



DERBY CITY COUNCIL

COUNCIL CABINET
6 APRIL 2004

Report of the Director of Social Services

Modelling the Cost of Care

RECOMMENDATIONS

- 1.1 To note the report on progress in relation to modelling the cost of care.
- 1.2 To alert Cabinet to increasing pressure from independent sector care home owners about fee levels.
- 1.3 To inform Cabinet about emerging issues in the independent home care sector.
- 1.4 To seek approval from Cabinet for this approach to be taken into further negotiations with the independent sector.

REASON FOR RECOMMENDATIONS

2. Purchasing of residential care for older people is a very important issue for the Social Services Department. If the issues identified in the report are not addressed satisfactorily, the Department may in the longer term have insufficient resources to place older people in need of residential care would have a damaging effect on those people affected and their carers. It would also lead to a negative impact on the health and social care system as a whole, eg delayed discharges from hospital, with the potential for fines to be incurred under the Reimbursement system.

SUPPORTING INFORMATION

- 3.1 On 9 September 2003 Cabinet agreed to adopt a process to model the cost of care and to invite the local associations representing residential and nursing care providers to nominate representatives to work with the Council on this matter.
- 3.2 It was proposed that Social Services review the process, with the independent sector representatives, and develop or agree a suitable model. Members would have the opportunity to see the draft results and test the reasonableness of the approach in the course of development.
- 3.3 The Derbyshire Care Homes Association have written to Social Services requesting a payment for residential and nursing homes in Derby back-dated to 1 October 2003. This is linked to the increase in the National Minimum Wage.

- 3.4 During the course of the modelling work, Derbyshire Social Services announced an interim increase back-dated to 1 October 2003 of £8 / £12 pw to residential / nursing homes respectively. The letter from Derbyshire Care Homes Association refers to this increase and those being negotiated in some other Local Authorities.
- 3.5 Independent sector representatives and the Derbyshire Care Homes Association now see the modelling work as less relevant and argue that the justification for a significant increase immediately is self-evident. They argue that there is a need for a substantial financial gesture now rather than a promise to provide a true cost of care model at some stage in the future.
- 3.6 Three meetings of a working group have taken place to take the modelling work forward. The work has focused on:
- a survey of care homes to identify staffing costs
 - an overview of capacity achieved by an additional series of questions accompanying the survey and a comparison of places available from 2000 to the present day
 - an appraisal of the options available for treating capital
 - a consideration of contracting and commissioning approaches
- 3.7 A survey form was sent out to 58 care homes for older people in Derby. The covering letter was signed jointly by Social Services and the Derbyshire Care Homes Association. The staffing survey was taken from one of the available models, Joseph Rowntree - 20 homes returned completed forms. The following conclusions can be drawn:
- On average care assistants are paid at or just above the minimum wage and roughly 50p an hour more if they have NVQ2. Nursing homes pay slightly more than residential homes. In both cases around 40% of care assistant hours are provided by staff with NVQ2.
 - Level 1 nursing staff are paid £9 - £10 an hour and level 2 nurses £10.50 an hour. The majority of nursing care is provided by level 1 nurses.
 - Particularly in residential care only bank holiday working is paid at an enhanced rate, usually time and a half. Evening and weekend working is paid at the basic rate.
 - Sixteen of the twenty homes offer statutory sick pay only and seventeen of the twenty homes offer holiday in line with the working time regulations only. Employer pension contributions offered varies between the homes with five offering a stakeholder pension.
 - On average managers of nursing homes receive higher salaries than their counterparts in residential homes.
 - Based on a small sample, the returns indicate that staff are paid at or near the minimum wage. The wage levels and terms & conditions could lead to difficulties in staff recruitment and retention, which is confirmed by the views expressed by the home owners.

3.8 The capacity questionnaire covered the following areas:

- vacancies – of 426 places across the homes in the sample there were only 21 vacancies, giving a vacancy rate of 5%
- average occupancy – in the last 3 months, 2 homes reported average occupancy of 80-85%, 4 of 86-90% and 9 of 91-100%
- supported residents and self-funders – 73% of residents were supported by the Local Authority and 27% were self-funded
- payment of top-ups – 20% of Local Authority funded residents in the survey were reported to be paying top-ups (this percentage from the sample is consistent with information in the Department which shows that 276 out of 1,161 LA funded placements are made with a top-up).

3.9 A comparison of places available in 2000 against 2003 reveals that there has been a net loss of approximately 385 places across all types of care home in Derby. At present there are 1963 places available. 26 homes are known to have closed in this period, all but four of them being for older people, while only two homes have opened. This net loss of places is a national phenomenon and is a product of a range of issues; over-capacity, National Care Standards Commission requirements, single owners retiring or capitalising on assets and lack of new entrants to the market.

3.10 Care managers are reporting gradually increasing difficulty in finding suitable placements and it is difficult now for older people to have a choice of placements. This is particularly true with dementia care. It is also felt that the prevalence of top-ups is more common. While top-ups are likely to be a permanent feature of the market as home owners can decide on their own charges, a high incidence is not a positive feature, as relatives and carers are under greater pressure to contribute to the costs of care and people's choice of home becomes even more limited.

3.11 Options for treating capital invested in the business, which is one the more complex areas, have been identified and an option appraisal has been undertaken. This is a particularly contentious issue with home owners that gives them a very high rate of return much preferring an approach contained in one of the national models.

Several models exist for treating the cost of capital, although there needs to be a caveat that not all homes are in the same condition.

Likewise there are several options for calculating asset values; current cost of new build, current market value, historical cost and historical cost plus inflation. Obtaining information on asset values is problematic, therefore agreeing an approach with all parties will be difficult.

- 3.12 A range of contracting and commissioning issues have been discussed with home owners. This has not been developed in any detail as yet given that it is seen as secondary to resolving the baseline fee level issue. It did show, however, that there would be some scope for developing a more diverse contracting regime, including block contracts and providing incentives to fill gaps in the market, e.g. dementia care. The end product should be more cost-effective commissioning with more choice and better outcomes for older people, without over-complicating and making arrangements administratively complex. Further work on contracting and commissioning will be needed over a number of years but a partnership approach with the independent sector will not be achieved until the baseline fee level issue is resolved.
- 3.13 The annual meeting about fee levels between the Cabinet Member for Social Care, Social Services representatives and the independent sector consultative group took place on 23 January 2004. Independent sector representatives felt that the work on developing a model was too slow and questioned why one of the ready-made models could not be used.

A commitment was given to independent sector representatives that a report would be presented to Cabinet. The report would make recommendations on the future work required and the preferred approach to be adopted. Subject to the agreement of Cabinet, a meeting will be arranged with the Independent Sector Consultative Group, at which the Council will present its preferred approach. It was emphasised that the Council remains committed to working in partnership with the independent sector and our aim is to seek a way forward that is mutually acceptable to both parties.

- 3.14 Work to be undertaken on further components of the model has included obtaining information on asset values, applying the various percentage returns to calculate the cost of capital and assessing the impact on the fee levels of each option. The financial implications for the Department's preferred option have also been considered. This work is described in detail in Appendix 2.
- 3.15 Independent home care providers are also concerned about fee levels, given difficulty in recruiting and retaining staff and the increased costs of meeting NCSC requirements. Whilst this paper addresses issues raised by home owners, it is important to recognise the issues in home care, given the importance of maintaining a robust home care service.

Resources in the home care sector, therefore, require a similar focus. Other Social Services Departments are considering giving significant increases to home care providers probably greater than the increase for residential and nursing care. This is due to great difficulty being encountered in recruiting and retaining home care staff at a time when the Government require Social Services to increase intensive home care and prevent inappropriate admission to care homes.

- 3.16 Should Derby fall significantly behind neighbouring Departments in its rates for home care, it is probable that the ability to purchase home care would be jeopardised as local providers become demoralised and national providers choose to invest elsewhere.

OTHER OPTIONS CONSIDERED

- 4.1 The options to adopt a ready-made model were laid out in the report to Cabinet on 9 September 2003 but none of these were recommended.
- 4.2 It is the intention to meet with independent sector representatives and share with them the further work that has been done on modelling so that we can seek a way forward that is mutually acceptable to both parties.
- 4.3 Independent sector representatives could withdraw their co-operation with the modelling work if a significant increase in fees is not granted either directly or as an outcome of adopting the agreed model.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Modelling the Cost of Care Summary and Working Papers

IMPLICATIONS

Financial

- 1.1 The 2004/05 budget proposal includes provision for a 4% increase in residential and nursing care fees from 1 April 2004 at a cost of £966,000.

The financial implications of matching Derbyshire's interim fee increase, backdated to 1 October 2003, are £311,000 in 2003/04. For 2004/05 the cost is an additional £762,000, over and above the £966,000 already budgeted for.

- 1.2 The 2004/05 budget proposal includes provision for a 4% increase in home care fees from 1 April 2004 at a cost of £80,000. The financial implications of matching Derbyshire's interim fee increase, backdated to 1 October 2003, are £30,000 in 2003 / 4, and £65,000 in 2004 / 5. The financial implications of increasing the hourly rate to £12 are an additional budget pressure of £560,000.
- 1.3 The financial implications of the Council's preferred model are described in Appendix 2.

Legal

- 2.1 The Council needs to comply with the requirements of the Competition Act when negotiating contracts with Care Homes. This means the arrangements must not create an abuse of a dominant position in the market place or unfairly distort competition.
- 2.2 Recent cases in Birmingham and Lincolnshire have established that where there is no agreed fee Care Homes are entitled to be paid what the court considers to be a fair cost for services that have already been provided. It is expected that future decisions will clarify what factors need to be taken into account.
- 2.3 It would be important at the outset of the process to reach agreement with the Care Homes Association about a method to phase in any increased costs to the Council.

Personnel

3. None.

Corporate Objectives and Priorities for Change

4. This accords with the Council's objective of **protecting and supporting people** and it also supports the Council's priorities for change to **develop plans to modernise the fostering service and residential and community care for adults to meet the level of demand and the requirements of the National Care Standards Commission.**