hrs
Nursing – dementia	25.30 hrs	20.5 hrs	4.80 hrs
Residential – older frail	21.27 hrs	18.5 hrs	2.77 hrs
Residential - dementia	25.30 hrs	22.0 hrs	3.50 hrs

3.2 Nursing Staff

Nursing hours	Plymouth pr pw	L&B 2008 pr pw	Increase
Nursing	8.3 hrs	7.5 hrs	0.8 hrs

4. STAFF COSTS

Care homes were asked to provide the total annual cost for their staff split down by:

- Management to include the registered manager and deputy
- Administrative staff, reception, general admin
- Qualified nursing staff
- Care staff
- Kitchen staff
- Domestic staff
- Other

The guidance asked care homes to include all on costs including national insurance, pensions, leave etc. If care homes were not able to do this and accounted for their annual spend by showing all costs separately then we asked that care homes entered the total amount in the ‘staffing costs not included above’ box, listing out the individual type of cost.

Three care homes entered their staffing on costs in this box but with no breakdown. In order to ensure that we had included all staff costs when comparing and identifying an average hourly rate we applied a pro-rata across the breakdown of staffing to include these other costs.

4.1 Care and Nursing Staff

We calculated the hourly rate for care staff and nursing staff by taking the annual spend divided by the number of beds filled as declared by the care home divided by weeks in a year to give the spend per resident per week. The weekly spend

was then divided by the number of care hours per resident, ie the total number of care hours / nursing hours for the week as provided by the care home divided by the number of beds filled. The Plymouth model assumes that the level of care staff and nursing staff is dependent upon the actual occupancy levels and therefore the full cost declared has been included in the Plymouth average hourly rate.

Hourly rate	Plymouth	Range	
	Average	From	To
Nursing	£15.63	£12.02	£17.32
Care staff	£7.65	£5.17	£9.32

Nursing staff

When comparing to the Laing and Buisson hourly rate for Plymouth in 2008/09 of £11.61 and inflating by the pay award percentage increases for NHS nursing staff the uplifted hourly rate is £11.99. It is, however, recognised that since 2008/09 it is likely that there has been an above inflation increase in the hourly rate paid to care home nursing staff in order to recruit and retain their staff but the average nursing hourly rate of £15.63 appeared high. Guidance from PwC suggests an hourly rate per occupied bed nearer to £14.00 per hour.

A mid-way point between the inflated Laing and Buisson figure and the care home average figure provided a figure of £13.81 which has been used in the Plymouth model.

Funded Nursing Care is paid as a contribution towards the cost of nursing care support in care homes. The 2013/14 FNC rate was £109.79. Using the above hourly rate of £13.81 and the average nursing hours per resident of 8.3 the cost for nursing care is £114.62, rounded to £115, which is in excess of the level of FNC paid.

Care staff

The average figure of £7.65 per hour for care staff appears low, however guidance from PwC states that £7.65 per hour as a weighted average for occupied beds is not actually that low but is on a par with other exercises that they have undertaken. Please note, the cost of the activity co-ordinators, nor their hours, was included in this calculation as the cost of the activity co-ordinators is included in the 'other' line.

The hourly rate of £7.65 has been used in the Plymouth model.

4.2 Non care staff

The range of weekly cost per staffing group varied considerably due to the size of each home, how the home is managed, eg by employed manager or owner managed etc. In addition, some homes grouped their staffing costs differently.

The Plymouth model assumes that the non-staffing, eg the management, administrative, gardener, driver etc are non-dependent on occupancy and therefore the weighted average is calculated on the average occupancy of 91%.

Per resident per week	Plymouth Average	Grouped	Weighted 91% occupancy
Management	£32.86	£33.31	£30.31
Administrative staff	£7.92		
Kitchen staff	£21.52	£56.35	£49.67
Domestic staff	£21.74		
Other: handyman, gardener, activity co-ordinator, driver etc	£9.32		

The rates of £30.31 and £49.67 have been used in the Plymouth model.

5. REPAIRS AND MAINTENANCE

All care homes who responded completed the section on repairs and maintenance with one care home giving a bottom line figure and four other homes combining figures. We have therefore taken the bottom line to provide an average for the Plymouth model.

The range of weekly cost varied considerably with no continuity as to whether a group home, a residential or nursing home or the size of the care home. Care homes were asked to provide details if they felt that their accounts for the specific year declared showed above or below the normal costs. There were no comments that supported these variations.

Per resident per week	Plymouth Average	Range		Weighted 91% occupancy
		From	To	
Repairs and maintenance	£20.40	£6.54	£37.07	£18.57

The Plymouth model assumes that repairs and maintenance for the building and grounds is not, in the main, dependent on occupancy and has used the figure of £18.57 reflective of a 91% average occupancy level.

6. ACCOMMODATION COSTS

There are a number of other costs for care homes that relate to accommodation. Some of these will be dependent on occupancy; food, utilities including water, activities, medical supplies whereas other costs such as IT, telephone, rates, uniforms, recruitment as well as group overheads will not be dependent on occupancy.

We found considerable variation in costs.

- Food ranged from £20.38 to £41.48 per resident per week
- Cleaning materials from £0.55 to £11.11 per resident per week
- Water from £0.92 to £8.48 per resident per week
- Medical supplies from £0.00 to £16.14 per resident per week (*nb the zero entries were from non group homes as well as group homes*)

Because the declared costs varied considerably we have applied a standard deviation of two lower / two higher but give the full range below.

We have also considered the differences between head and regional office overheads and standalone care home operators. Within the surveys returned there was a split of eight group homes and six single homes. The average accommodation costs are 13.6% higher within the group homes.

The advice received from PwC is that there may be double accounting within the accommodation costs when including the Contribution to Group Head Office as we have already included the staff costs of Management and Administration within non-care staff. As well as potentially duplicating the costs of staff managing relationships with Group Head Offices, as above, we could be rewarding smaller homes, partnerships and sole traders who do not belong to larger groups and therefore make no contribution to such Head Offices. Aside from the implicit contribution to Group Head Offices provided by the Management and Administration costs there is also the return on equity referenced above. The cost of debt for larger groups is also often cheaper than smaller providers who don't have access to the finance markets. By considering such contributions to Head Offices - an element not included in either the Laing & Buisson model of PwC's - it might well be defined that we are moving beyond looking at costs local to Plymouth.

We are aware, however, that there are a number of costs that are included within the Contribution to Head Office figure and by not including this contribution figure we would be distorting the average if we included the zero entries on these other cost lines for the Group homes. For example; legal and professional fees together with accountancy fees etc. Our calculation for the average fee has therefore discounted the zero entries.

However, we have made an allowance for the tax costs of the homes as providers rightly incur such a charge for operating efficient and non-loss making homes.

Accommodation costs dependent on occupancy:

Per resident per week	Plymouth	Range used for average	
	Average	From	To
Food	£25.64	£20.38	£30.69
Water	£6.65	£5.12	£8.48
Utilities: gas, electric etc	£12.91	£8.04	£25.59
Medical supplies	£2.65	£0.52	£4.04
Activities	£1.46	£0.03	£3.71

Accommodation costs not dependent on occupancy:

Per resident per week	Plymouth	Range used for average		Weighted 91% occupancy
	Average	From	To	
Cleaning materials	£5.21	£0.55	£11.11	£4.74
Housekeeping renewals	£1.00	£0.41	£5.79	£0.91
Telecommunications	£2.09	£0.67	£3.68	£1.90
Insurance liabilities	£3.23	£1.36	£6.15	£2.94
CRB	£1.15	£0.21	£3.93	£1.04
CQC	£2.75	£1.78	£3.91	£2.50
TV Licence	£0.11	£0.07	£0.76	£0.10
Council tax / rates	£0.75	£0.38	£1.71	£0.68
Stationery	£1.93	£0.05	£3.88	£1.75
Marketing	£0.66	£0.08	£3.91	£0.60
Recruitment advertising	£0.50	£0.04	£4.47	£0.45
Legal and professional fees	£2.32	£0.57	£11.30	£2.11
Accountancy fees	£3.75	£1.23	£18.52	£3.41
Uniforms and work wear	£0.37	£0.16	£1.11	£0.34
Waste collection	£2.82	£0.97	£5.83	£2.56
Transport, vehicle costs	£3.74	£0.19	£12.95	£3.40
Training qualifications	£1.61	£0.41	£6.22	£1.47
Tax				£6.82
Other	£8.28	£0.08	£47.80	£7.53
Total				£45.28

7. RETURN ON CAPITAL

The Council recognises that the largest one-off outlay providers will have incurred is the cost of acquiring or constructing the residential and/or nursing homes. Included in the model is an allowance for these capital costs. In the model, the Cost of Capital represents both the mortgage costs (cost of debt) and the return on owners' funds (cost of equity) of the providers and is again calculated on an occupied bed per week basis.

In their responses providers gave the Council approximate capital values of their care homes. From these returns a capital value per occupied bed could be calculated and using the average levels of debt (expressed as a percentage), the average cost of debt, equity levels and expected returns on equity, all returned by providers, a cost of debt/return on equity per occupied bed per week can be reckoned.

The average return on equity as suggested by providers in their returns and calculated as an average was deemed to be too low by PwC who, based on market knowledge, suggested a figure of 12% be used instead. The average cost of debt was calculated as 4.53% and was deemed to be reflective of the market by PwC. The calculation for Cost of Capital was, therefore, based on the above rates utilising a gearing ratio of debt to equity of 60:40. PwC are content with these calculations which add £50 to the weekly cost of care across all four fee levels.

8. INFLATION ADDED FOR 2014/15 AND 2015/16

Staffing costs

Care Staff:

We have looked at the NMW uplift which is 1.9% for 01/10/13 and 3% for 01/10/14. Therefore for 2014/15 we have averaged this to 2.4% and applied 3% for 2015/16.

Nursing staff:

We have applied 1% for 2014/15, as per Agenda for Change and again 1% for 2015/16 as we understand there is a two year agreement of 1%.

Management and admin:

We have applied 1% for both years. This is in line with local authority staff and our view is that these posts are not subject to the NMW.

Other non-care staff, eg catering, domestics etc:

We have applied the same as with care staff ie 2.4% for 2014/15 and 3% for 2015/16 as our view is that these posts are likely to be subject to the NMW.

Other non-staffing costs

The Office of National Statistics (ONS) now favour the Consumer Price Index (CPI) as a more accurate measure of price inflation. We have use the CPI inflation indices to identify the inflationary increase to April 2014 for the 2014/15 fees. The current data available is up to May 2014 so for the 2015/16 fee levels we have looked at the percentage change between March and May 2014. If an increase in the percentage change we have used the increase figure. If a negative percentage change we have applied a zero percentage change. This has given an estimated fee level for 2015/16.

Narrative	2014/15 CPI	2015/16 CPI	2015/16 applied
Repairs and maintenance	-0.3%	0.4%	0.4%
Food	1.7%	-0.6%	0.0%
Water	4.5%	2.4%	2.4%
Utilities, electricity, gas	5.2%	5.0%	5.0%
Cleaning materials	2.2%	2.8%	2.8%
Housekeeping renewals	0.8%	2.0%	2.0%
Telecommunications, including IT	2.3%	1.0%	1.0%
Insurances	2.5%	3.0%	3.0%
Stationery	2.2%	1.4%	1.4%
Marketing	1.2%	1.1%	1.1%
Recruitment advertising	1.2%	1.1%	1.1%
Legal and professional fees	1.2%	1.1%	1.1%
Accountancy fees	-1.2%	-2.3%	0.0%
Uniforms and work wear	0.4%	-0.2%	0.0%
Waste collection	1.2%	1.1%	1.1%
Transport, vehicle running costs	-1.0%	0.4%	0.4%
Training, qualifications	1.2%	1.1%	1.1%
Medical supplies	2.4%	2.6%	2.6%
Activities	0.6%	1.1%	1.1%
Other	1.2%	1.1%	1.1%

For the following cost lines we have identified the actual inflationary increases as per the Government web sites for 2014/15 and have applied the same level of percentage change for 2015/16 to provide us with an estimated figure.

Narrative	2014/15 Gov	2015/16 Gov	2015/16 applied
DBS (CRB)	0.0%	0.0%	0.0%
CQC	1.5%	1.5%	1.5%
TV Licence	0.0%	0.0%	0.0%
Council tax / rates	1.99%	1.99%	1.99%

9. PLYMOUTH CARE HOME FEE STRUCTURE

Our current fee structure provides six domains:

Nursing older frail

Nursing dementia

Residential older frail standard

Residential older frail enhanced

Residential dementia non DQM

Residential dementia with the DQM

In addition we recognise that there can be exceptional care needs for some residents and an individual fee level is calculated. The additional fee paid can vary and it is not always clear as to whether the final fee is due to exceptional needs or a choice in care home / room which requires a higher fee than the Council would normally pay and there is a corresponding third party payment. This has led to some confusion and delays in uplifts to fees.

When we consulted with care home providers last year the feedback from care homes was that they wanted the Council to continue the Dementia Quality Mark programme to raise the standards across all residential care homes providing care for older people with dementia.

Proposal for consideration

We would like to take the opportunity to smooth out the current range of fees and build in to the fee structure a fee to recognise complex needs, not just for those with dementia.

Nursing standard

Nursing complex and dementia

Residential standard, including dementia in non DQM care homes

Residential complex and dementia (DQM)

10. FUTURE YEARS' FEE LEVELS

It is not helpful, for either providers or the Council, to find ourselves in the position of negotiating fee levels well in to the financial year. To avoid this we propose a five year agreement with fees being uplifted each year by the CPI percentage change in a year. To enable this to be calculated in time for an April uplift our proposal is that we compare a year's percentage change based on the December figures.

Based on the estimated inflationary levels for 2015/16 and the proposed fee structure to recognise the cost of complex care needs, the 2015/16 fees would be:

