

Appendix C – Options Appraisal – Methodology

1. Open Book baseline costs from participating homes October / November 2013 submission have been used as starting point.
2. The return for one home has been excluded as it is in Worcestershire not Herefordshire.
3. The current CQC registration has been used to determine a home's classification as either nursing, residential care only, or residential care with dementia.
4. Return on capital has been calculated by considering care homes for sale in Herefordshire (two were identified as being on sale in January / February 2014) and a 7% return on capital applied and converted to a cost per client per week based on the size of the two homes for sale. This method has been used in another authority in their price setting evaluation and the approach was not challenged in a judicial review.
5. Profit has been assumed at 5%, this approximated to net profits declared by two national providers with a local presence.
6. Revised submissions were based on 2013/14 costs. Inflation factors for 2014/15 have been considered and applied as follows;
 - a. Impact of minimum wage change has been applied to each care home and hourly wages below this uplifted to £6.50.
 - b. Other costs uplifted by 1.7% (excluding return on capital as current market value used) which is the February 2014 consumer price index (CPI) figure.
7. Fees have been calculated using an average of costs for all participating care homes for nursing care and residential with dementia care. Separate fees for residential only care have not been calculated due to the small number of homes (five out of 22) which provide residential only care, and the expected reduction in demand for residential only care.
8. The fees have then been adjusted down by 16% to set the fees to deal with budget pressures and the need to allocate scarce resources.