

## Open Book Exercise – Independent Social Worker and Accountant Report

### Executive Summary

Herefordshire Council commissioned an open book review of nursing and residential care for older people in July 2012. An open book review is based on the principles of fairness and transparency, enabling a balanced approach to commissioning services of an acceptable quality that represent value for money, within a climate of increasing demand for services and significant financial constraints and cost pressures for both commissioners and providers. The Council appointed 2 independent leads – an accountant and a social care specialist – to complete the review, which has been based on the model developed by the Rowntree Trust and Laing & Buisson (L&B). No authority could be found who used the L&B model for anything other than as a comparison tool. Other authorities do not use the L&B model and have devised their own cost model to measure costs.

The review considered completed questionnaires presented by care homes and also looked at other authority fees. It reviewed the history of fee changes and has been completed offering four (4) options for the Council to consider:

- a. Do nothing – continue to pay current fee rates.
- b. Revise the rates as per findings of review of care homes in Herefordshire.
- c. Revise the rates as per benchmarking of West Midland and comparator authorities and as a result of the local market.
- d. Remove the quality impact which increased fees in 2010.

The indicative cost to Herefordshire per resident per week of each of these options is shown in table 1.

**Table 1**

|          | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) | Nursing Care (Dementia) |
|----------|---------------------------------|-----------------------------|-----------------------------|-------------------------|
| Option A | £386 - £407                     | £402 - £468                 | £581 - £683                 | £581 - £683             |
| Option B | £441 - £496                     | £441 - £496                 | £648 - £711                 | £648 - £711             |
| Option C | £401                            | £434                        | £538                        | £556                    |
| Option D | £386                            | £402                        | £581                        | £581                    |

\*FNC and incontinence of £112.70 is included in all fee calculations above. Herefordshire currently pay this and claim it back from the CCG.

Option B includes profit at 5% and return on accommodation and land of 7%

The review has highlighted discrepancies between what is paid in Herefordshire in comparison to neighbouring authorities. These are indicative values and Cabinet have to make a decision regarding what constitutes a fair rate.

## **Introduction**

Herefordshire council appointed Glyn Morgan MBE, an independent chartered accountant and Kathy McAteer, an independent social care expert to carry out a review of nursing and residential care homes.

Open Book Accounting is a method of providing transparent accounting methods that allows providers to describe their expenditure whilst enabling commissioners to understand all aspects of service delivery and forward investment.

Resultant discussions provide a means of arriving at a better understanding and resolution of pricing issues. It can also provide a mechanism for year on year negotiations in a rapidly changing market place. It assumes mutuality of purpose and a mature attitude from both parties, together with a willingness to resolve sometimes difficult discussions.

Within the Laing & Buisson (L&B) model and narrative reference is made to the need to consider local market conditions and local pay rates. Local conditions have been utilised where possible. Where this has not been possible, i.e. building values, the L&B model has been referred to. This is clearly mentioned in the report.

There are 45 Care Homes in Herefordshire which care only for older people and those older people with Dementia. Care homes were invited to complete a questionnaire to provide cost information which could be used. Three (3) of the homes were part of a block contract with Herefordshire and have not been included in the survey. This leaves a total of forty two (42) homes who were invited to submit cost information. The minimum response expected was 15%. If the return rate was a minimum of 15%, it was considered the information gathered could be used as it would be statistically relevant as a representative sample. The exercise being carried out demanded a higher proportion of responses and aimed at 50% of all homes responding to make the figures reflective and reasonable. Working with providers and helping them to complete their returns ensured the return rate was sufficient to be considered representative. Independence was maintained throughout the exercise, providers were continually informed the purpose of the exercise was to ensure all stakeholders were considered equitably.

## **Method**

A questionnaire was completed which was based on models used in other local authorities. There was consultation with the Council's commissioners and care home providers and the questionnaire was amended to take into account comments made by all stakeholders.

An invitation to a workshop was sent to all providers offering them the opportunity to influence the questionnaire. Those who were unable to attend were asked to forward any comments they had by email to the independent accountant. There were no responses via email. Fourteen (14) providers

attended the workshop representing ten (10) homes. Changes requested were considered and subsequently a number of amendments were made to the questionnaire. The workshop was run by Glyn Morgan and Kathy McAteer. There were no members of the Council at the workshop, this was intentional so that care home providers could focus on the review process and the questionnaire rather than wider Council / provider relations. It was important for the providers to be aware of the independence of both consultants and this was pointed out at the workshop and again in a bibliography provided with the terms of reference to all providers.

## **Response**

Initial responses were expected to be reasonable with a number of providers attending the workshop saying they would assist the process. The questionnaire was released on 2 January with a deadline for return of 1 February. At the steering group meeting on 14 January it was reported that no responses had been received. All owners were then contacted to see if they were proposing on sending in a response and whether they needed any support to complete the return. These phone calls and additional contacts were carried out by the independent accountant employed by the Council.

At this stage, three (3) of the Providers said they would not take part in the exercise, of the remaining thirty nine (39) twenty one (21) said they would complete. The remaining eighteen (18) did not give an indication as to whether they would complete the questionnaire or not.

The independent consultants offered continual support, informing all providers the accountant employed to carry out the work would visit them. A 'drop in' session where providers could visit was also offered. No providers attended the 'drop in' session.

Extensions to the deadline were offered following requests from some care home providers. A final deadline was offered to all care home providers of 15 February 2013.

Twenty care homes did not take part in the exercise, some changed their mind during the process, initially saying they were fully supportive but failing to submit the questionnaire. A full list of reasons offered for non-completion is shown below:

Extension requested and given but questionnaire not submitted (4)  
Did not want to divulge data (2)  
Did not think it would make a difference (2)  
Didn't want to take part (10)  
Owner did not return call (2)

Importantly twenty two (22) of the care homes did respond and we were able to use their responses to identify the costs for Herefordshire care homes.

## **Process**

The Laing and Buisson (L&B) model is a nationally recognised tool and was considered in the preparation of the Herefordshire cost model. Over recent years there has been a tendency for care homes, especially nursing homes, to become much bigger – for example, Laing & Buisson is based on a business model of 50 beds per home compared to the much smaller homes in Herefordshire. The Care Quality Commission (CQC) in 2009 identified that generally nursing homes are twice the size of residential care homes. There is no doubt that larger homes offer greater economies of scale (though a CQC report published in 2009 evidences that smaller homes generally provide higher quality care). It is fair to say that in some authorities benchmarked with Herefordshire the market is more dominated by larger homes often managed by large national providers. However, following the collapse of Southern Cross, there have been increasing concerns about the financial viability of some of the biggest private care home owners.

The care home market in Herefordshire is dominated by a wide range of small care home owners rather than the large national companies. Likewise, home sizes in Herefordshire average out at 32 beds. This will have a significant impact on care costs and needs to be taken into account when benchmarking costs with other authorities.

Some economies of scale can be achieved using larger homes but the care home market in Herefordshire is based on much smaller homes. Land prices used in the L&B model are much higher than land prices in Herefordshire and advice was taken from the Councils own property valuer to ensure the land valuation included was fair and representative of local market conditions.

The cost model developed has been separated costs into three categories:

- a. Staff Costs
- b. Other Non-Staff Costs and corporate overheads
- c. Capital Costs

## **Staff Costs**

Actual costs were included in the questionnaire returns. Providers offered actual hourly rates paid and rosters which highlighted hours of work. The rates offered and the hours included were reviewed against actual accounts provided to ensure wage rates were roughly the same as accounts produced. All information received from providers was included in the cost model. Staff costs reported in the cost model were expected to be similar to those included in the accounts provided by the care home provider. Information was obtained which included staff costs for all staff who had front line duties with older people and all other grades of staff. This included all carer staff, managerial staff and any other staff costs that were clearly marked as staff costs. Some head office costs which would have included staff costs have been included in

corporate overheads as it was not possible to separate those costs as specifically staff costs.

Costs in nursing homes were higher than the cost of care in residential homes. In nursing homes staff costs ranged between £333 and £429 offering an average staff cost of £371. All nursing homes who submitted a questionnaire return were included in this calculation. Residential home staff costs ranged between £167 and £338 offering an average staff cost of £241. There were no significant outliers with a fairly even spread of costs between the minimum and maximum. One of the residential homes who submitted a return did not have their information used. This was due to inaccurate information, the care home, concerned were approached and asked to provide more reliable information. The care home could not provide the required level of information because of staffing difficulties.

To ensure reasonableness a comparison was made with staff costs included in the L&B model and also with those returns submitted which did not have supporting papers. The L&B model staff costs highlighted average costs of £437 and £291 for nursing and residential care homes respectively.

All staff costs including employer national insurance, sick pay, holiday costs, agency staff and pension costs were considered in the staff cost calculation. By comparing financial accounts supplied by providers and reviewing this against the cost model it was possible to ensure the questionnaires had included all salary related costs. Table 2 highlights the findings for staff costs.

**Table 2**

| Staff Costs             | Residential | Nursing |
|-------------------------|-------------|---------|
| Herefordshire (Average) | £241        | £371    |
| L&B                     | £291        | £437    |

The differences in staff costs could be for a number of reasons, L&B use an average cost based on a survey of the five biggest providers of care utilising working hours and also have calculated their costs based on occupancy levels of 90% whereas the Herefordshire model is based on actual cost and actual occupancy levels provided by homes. Actuals provided by care homes have been compared to care home accounts where provided to ensure accuracy.

Some of the Herefordshire care home staff cost may be included in corporate overheads. Non-staff costs in nursing homes are far greater than the L&B model. The L&B model did not gather corporate overhead costs whereas Herefordshire have obtained actual figures where possible direct from care homes. Comparing staff costs between the two models is therefore difficult and an overall check against total staff, non-staff and corporate overhead costs is advised. This comparison is considered in All Non Capital Costs – An Overview below.

## **Non Staff Costs**

All non-staff costs, including repairs and maintenance, day to day running expenses and corporate overheads have been considered. Corporate overheads in the L&B model have been assessed at a straight 10%. Herefordshire care homes were able to provide actual costs for corporate overheads as well as food, repairs, maintenance and all other non-staff costs. Herefordshire care home corporate overheads averaged out at 6%. The Herefordshire corporate overhead percentage cost has been used in all calculations.

All costs supplied were checked to accounts where produced to ensure the accounts were adequately reflected in the return provided. The sixteen (16) providers who offered questionnaires that were not spoilt were all included in the assessment. Five (5) providers offered their own calculations and these were also reviewed against the assessment. No significant differences were found.

Some consideration was given to taking outliers out of the calculation, but because many of the providers included their costs into different categories; repairs, other non-staff costs and corporate overheads a total of staff, non-staff and corporate overhead costs would be the best way to compare the two models. All returns were included in the calculations.

L&B included non-staff costs including corporate overheads as £159 and £151 for nursing and residential care respectively. Herefordshire care homes non staff costs including corporate overhead are £208 for nursing homes and £139 for residential homes.

The range for nursing homes was £107 - £269 per resident per week and for residential homes £78 to £192.

**Table 3**

| Non Staff Costs | Residential | Nursing |
|-----------------|-------------|---------|
| Herefordshire   | £139        | £208    |
| L&B             | £151        | £159    |

It is not possible to compare like with like costs with the L&B model. Herefordshire providers included costs in different categories and so an overall review of all staff, non-staff and overhead costs is the preferred option for comparison.

### **All Non Capital Costs – An overview**

Herefordshire care homes were able to provide actual information relating to their homes including corporate overheads. The L&B model has used a % mark-up to decide corporate overheads and this has made comparisons between the two models difficult. Table 4 shows the actual non capital costs included in the L&B compared to those within the Herefordshire model.

**Table 4**

| All Non Capital Costs     | Residential | Nursing |
|---------------------------|-------------|---------|
| Herefordshire (Base Rate) | £380        | £579    |
| L&B                       | £441        | £594    |

The difference in costs of nursing is negligible and not considered further, however the difference in residential costs is significant. The difference highlighted above is £61, however the difference in staff costs between the two is £50 per resident per week.

The Herefordshire cost model has been completed based on actual information received and checked against the accounts of those residential homes where the detail has been supplied to ensure staff costs included in the cost model is similar to those in the accounts presented. Nine (9) of the residential homes questionnaires could be used in the cost model and Seven (7) of these provided staff detail in their accounts which could be used to compare the cost model.

The reasons for the difference are not clear, however L&B have not used actual staff costs, but have used average information provided by large care homes, they have not reviewed actual accounts to review their findings and have used an average occupancy level of 90% to calculate a per resident per week cost. Herefordshire residential care homes reported 94% occupancy. Care home providers have offered actual costs and these have been used.

The rates in table 4 offer an indication of the minimum funding need to continue to operate before profit and a return on accommodation is considered.

## **Capital costs**

All care home providers must receive a return on their capital employed as well as a profit margin to ensure they do not leave the market and receive a reasonable profit for their stakeholders. Some providers did supply capital information but there was insufficient information from all providers to allow the use of the data provided. Building costs in the L&B model have been used as the base so a % return can be calculated.

## **Profit**

Determining the profit stakeholders should receive is difficult. What level of profit would make somebody invest? The L&B model suggests profit should be in the region of 10%, however it has been difficult to find any safe havens where a profit return of 10% could be received. Only the very riskiest of investments allow for a level of return of 10% or more.

BUPA profit in the UK for 2011 and 2012 calculated as profit against revenue has been calculated as 5.6% and 4.4% respectively.\* This reflects two years

of profit against all of BUPA business in the UK. The average over the two years is 5% and this has been used as the profit margin.

To provide an indication of the levels of profit Herefordshire should consider to be reasonable table 5 is offered calculating the cost to the Council per resident per week dependent upon an agreed level of profit. Profit has been calculated as a percentage mark up on staff costs, non-staff costs and corporate overhead.

**Table 5**

|            | Residential           | Nursing               |
|------------|-----------------------|-----------------------|
|            | Per resident per week | Per resident per week |
| Base Rate  | £380                  | £579                  |
| +5% Profit | £19                   | £29                   |

\*Source –  
BUPA results announcement and financial statements for year end 2012

Providers should also receive a return for money they have tied up in the land and buildings they use for providing care.

### **Return on Accommodation & Land**

Return on accommodation and land is based on the return required for providing fully operational land and accommodation for the purposes of the care sector. There is no industry standard for what percentage return should be received on capital employed in the care industry. Individual care homes will have their own thoughts on what the expected rate of return should be. The L&B model suggests return on building and land values should be assessed at 7% and have completed their calculation based on the purchase of land and the costs of providing a fully functional care home building.

The Herefordshire cost model has also used a return of 7% but some comparison should be made to the rate of return that may be possible elsewhere. Table 6 offers the best bank rate that can be found if an owner was investing their money in a fixed interest bank savings account and the return from the FTSE for the last 12 months.

**Table 6**

|                              |      |
|------------------------------|------|
| Bank Interest rate (fixed)** | 2.5% |
| FTSE – 12% per annum*        | 12%  |

\*FTSE information has been obtained from iwebsharedealing last 12 months dated April 12 2013.

\*\* The best bank interest rate is sainsburys 2.5% 5 year fixed interest rate.

Return on land and buildings has been assessed at 7% for the Herefordshire cost model.



## Land

Land values included in L&B do not reflect land valuations in Herefordshire. Their model has been completed using an average size home of 50 beds. This is much larger than the average size of a care home in Herefordshire which on average provide 32 bed accommodation.

Land costs included in the 2012 L&B model have been based on a 50 bed home with average land prices of £810,000 per acre. Herefordshire land values for building a new care home has been valued at between £350,000 and £550,000 per acre by the Herefordshire council valuer and represents the cost of buying land to build a care home in Herefordshire.

Return on the cost of land in Herefordshire has been assessed at 7%.

## Accommodation

It is more difficult to offer a return on accommodation as many of the care homes did not provide sufficient information to enable a calculation.

L&B have included a 7% return on accommodation for build costs including equipment and professional fees to include additional equipment where required and gives an allowance for start-up losses. No better method of calculation could be found to assess the costs for Herefordshire and so the build value included in the L&B model have been used in the Herefordshire cost model.

L&B have calculated this using the 2008 model updated to take into account major corporate group information obtained in February and March 2012. L&B have estimated a return per resident per week based on build cost, equipment use and start up losses.

Table 7 shows the return on accommodation per resident per week for land and buildings. Various rates are highlighted so differences in costs based on the selected rate can be considered.

**Table 7**

|              | Residential           | Nursing               |
|--------------|-----------------------|-----------------------|
|              | Per resident per week | Per resident per week |
| +2.5% Profit | £35                   | £36                   |
| +5% Profit   | £69                   | £71                   |
| +7% Profit   | £97                   | £103                  |
| +10% Profit  | £138                  | £142                  |
| +12% Profit  | £167                  | £171                  |

## Overall Findings

Care homes were able to provide actual cost information which could be used to provide a fair average cost across care homes in Herefordshire. Table 8 offers a direct comparison between costs included in the L&B model and costs reported by care homes in Herefordshire.

The table includes all costs reported by care homes which have been reviewed and analysed. Cost of capital and profit has also been included. For Herefordshire and for the purpose of this table the rates included in the L&B model have been used to ensure consistency, profit in the L&B model is assessed at 10% and Land and Building cost of capital has been assessed at 7% of the land and building valuation.

**Table 8**

|               | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) | Nursing Care (Dementia) |
|---------------|---------------------------------|-----------------------------|-----------------------------|-------------------------|
| L&B           | £527 - £596                     | £553 - £623                 | £689 - £767                 | £699 - £777             |
| Herefordshire | £449 - £515                     | £449 - £515                 | £659 - £740                 | £659 - £740             |

A full cost was prepared for each of the homes and the results were analysed and discussed with the owners of each home where it was possible to ensure accuracy. Some home owners were not available to discuss the findings of their own homes.

Herefordshire care homes did not provide sufficient data to suggest a significant difference in costs when comparing older people and those older people with dementia. This is in contrast with national research which demonstrated that residential care homes unit costs were usually higher than for residents with dementia. This is explored more later.

The costs are summarised in Table 9.

**Table 9**

|                 | Residential Care Maximum | Residential Care Minimum | Nursing care Maximum | Nursing Care Minimum |
|-----------------|--------------------------|--------------------------|----------------------|----------------------|
| Staff Costs     | £241                     | £241                     | £371                 | £371                 |
| Non Staff Costs | £139                     | £139                     | £208                 | £208                 |
| Capital Costs*  | £135                     | £69                      | £161                 | £80                  |
| Total           | £515                     | £449                     | £740                 | £659                 |

\* Capital cost includes, 10% profit element for the owner and 7% return on land and building. Minimum rates represent the reduction for quality alluded to in the L&B model

## Considerations

There are a number of considerations to take into account before a recommendation on fee levels can be made. These need to include:

**Benchmarking** - Costs against national and family group comparators as well as neighbouring councils

**Quality** – How fee levels align to delivery against quality standards and whether fees should be standard or banded

**Inflation** – Should inflationary increases be built into fees so this exercise should not have to be considered again for a further 5 years.

**Enhanced payments for dementia** – National research identifies that costs within nursing homes does not vary for residents with dementia, but does impact on staffing levels within residential homes.

**Top-ups** - How do top ups impact on the rates paid by the Council

### Benchmarking

The L&B has indicated in their fair price for care document (fourth edition) the following costs

**Table 10**

|                                   | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) | Nursing Care (Dementia) |
|-----------------------------------|---------------------------------|-----------------------------|-----------------------------|-------------------------|
| L&B                               | £527 - £596                     | £553 - £623                 | £689 - £767                 | £699 – £777             |
| Average fee paid according to L&B | £477                            |                             |                             |                         |

\*L&B do not offer an average fee paid for nursing homes

Information has been obtained from a number of different sources to ensure fair comparisons take place. Three separate comparisons have been considered, direct neighbours, West Midland authorities and authorities in the comparator group. Tables 11, 12 and 13 highlight the Herefordshire fee paid and the average of the results obtained from each of the benchmarked groups

### Table 11 – Benchmark against near neighbours

Three neighbours provided their fees

|                 | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) * | Nursing Care (Dementia) * |
|-----------------|---------------------------------|-----------------------------|-------------------------------|---------------------------|
| Average         | £406                            | £426                        | £419                          | £434                      |
| Herefordshire   | £407                            | £468                        | £570                          | £570                      |
| <b>Variance</b> | <b>£1</b>                       | <b>£42</b>                  | <b>£151</b>                   | <b>£136</b>               |

\* FNC is not included in the table above

\*\* Source – Documentation received from neighbouring authorities.

### Table 12 – Benchmark against West Midland authorities

Taking an average across six (6) West Midland authorities indicates the average fee is:

|                 | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) * | Nursing Care (Dementia)* |
|-----------------|---------------------------------|-----------------------------|-------------------------------|--------------------------|
| Average         | £372                            | £413                        | £405                          | £418                     |
| Herefordshire   | £407                            | £468                        | £570                          | £570                     |
| <b>Variance</b> | <b>£35</b>                      | <b>£55</b>                  | <b>£165</b>                   | <b>£152</b>              |

\*FNC of £108.70 paid in addition to the fees shown above

\*\* Source – direct correspondence with West Midland authorities

Table 12 highlights Herefordshire are paying more across all aspects of care than authorities across the West Midlands. No home could be found in the West Midlands that paid the minimum rates as suggested in the L&B report.

### Table 13 – Benchmark against comparator authorities

There are 14 comparator authorities, source • NASCIS001 – National Indicator Set 2010-2011 Report and NASCIS003 - Referrals, Assessments and Packages of Care Comparator Report. and attempts were made to obtain data from them all. Ten (10) authorities provided their rates and the average of the rates paid are shown in Table 13.

|                 | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) | Nursing Care (Dementia) |
|-----------------|---------------------------------|-----------------------------|-----------------------------|-------------------------|
| Average         | £409                            | £439                        | £441                        | £465                    |
| Herefordshire   | £407                            | £468                        | £570                        | £570                    |
| <b>Variance</b> | <b>£2</b>                       | <b>£29</b>                  | <b>£129</b>                 | <b>£125</b>             |

\* FNC of £108.70 is paid in addition to the fees above

Source – correspondence with comparator authorities

Table 13 highlights Herefordshire are paying more across most aspects of care than its comparator authorities.

## Nursing Care

Comparisons across all of the benchmarked comparator authorities highlight Herefordshire pay substantially more for Nursing Care than any other authority. Herefordshire pay £570 per resident per week for nursing care. The maximum that could be found amongst any of the other ten (10) authorities where information could be obtained was £510. This is £60 per resident per week below the rate paid in Herefordshire.

The range of payments made excluding Herefordshire was £399 To £510, all authorities confirmed that FNC was paid in addition to the fees included in table 13.

On average Herefordshire pay £125 - £129 per resident per week more than comparator authorities.

## Residential Care

Residential care findings suggest that Herefordshire Council pay £2 less than comparator authorities for older people care and £29 more for older people with dementia care.

The range of payments made excluding Herefordshire is £364 - £490. Herefordshire rates for residential care are broadly similar to comparator authorities.

Reviewing house prices across the West Midlands and comparator authorities does not show that Herefordshire is a particularly affluent area with the average price of a house in 4 of the comparators greater than Herefordshire by over £50,000. Three authority's house prices were lower by over £50,000 so the additional fees paid by Herefordshire as opposed to comparator authorities is not because of higher house prices. Source Zoopla dated 16 April 2013

Nothing could be found to suggest Herefordshire was a high wage payer and so this was discounted as a reason for higher fees being paid than comparator authorities. Fees paid by Herefordshire council are higher than comparator, West Midland and neighbouring authorities.

The difference was so significant that the open book review had to consider, by way of an overview, the reasons for this.

Table 14 shows the rates paid over the last 4 years.

**Table 14**

|              | Residential Fee | Nursing Fee |
|--------------|-----------------|-------------|
| 1 April 2009 | £386.40         | £413.30     |
| 1 April 2010 | £460.00         | £560.00     |
| 1 April 2011 | £460.00         | £560.00     |
| 1 April 2012 | £468.00         | £572.30     |

The rate increase in 2010 was significant, and this appears to be because of a change in system to reflect additional quality requirements, although the rationale for the increase is unclear. The increase represented a nineteen (19) % increase in residential fees and a thirty five (35) % increase in nursing fees. No financial analysis could be found to support the increase in 2010.

## **Quality**

It is essential that the fees paid by the council for the provision of services are linked to the delivery of high quality outcomes for service users.

The Government sets out national minimum standards for residential care provision based on outcomes in 6 key areas of user involvement and information, personalised care, safeguarding, quality & management and management suitability. CQC inspects homes against the minimum standards and publishes the judgements on the CQC website, thus providing accessible information for potential service users, families and professionals. Care Homes are, however, no longer given star ratings to represent the overall judgement. Commissioners of care services need to ensure that services purchased deliver against the required quality outcomes as set in the contract specification, and cannot depend on CQC judgements alone.

Over recent years many Local Authorities, including Herefordshire, have paid different fee bandings linked to quality based on CQC star ratings. This was usually implemented through the payment of a minimum fee paid for care homes rated by CQC as 1 star (adequate) and a premium for those homes rated by CQC as 2 stars (good) or 3 stars (excellent). Care Homes rated 0 stars (poor) being in breach of contract with the council. This provided a fairly simple system of monitoring which was, however, heavily dependent on the star rating system. The quality of provision can change very quickly over a short period of time and is dependent on a number of complex organisational and managerial factors, as evidenced through adult safeguarding investigations and quality monitoring processes such as Herefordshire's "Quality Concerns" procedures. This is not always reflected in the latest published CQC judgements.

The rationale for paying quality premiums was based on the desired outcome of pushing up the standard of residential care across the market– it was intended to reward home owners for achieving a higher standard of quality (i.e. the ideal/desired level of quality) and to act as an incentive for home owners to strive to deliver a higher quality service. The argument was that, without a quality premium, the overall quality of provision will fall to the lowest denominator. However, work completed by the Personal Social Services Research Unit in 2012, (*"Care Markets in England: Lessons from Research"* (PSSRU June 2012) identified that there is no research evidence to support this rationale. PSSRU did identify clear research evidence that greater market competition driven by price has resulted in a lowering of quality. It also found clear evidence that minimum standards will drop below the acceptable unless there is robust monitoring.

Laing & Buisson (2012) has identified that fewer than 1 in 5 councils are now paying quality premiums or banded rates compared to 75% two years ago. Local authorities have 2 options

1. To apply a fair fee, payable at a flat rate, with the expectation that all providers meet the desired level of quality as set out in the contract specification
2. To apply a minimum and maximum fee with at least 2 bandings that links payment to the level of compliance with quality – i.e. a reduced fee for those homes who meet the minimum national standards but fall short of the council's desired quality standards.

With both options it is feasible to put in place self-assessment processes for providers to submit evidence of compliance with the required standards. However, the second option of operating differential bandings requires use of a scoring system and would require a validation process (e.g. quality monitoring visits by council staff) as well as a decision making process to agree the payment banding. There would also need to be a regular review process and an appeals process (for example, to make payment decisions if there is evidence that quality has deteriorated or improved). There would be significant resource implications and increased transaction costs for the Council of introducing option 2.

The financial analysis of local care costs has identified that Herefordshire pays more for Care Home provision than other local authorities (see section on benchmarking). To maintain fee levels and minimise additional costs, it is proposed that there is one flat rate fee paid for residential care and one fee for nursing home care, and that this fee is linked to compliance with quality outcomes set out within the contract. This will require the development of an outcomes-based quality specification as part of a new contract with providers. This specification should be developed in co-production with care home providers and be designed so that providers can provide self-assessment evidence of compliance.

## **Inflation**

To ensure an open book review does not have to occur annually, inflation has to be considered. Prices will need to be reviewed regularly. Taking inflation into account should mean there is no need to review care cost prices for residential and nursing homes for the elderly for the next five (5) years.

The Governments preferred method of inflation is the Consumer Price Index (CPI). Council Rate rises can be above or below inflation. For 2013/14 council tax is set to rise by 1.9%. The CPI in January 2013 was 2.7%.

The open book review has highlighted that any rise or reduction in fees paid should be considered against that paid by neighbouring, West Midland and comparator group authorities. Herefordshire should not stand alone.

Inflationary increases should be aligned to other council services, but prior to making any decision to change rates to be paid the Council must consider what is paid elsewhere to ensure consistency across all comparator groups.

## **Dementia**

Many Local Authorities, including Herefordshire, have paid a higher premium when placing older people with dementia into a residential home. Laing & Buisson (2009) identify that residential homes do need to provide a higher staffing level and this costs more, but nursing homes do not. The needs of residents with dementia varies significantly depending on the severity of their condition – residential care home owners commonly report that the majority of residents placed display some signs of dementia. However, those with more severe dementia usually require significantly more support. At the severest end of the continuum, care costs may be funded by NHS Continuing Health Care rather than the Council, though it is more likely that such service users are already placed in nursing homes.

The findings of the Open Book Review financial analysis suggests that the residential care costs are not significantly higher in Herefordshire for residents with dementia. This may be because of a number of factors and would need further investigation to verify. However, this is supported by an Alzheimer's Society report published in February 2013 stating that 80% of care home residents – more than ever thought before – have either dementia or severe memory problems. Without further investigation by commissioners, the findings do not suggest that a premium should be paid for residents with dementia who are placed in residential care.

## **Top ups**

Each local authority sets the maximum amounts that it will be prepared to pay for residential and nursing home care. These are referred to as the local authority's 'usual costs' and should be set at a level 'sufficient to allow the council to meet assessed care needs'. The Open Book Review identifies a fair fee level that should be sufficient to meet the majority of needs.

If a service user **chooses** to live in a care home that costs more than the local authority's usual cost, the local authority can arrange this provided that another person is willing to meet the difference between the usual cost and the actual level of the home's fees. This is known as a top-up or third-party payment.

A service user cannot be asked to find a third party to make a top-up payment if they have moved into a more expensive home out of necessity rather than personal preference.

The local authority remains ultimately responsible for the full amount of the care home's fees when it arranges the placement. Authorities should establish that the third party (or resident) making the top-up payment is likely to be able to meet that commitment for the duration of the arrangement



before agreeing to it. Top-up payments should be distinguished from charges made for extra items not covered by the home's basic fees, which are permitted.

Local authorities cannot set their usual costs at an unrealistically low level and seek top-up payments as a matter of course. They 'have a statutory duty to provide residents with the level of service they could expect if the possibility of resident and third-party contributions did not exist'.

A recent analysis carried out by L&B for Age UK, found that the number of people paying top up fees was on the increase mainly due to local authorities changing their baseline rates. Age UK has warned that many clients are not offered accommodation which fits into a local authority's baseline fee rate, which leaves them no choice but to top up fees themselves or with help from family. Source Localgov.co.uk dated 8 April 2013, report by Laura Sharman

## Results

Table 15 highlights the costs included in the Herefordshire cost model and fees paid by Herefordshire as well as average fees of authorities in the West Midlands as well as those authorities considered closest to Herefordshire in shape and size known as benchmarked authorities.

**Table 15**

|   | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) | Nursing Care (Dementia) |
|---|---------------------------------|-----------------------------|-----------------------------|-------------------------|
| <b>Actual Cost</b>                      |                                 |                             |                             |                         |
| Hereford Cost Model* (base rate)        | £380                            | £380                        | £579                        | £579                    |
| Hereford Cost Model**                   | £496                            | £496                        | £711                        | £711                    |
| <b>Actual Fees Paid (including FNC)</b> |                                 |                             |                             |                         |
| Herefordshire                           | £407                            | £468                        | £683                        | £683                    |
| Average across West Midlands            | £372                            | £413                        | £514                        | £527                    |
| Average across Comparator authorities   | £409                            | £439                        | £550                        | £574                    |

\*Without profit and the cost of capital

\*\*Includes profit and cost of capital elements rates, of 5% and 7% respectively. Rates used for comparison purposes. FNC of £108.70 included in the fee calculations above

## **Costs**

In cost terms Herefordshire pay more for care than the cost model pre profit and the cost of capital. Once profit at 5% and Return on accommodation at 7% are added Herefordshire pay less than the cost model.

## **Fees**

The results show Herefordshire pay more than the average paid by all comparator authorities for all forms of nursing and marginally more for residential care for older people with dementia.

## **Options**

The open book review has provided evidence which suggest actual cost for all non-capital elements of nursing care is roughly the same as the L&B model.

For residential costs there are differences between the two models which relates to staff costs. This is because of the different methods used to calculate staff costs. Herefordshire residential care homes provided their own income and expenditure statements and these were used to ensure staff costs included throughout the cost model fairly reflected the costs incurred by care homes.

The review has highlighted differences in what is paid by other authorities, identified actual costs incurred and has reviewed historical changes in fees paid. Consideration has to be given to the following four options to determine payments to be made by the Council going forward.

There are 4 options to consider:

- a. Stay with the same rate as is currently being paid.
- b. Apply the rate that has been concluded upon within the open book review with quality aspects built in so a higher and lower rate is applied. These rates include 5% profit and 7% return on accommodation which is the same method used by L&B. Base rates which do not include any profit or return on accommodation are shown in Table 15.
- c. No authorities could be found which paid the same as L&B and consideration has to be given to paying similar to that being paid by other authorities in the sample selection which is made up of West Midland authorities and comparator groups. The average rate for those is included in Table 16.
- d. Re-consider the 2010 judgement and disregard the higher rate for 2\* homes fully accepting revised terms and conditions.

The cost per resident per week for all four options are shown below in Table 16

**Table 16**

|             | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) | Nursing Care (Dementia) |
|-------------|---------------------------------|-----------------------------|-----------------------------|-------------------------|
| Option A    | £386 - £407                     | £402 - £468                 | £468 - £570                 | £468 - £570             |
| Option B**  | £441 - £496                     | £441 - £496                 | £648 - £711                 | £648 - £711             |
| Option C*   | £401                            | £434                        | £429                        | £447                    |
| Option D*** | £386                            | £402                        | £468                        | £468                    |

\*For Option C, a further payment of £112.70 is currently paid for FNC & incontinence

\*\*For Option B a sum of £112.70 must be taken off the nursing cost should Herefordshire decide to pay at these rates.

\*\*\* For Option D, the increase to rates in 2010 for quality have been removed and the rates increased by rates set out by Herefordshire in 2011 and 2012.

\*\*\* For Option D, a further £112.7 is currently paid for FNC and incontinence

Each option is now considered a little further

### **Option A**

Nursing rates were upgraded by approximately 35% in 2010. No rationale can be found to support the rise and this rise put Herefordshire out of line with comparator and West Midland authorities. Option A is not recommended

### **Option B**

The base line for Herefordshire based on returns from care home owners was similar to those included in L&B with the only significant difference being for residential care home staff costs which are lower in Herefordshire. This is because of the differences in calculation methods used. L&B have used an average figure based on much larger home costs whereas the Herefordshire model has been constructed using actual information and compared against income and expenditure accounts provided.

As part of option B, some consideration has to be given to profit and return on accommodation. Profit is included in the Herefordshire model at 5%, this is based on market rates. Return on land and building values has been included at 7% although the best fixed rate found was 2.5%. Stock market rates are currently providing a return of 12%. Given the nature of the stock market and taking into account returns expected against investment off people who enter business a rate of 7% as included in the L&B model appeared reasonable.

Table 16a highlights base line cost, profit and a return on buildings and land.

**Table 16a**

|                                    | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) | Nursing Care (Dementia) |
|------------------------------------|---------------------------------|-----------------------------|-----------------------------|-------------------------|
| Option B base line                 | £380                            | £380                        | £579                        | £579                    |
| Profit at 5%                       | £19                             | £19                         | £29                         | £29                     |
| Return on accom at 7%              | £97                             | £97                         | £103                        | £103                    |
| Reduction for FNC and incontinence |                                 |                             | £113                        | £113                    |
| Option B fee*                      | £496                            | £496                        | £598                        | £598                    |
| Current Fee                        | £407                            | £468                        | £572                        | £572                    |
| <b>Variance</b>                    | <b>£89</b>                      | <b>£28</b>                  | <b>£26</b>                  | <b>£26</b>              |

\* This would be the maximum that could be paid. No reduction in quality has been considered in this rate

### Option C

Benchmarking has allowed us to consider what rates are paid elsewhere. It has also highlighted the need for more benchmarking before increasing or reducing fees in the future. A review of fifteen (15) comparator and West Midland authorities was undertaken and the highest rate, lowest rate and average rate of all compared to authorities is shown below.

**Table 16b**

|                            | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) | Nursing Care (Dementia) |
|----------------------------|---------------------------------|-----------------------------|-----------------------------|-------------------------|
| Option C Highest rate paid | £490                            | £490                        | £510                        | £510                    |
| Option C Lowest rate paid  | £326                            | £373                        | £375                        | £382                    |
| Option C average           | £401                            | £434                        | £429                        | £447                    |
| Current Fee                | £407                            | £468                        | £572                        | £572                    |
| <b>Variance</b>            | <b>£6</b>                       | <b>£34</b>                  | <b>£143</b>                 | <b>£125</b>             |

In all instances, nursing care has an additional £112.70 paid for FNC and incontinence.

It would not be fair to suggest Herefordshire should pay at the minimum rate as this would disadvantage care homes. If we are to discount the lower fee, we should also discount the higher fee which leaves an average fee that should be considered as the fee to pay care homes in Herefordshire which would bring care homes into line with comparator groups and West Midland authorities.

## Option D

Option D has been considered because of the sizable increase in fees paid in 2010. Nursing and residential care homes both had substantial increases at the time so long as they achieved a 2\* quality score. It is unclear whether this has ever been monitored and further investigation would be required to check. Consideration should be given to reverting to the 2010 rate which represented 1\* care which included homes fully accepting revised terms of the contract, the 2010 rate should be increased in line with other increases identified since 2010.

**Table 16c**

|  | Residential Care (Older People) | Residential Care (Dementia) | Nursing care (Older People) | Nursing Care (Dementia) |
|--|---------------------------------|-----------------------------|-----------------------------|-------------------------|
| Homes accepting safeguarding, quality and CRB revisions and fully accepting terms of contract – 1* homes | £386                            | £407                        | £468                        | £468                    |
| Herefordshire Pay  | £407                            | £468                        | £570                        | £570                    |
| <b>Variance</b>  | <b>£21</b>                      | <b>£61</b>                  | <b>£102</b>                 | <b>£102</b>             |

In 2010, a supplement was added for all care homes who were classed as 2\*. The difference between what constitutes a 1 or 2\* home is unclear, however the criteria attached to it and the additional quality expected in 2010 could be removed. To receive the lower rates shown in table 16c care homes had to fully accept revised terms of the contract.

Herefordshire pay higher rates to nursing homes than any other authority approached. The reason for this is due to the decision taken in 2010 which increased nursing rates by thirty five (35) %. No rationale can be found to support the increase made in 2010 and no financial appraisal appears to have been carried out, although further investigation would be required.

## Conclusion

The open book exercise is a transparent process which has reviewed all elements of fees and costs for older people who are in residential or nursing care homes. The exercise has been carried out by independent experts in social care and accountancy who have reviewed the costs provided by care

home providers, reviewed the fees paid by Herefordshire and considered quality aspects to ensure the needs of all stakeholders have been considered.

In general costs in care homes in Herefordshire were similar to those costs contained within the L&B model, however of the fifteen (15) other authorities where fee detail could be gathered none could be found that pays close to the rates included in L&B. Herefordshire fees for nursing homes are much higher than any other authority and residential homes are on a par.

The exercise has identified four options the Council must consider:

Option A. Leave the rates as they are.

Option B. Increase rates to cover all costs, give a return on land and buildings of 7% and profit of 5% to providers.

Option C. Reduce rates so they are in line with benchmarked authorities, or

Option D. Revert to 2010 rates, dispose of the 2\* quality rating included and ensure care homes provide the service required as 1\* rates which would still have to meet statutory requirements.

Option A should be discounted but all of the other options have their merits and should be considered prior to the Council making a decision.

We would like to acknowledge our thanks to all stakeholders who have been involved in the process and assisted us in putting together results that are robust and transparent. Particular thanks must go to those care home providers who fully engaged in the process, completing the questionnaire and providing their accounts so we could ensure values included in the cost model were correct.