



Derby City Council

**COUNCIL CABINET**  
**21 February 2012**

Report of the Strategic Director of Adults,  
Health and Housing

# ITEM 9

## Commissioning independent sector care homes for older people

### SUMMARY

- 1.1 Care homes need to provide safe, sustainable, good quality care to the vulnerable older people who live there. A number of Local Authorities have faced legal challenges from care home providers who have successfully argued that they were not mindful of the real costs of care when setting their fee rates.
- 1.2 Council officers have been engaging with Derby's care home providers since August 2011 with the aim of understanding the local costs of care. This consultation and subsequent analysis have informed a fee rate model that is proposed for 2012-13. The approach taken to establish and populate the fee rate model is presented in Appendix 2.

### RECOMMENDATION

- 2.1 To invest an extra £1.425 million in Derby's independent sector care homes for older people by increasing current fee rates between 9.0% and 23.1% from April 2012 dependent on the type of care delivered as set out in Appendix 1.
- 2.2 To allocate £0.925m of the increase from the corporate contingency budget to the Adults, Health and Housing revenue budget.

### REASONS FOR RECOMMENDATION

- 3.1 This recommendation is supported by the analysis of actual costs and substantiated pressures within financial information shared by care home providers in Derby.
- 3.2 The Council's cost model has been revised following further consultation with care home providers. The feedback from this consultation is shared within this report.

### SUPPORTING INFORMATION

#### 4.0 The cost modelling process

- 4.1 In 2010-11 Laing and Buisson, an independent healthcare intelligence organisation, was jointly funded by East Midlands care home associations and NHS commissioners to develop a cost model for NHS Continuing Healthcare delivered in East Midlands care homes. This was the starting point for Derby City Council's work with the Derbyshire Care Homes Association (DCHA) to develop a cost model for Derby.
- 4.2 The Laing and Buisson model for the East Midlands was not designed to draw out costs specific to Derby that might support the Council in setting its rates:
  - 4.2.1 The model was focused on costs of NHS Continuing Healthcare (NHSCHC). People eligible for NHSCHC have a higher level of need, and therefore a higher cost of care, than people supported by the Council.
  - 4.2.2 The model was East Midlands-wide with a very small response from Derby providers
  - 4.2.3 There were concerns from both the Council and the DCHA about the data quality of the Laing and Buisson model concerning the number of staffing hours provided in residential homes. This affected a large part of the model.
- 4.3 Therefore the Council and the DCHA agreed to adopt the methodology of Laing and Buisson wherever possible, but to begin again with data collection so that all parties could be confident that the cost model contained information that was specific to Derby and therefore reflective of local issues.
- 4.4 A description of the engagement process with care homes is set out in the consultation document attached in Appendix Two. Consultation is summarised as follows:
  - 4.4.1 Two meetings with the Derbyshire Care Home Association (4<sup>th</sup> and 23<sup>rd</sup> August 2011) discussing methodology of model and process for obtaining real cost information from care home providers
  - 4.4.2 One meeting with the DCHA (3<sup>rd</sup> October 2011) discussing inflationary pressures against key cost headings
  - 4.4.3 One consultation meeting open to all care home providers in the city (16<sup>th</sup> November 2011) discussing overall process and also asking for feedback in relation to two key issues (rate of return and occupancy)
  - 4.4.4 Issuing of consultation document (as Appendix 2) to all care home providers in Derby supporting older people on December 23<sup>rd</sup> 2011, requesting feedback by January 23<sup>rd</sup> 2012 on proposed rates generated by the Council's model.
  - 4.4.5 One meeting with the DCHA (19<sup>th</sup> January 2012) discussing the consultation document and obtaining feedback on the process and content of the model.
- 4.5 In addition to this there was individual consultation with care homes who agreed to submit financial information about their costs of care.

## **5.0 Quantity of consultation feedback**

- 5.1 Three written submissions were received by the Council in response to its consultation on proposed rates which are attached to this paper as Appendices 3, 4 and 5. These were sent by:
- 5.1.1 The Liversage Trust on 17<sup>th</sup> January 2012
  - 5.1.2 The Derbyshire Care Home Association on 23<sup>rd</sup> January 2012
  - 5.1.3 Barchester Healthcare on 23<sup>rd</sup> January 2012
- 5.2 Three e-mail submissions were received from two separate care homes (two dated 28<sup>th</sup> December 2011 and one dated 5<sup>th</sup> January 2012) which are reproduced in Appendix 6.
- 5.3 The Council's consultation paper advised care home providers that there would be a formal consultation meeting with the DCHA and that they could give their views to the DCHA if they did not wish to contact the Council direct within the consultation period. It is not clear how many care home providers did this.
- 5.4 The DCHA consultation meeting on the 19<sup>th</sup> January was attended by 5 city-based care home providers running 10 care homes in Derby (3 residential, 7 nursing). One of these providers was the Liversage Trust who have provided separate consultation feedback in Appendix 3 which does not concur with the DCHA feedback in Appendix 4.
- 5.5 DCHA attendees stated they had met with other care home providers on the day prior to the meeting with the Council, but did not give a sense of attendance at this meeting or whether there was range of a views expressed in relation to particular topics.
- 5.6 Barchester Healthcare feedback attached in Appendix 5 indicates they had not been made aware of the DCHA meeting.
- 5.7 The following paragraphs will provide responses to the consultation feedback attached, but it is not clear to what extent particular views are reflected by a majority or a minority of the sixty care homes in Derby that support older people. This is not to cast any doubt on the integrity and commitment of the DCHA in seeking to be a focal point of consultation, and particular thanks are due to Brian Ballin and Gail Winfield, based at Coxbench Hall residential home just outside the city, for their work in enabling a constructive dialogue.
- 6.0 The content of the model: summary of consultation feedback and responses**
- 6.1 The main challenges posed by consultation feedback are set out below, along with proposed responses in a Question and Answer format.

6.2 Q: The DCHA noted the poor response to their requests that Derby's care home providers share their real costs of care with the Council. They attributed this to the fear of many care home providers that the Council would use this information punitively in some way or that it would give other providers a commercial advantage. DCHA consultation feedback was that in future years the Council should use an independent third party, like Laing and Buisson, to collect this information. The DCHA also asked that the specification for this third party organisation should be agreed jointly between the Council and the DCHA.

A: This paper recommends that the Council does not agree to commission an independent third party to model fees for 2013-14. The reasons for this are as follows:

- 6.2.1 This commissioning exercise would be at a cost, whether solely to the Council or jointly between the Council and the DCHA. The cost of purchasing the model would be coupled with the cost of officer time to interrogate it. However precise the specification, outsourcing this work to a third party would build in extra costs and inefficiencies, and increase the risk of a model not being agreed because of uncertainties around data quality.
- 6.2.2 The Council is optimistic that information returns from the independent sector will improve in future years. Firstly, care home providers will have become more aware of this process. Secondly the Council has already had indications from several providers that they would be happy to submit account information. Engagement with providers will commence early in 2012-13 to maximise the opportunity to get the fullest possible return.
- 6.2.3 Officers have provided reassurances to the DCHA that the Council will not compromise the cost modelling process by using information about individual care home providers for any purpose other than to contribute to a funding model that reflects the actual costs of care.

6.3 Q: A breakdown of the Council's proposed cost model was shared with the DCHA on to enable them to prepare for the consultation meeting on 19<sup>th</sup> January 2012. The DCHA asked for clarification of the Council's proposed model in relation to the way that it dealt with costs relating to food, fixtures and fittings and registration with the Care Quality Commission.

A: In examining this, officers found technical errors in the way that the Council's spreadsheet was originally set up. These errors unwittingly skewed real cost information entered into the model, underreporting on some areas (for example food costs, energy costs and registration costs) and over-reporting on others.

6.4 The correction of the spreadsheet redistributes costs between headings and has an impact on the calculation of inflationary pressure because of the increased allocation to food and energy costs. Therefore the modelled "cost of living" inflation rate for care homes increases from 3.08% to 3.33%.

- 6.5 Appendix 7 updates the cost model accordingly. Implementation of this cost model would result in further increases to weekly rates from those proposed in the consultation document:
- 6.5.1 Very Dependent Elderly residential rate increases to £407.58
  - 6.5.2 Dementia residential rate increases to £437.58
  - 6.5.3 Nursing rate increases to £418.58
- 6.6 Q: The DCHA response attached as Appendix 4 states that the Laing and Buisson model for East Midlands NHS Continuing Healthcare could and should have been used to indicate Derby costs for non-staffing areas. The DCHA response goes on to highlight the difference between the Laing and Buisson model and the proposed Derby City Council model, and requests an explanation for the divergence.
- A: The divergence in the models is caused by different cost information submitted by different care home providers in a different area at a different time. The agreed approach for this exercise, as set out with reasons in paragraphs 4.1 to 4.3 above, was to begin again with data collection so as to build a model that is relevant to Derby. The DCHA concurred with this approach and requested cost information from care home providers over a lengthy period to support it. The costs within the Derby model fully reflect the information provided by the care home providers who responded.
- 6.7 Q: Feedback from Barchester Healthcare (see Appendix 5) questions whether the model is robust with respect to the small number of care homes that submitted costs.
- A: As above, the model can only be reflective of the information that was provided to populate it. However, it is reassuring that there is enough consistency between the costs of Liversage Court and the Council's own care homes to prompt Liversage Trust's positive response in Appendix 3.
- 6.8 Q: The DCHA response asks for evidence of how the Council's proposed dementia rate for residential care has been costed to reflect the specification for the service.
- A: The dementia rate has not been costed in this way. The rate was introduced as a new, higher payment for providers who wished to specialise in dementia care and be assessed against key standards. The dementia rate was initially introduced as £31 higher than the Very Dependent Elderly rate. This brought the Council into line with most other Local Authorities in the East Midlands. Derby has not had information from care home providers to refine this, so has kept a £30 differential in place to broadly maintain the previous position. The Laing and Buisson model for the East Midlands also incorporates a £30 differential. As dementia provision grows in Derby and more providers submit cost information, understanding about local dementia costs will grow.
- 6.9 Q: The DCHA consultation response states that the Council's proposed nursing home rate is too low, asserting that there is a £159 differential between residential and nursing rates in Laing and Buisson and an £11 differential in the Derby model.

A: Unlike the Laing and Buisson approach, the Derby model does not include the Registered Nursing Care Contribution (RNCC) of £108.70 per week which the NHS must pay for every nursing home placement. Incorporating RNCC gives a differential between residential and nursing care within the Derby model of £119.70 per week. Only one nursing home provided very limited information about costs to populate the Derby model and in these circumstances the Council did not have evidence that supported a larger differential.

- 6.10 Q: The DCHA consultation response states that the Council's modelled occupancy rate of 94% is too high, that 90% is "widely accepted as a reasonable occupancy", and that valuers tend to use the 90% benchmark when appraising care homes.

A: The Council received feedback from several residential care homes at a consultation meeting on 16<sup>th</sup> November 2011 that 94% occupancy was a reasonable expectation for their establishments. The Council selected 94% as a benchmark because this was the average occupancy level in 2008-9 when a detailed city-wide study was undertaken, reporting to Council Cabinet in March 2009. Since then two nursing homes and one residential home have been built in the city, as well as sizeable extensions to two existing residential homes. This has undoubtedly increased competition between care homes, but many establishments are continuing to operate at extremely high levels of occupancy. An undemanding occupancy rate may inadvertently result in the Council subsidising lower quality and therefore unpopular homes.

- 6.11 Q: The DCHA consultation response requests information about the occupancy rate at the Council's own residential homes "as this exercise is based heavily on their data".

A: The occupancy rate of individual Council care homes focusing on long-term care ranged from 89.6% to 93.7% for the period between April and December 2011. However, the occupancy rate of the Council's residential homes was not used as a benchmark for the cost modelling exercise. The principles set out in paragraph 6.10 above apply equally to Council-run homes as to independent sector homes. The Council needs to ensure that its own care homes continue to offer best value, and occupancy rates are one way in which this will be assessed.

- 6.12 Q: Consultation feedback from the DCHA, Barchester Healthcare and the Adept Care Group all question the Council's rate of return (the margin perceived as necessary to ensure continued external investment in care home provision). Firstly DCHA request that rate of return is split "between return on total capital investment and return on business operations" and assert that "the Council model only appears to consider rate of return on total capital investment". DCHA request that the Council fully adopts the DCHA methodology. Secondly, all three submissions referred to above, state that the Council's proposed rate of return is too low and not reflective of higher risks within the care home sector. The e-mail response from the Adept Care Group asserts that investors in care homes expect a minimum of 12% return and refers to Office of National Statistics data that states return on Capital for the service sector is 15.9%.

A: The Council model set out in Appendix 7 does separate the return from capital depreciation (in the penultimate row) from the general rate of return (in the third column) so the first point above is refuted. Feedback from the Liversage Trust acknowledges that "the rate of return [is] open to a variety of opinions" and there is no definitive methodology. Linking rate of return to a variable indicator (the LIBOR rate) gives the Council a means of ensuring fees are annually updated to shadow market pressures.

- 6.13 Q: The Adept Care Group response stated that there had been a 1% increase in Employer National Insurance Contributions and this should be reflected in the Council's inflation award.

A: The increase in National Insurance Contributions took effect at the beginning of 2011-12 and was therefore picked up in baseline cost modelling. National Insurance Contribution rates for 2012-13 will not change and therefore no extra inflationary pressure needs to be factored into this area.

- 6.14 Q: Two attendees at the consultation meeting held on 19<sup>th</sup> January stated that the contribution to Head Office costs within the model was too low, and that in their organisations this cost was upwards of £40 per resident per week.

A: The Council's model reflects the costs of the care home providers that submitted data. One of the above meeting attendees acknowledged that their organisation expected head office costs to be reduced.

- 6.15 Q: Attendees at the consultation meeting felt that the Council, in providing them with free access to training courses on key areas such as safeguarding and medication management, was masking what training costs would actually be to them if this support was removed.

A: It is acknowledged that the Council provides this essential support to care homes, and that this has a positive financial impact on their organisations. The Council would carefully consider implications on provider costs and quality before making any significant changes to the way that training is currently offered.

- 6.16 Q: There was concern at the consultation meeting that the Council might seek to artificially constrain demand for care homes to compensate for the extra cost of each placement.

A: The Council's cost model for care home placements will not affect its statutory duty to meet the eligible needs of vulnerable adults after assessment.

## **7.0 Implementing the model: summary of consultation feedback and responses**

- 7.1 Some placements are part funded by third parties (often referred to as "top-ups") because care homes request higher fees than the Council's published rate. The Council usually pays the gross cost of these placements and recharges any third parties (most often family members) for their contributions

- 7.2 Q: Consultation feedback from both the DCHA and Barchester Healthcare strongly opposed attempts by the Council to ask care home providers to use extra Council funding to reduce the contribution that was asked of many third parties. The grounds for this objection were as follows:
- 7.2.1 That the Council is prioritising protecting third parties over protecting care home providers
  - 7.2.2 That third party contributions would not be necessary if the Council paid a fee rate that covers "the full cost of the home"
  - 7.2.3 That care homes may experience cost-of-living inflation that is higher than the percentage calculated by the model
  - 7.2.4 That the DCHA felt the request was made "dictatorially and not consultatively"

A: The Council has tried to balance the interests of care home providers with those of third party contributors, often family members who face considerable financial pressures in the current climate. It is only right to ask care home providers to be mindful of this when setting rates, and not to presume that extra funding from the Council should have no impact on the contributions being made by others. The Council is not trying to pay the full cost for every home and remove all third party payments: some care homes will always seek to operate at a higher fee rate than the Council sets and will seek to provide this service to individuals who can afford it. The Council has worked with the DCHA to seek to model an appropriate level of inflation that reflects pressures on key areas of spend. Following this engagement with the DCHA and consultation feedback (see 6.3 and 6.4 above) the level of "cost of living" inflation for care homes is modelled at 3.33%. The Council is asking care home providers to seek to reflect this when considering 2012-13 increases to gross fee rates that are inclusive of third party contributions.

- 7.3 The Council has no wish to dictate to care home providers and the above guidance does not affect their contractual rights. Nevertheless the Council, in view of this considerable extra investment, wishes to engage both third party contributors and care homes to create the best possible balance that is mindful of the pressures on all parties.

## OTHER OPTIONS CONSIDERED

- 8.1 Adopting the Laing and Buisson funding model established to support the commissioning of NHS Continuing Healthcare would tie the Council to a methodology that was not properly reflective of Derby costs of care.
- 8.2 Not engaging with the city's care home providers in the way described above would run the risk of the Council being unprepared to manage its local market through having insufficient details about local costs and pressures.

**This report has been approved by the following officers:**

<b>Legal officer</b> <b>Financial officer</b>	Robin Constable Roger Kershaw
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<b>Human Resources officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	Liz Moore Sally Curtis
<b>For more information contact:</b> <b>Background papers:</b> <b>List of appendices:</b>	Name Phil Holmes 01332 642845 <a href="mailto:phil.holmes@derby.gov.uk">phil.holmes@derby.gov.uk</a> None Appendix 1 – Implications Appendix 2 – Consultation issued to care home providers 23/12/2012 Appendix 3 – Consultation response from Liversage Trust Appendix 4 - Consultation response from DCHA Appendix 5 – Consultation response from Barchester Healthcare Appendix 6 – Consultation response received via e-mail Appendix 7 – Revised cost model for Very Dependent Elderly residential care

**IMPLICATIONS**

**Financial and Value for Money**

- 1.1 Following consultation, the Council's proposed fee rates for care home placements supporting older people from April 2012 are set out below.

- 1.2 Proposed changes to rates for residential placements

2011-12		2012-13	
Name	Rate	Name	Rate
Elderly*	£331	Very Dependent Elderly	£407.58
EMI*	£356		
VDE	£373		
Dementia**	£404	Dementia	£437.58

\* Elderly and Elderly Mentally Ill rates to be replaced by Very Dependent Elderly

\*\* Dementia rate to be accessed after commissioning process

- 1.3 Proposed change to rates for nursing placements

2011-12		2012-13	
Name	Rate	Name	Rate
Elderly	£384	Elderly	£418.58

- 1.4 The proposed 2012-13 fee rates reflect a total increase from 2011-12 of 9.0% for nursing homes and between 9.3% and 23.1% for residential homes, depending on the initial placement type.
- 1.5 3.33% of this increase for each placement type reflects the Council's assessment of cost-of-living inflationary pressure. This is built into the Adults, Health and Housing budget for 2012/13.
- 1.6 The remainder of each uplift reflects an increase to the baseline fee that the Council considers is necessary to continue to ensure sustainable quality of care on the basis of demonstrated market costs. At current levels of placement activity the proposed increase to the baseline fee totals £0.925m. The budgeted corporate contingency is held for such fluctuations in costs. It is proposed that Cabinet approve an allocation of £0.925m to the Adults, Health and Housing revenue budget

## Legal

- 2.1 Under s.21 National Assistance Act 1948 local authorities have a responsibility to make arrangements to provide residential accommodation for those over 18 year old who, by reason of age, illness, disability or any other circumstance are in need of care and attention which is not otherwise available to them. In making these arrangements they must have regard to the welfare of all those for whom accommodation is provided. In particular local authorities must consider the needs of all the different types of people who need accommodation for this accommodation to be suited to them.
- 2.2 A number of Local Authorities have faced legal challenges from care home providers who have successfully argued that they were not mindful of the real costs of care when setting their fee rates.
- 2.3 One of the challenges to fee rate setting concerned Pembrokeshire County Council in December 2010. In that case the care homes successfully argued that:
  - 2.3.1 the council's methodology failed to deal properly with capital costs
  - 2.3.2 the council failed to use appropriate local data on the average number of care hours spent on each resident per week
  - 2.3.3 it failed to recognise that residents who require nursing care also require more non-nursing care, for which the council is responsible
  - 2.3.4 it only took into account data from larger homes with 20 or more registered places
  - 2.3.5 it was based on data collected from the year 2008-9, failing to take into account inflation since then or the introduction of the Working Hours Regulations of April 2010, which increased the minimum holiday entitlement from 24 to 28 days.None of these criticisms appear to apply to the actions of this Council in this instance.
- 2.4 As recently as December 2011 Leicestershire County Council were the subject of a successful challenge to their fee rate setting. East Midlands Care Ltd argued successfully that, in reaching a decision to freeze the rates it paid to care home owners for the year 2011-12 at the same rate it paid for the year 2010-11, Leicestershire had failed to:
  - 2.4.1 assess or take into account the actual cost of providing the care
  - 2.4.2 adequately consult on its decision to freeze fees
  - 2.4.3 take into account the risks to residents of freezing fees
- 2.5 The Department of Health's Local Authority Circular (2004) 20, which deals with residential accommodation, makes it clear that, "In setting and reviewing their usual costs, councils should have due regard to the actual costs of providing care and other local factors." In the course of his judgment in the Leicestershire case the judge commented that: "affordability is a highly relevant consideration in the making of a decision on rates, subject to the local authority being able to meet its duties [outlined in 2.1 of the legal implications] at the rate it offers."

- 2.6 Also in the Leicestershire case the judge stated that there was a duty to consult in cases involving rate setting, and that in that case the consultation that did occur was "too little, too late" and that "the consultation as a whole was defective in that the Council never properly addressed the question of actual costs". .
- 2.7 Members must be satisfied that the consultation that this Council has carried out has met the legal ("Coughlan") test of having been "undertaken at a time when the proposals are still at a formative stage", including "sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response", allowing "adequate time" for this purpose and "conscientiously" taking the outcome of the consultation into account in reaching its recommendations

## **Personnel**

- 3.1 There are no Personnel implications identified within this report.

## **Equalities Impact**

- 4.1 These proposals will have a positive impact on the care of older people from all backgrounds.
- 4.2 A cost modelling approach is also in operation for adults of working age who need to live in a care home.
- 4.3 The judge in the Leicestershire case agreed that the public sector equality duty under s.49A of the Disability Discrimination Act attached to the needs of individual residents. A policy decision on general fee rate setting did not impact on the specific services provided to an individual and so would not be quashed by the court for failure to have due regard to the equality duty.

## **Health and Safety**

- 5.1 There are no Health and Safety implications identified within this report.

## **Environmental Sustainability**

- 6.1 This report has no implications that affect environmental considerations.

## **Asset Management**

- 7.1 This report is concerned with independent sector provision. Therefore there are no asset management implications.

## **Risk Management**

- 8.1 This report seeks to manage quality risks for care home provision and legal risks that the Council would face were it not to follow an appropriately consultative approach.

**Corporate objectives and priorities for change**

- 9.1 This report supports Council Plan objectives that all people in Derby will enjoy good health and well-being via good quality services that meet local needs.



Derby City Council

**Consultation paper issued to care homes  
23<sup>rd</sup> December 2011**

## **CARE HOMES FOR OLDER PEOPLE PROPOSED APPROACH TO FEE RATES 2012-13**

### **BACKGROUND TO THE CONSULTATION**

- 1.1 Consideration of the following proposals is requested from care home providers supporting older people in Derby.
- 1.2 Feedback is welcomed on proposed fee rates themselves, the Council's suggested approach to implementation and the process that has been followed to reach this point.
- 1.3 Responses from care home providers will be considered by Council Cabinet on 21<sup>st</sup> February 2012 when a final decision on fee rates will be reached.
- 1.4 Council deadlines for the timely submission of Cabinet Reports mean that consultation feedback is required by 5pm on Monday 23<sup>rd</sup> January 2012. A consultation meeting will be set up with the Derbyshire Care Home Association (DCHA) in January before this date. Care home providers are welcome to either pass feedback to DCHA leads, or to respond to Phil Holmes directly at [phil.holmes@derby.gov.uk](mailto:phil.holmes@derby.gov.uk) or by post at the following address:

Phil Holmes, Head of Integrated Commissioning, Derby City Council, Room 136, 29 St Mary's Gate, Derby DE1 3NU.

### **PROPOSED CHANGES TO COUNCIL FEE RATES**

- 2.1 The Council's draft fee rates for care home placements supporting older people from April 2012 are set out below.
- 2.2 Proposed changes to residential rates

2011-12		2012-13	
Name	Rate	Name	Rate
Elderly*	£331	VDE	£402.45
EMI*	£356		
VDE*	£373		
Dementia**	£404	Dementia**	£432.45

\* Elderly and Elderly Mentally Ill rates to be replaced by Very Dependent Elderly

\*\* Dementia rate to be accessed after commissioning process (set out in 10.2 below).

## 2.3 Proposed change to nursing rates

2011-12		2012-13	
Name	Rate	Name	Rate
Elderly	£384	Elderly	£413.45

- 2.4 The proposed 2012-13 fee rates reflect a total increase of 7.7% for nursing homes, and a total increase of between 7.0% and 21.6% for residential homes, depending on the initial placement type.
- 2.5 3.08% of this increase reflects the Council's assessment of inflationary pressure. The remainder of each uplift reflects an increase to the baseline fee that the Council considers is necessary to continue to ensure sustainable quality of care.
- 2.6 The Council's position with regard to care home placements made outside Derby is not affected by these proposals. The Council will take its lead from the host Local Authority when it considers rates that are appropriate in other parts of the country.

## IMPLEMENTING CHANGES TO COUNCIL FEE RATES

- 3.1 Some placements are part funded by third parties because care homes request higher fees than the Council's published rate. The Council pays the gross cost of these placements and recharges any third parties for their contributions in the great majority of instances.
- 3.2 The Council's rates are proposed to increase from April 2012 as set out in the previous section. However it is important to be clear about what impact this will have on contributions expected from third parties. The Council wishes to protect third parties (most often family members) from having to increase their contributions to care home placements in this difficult financial climate.
- 3.3 Therefore the Council expects independent sector care home to ensure gross fees that remain higher than the Council's proposed April 2012 rates are increased by no more than 3.08% (ie the identified rate of inflation on baseline costs) for April 2012.
- 3.4 Example One: a residential home Very Dependent Elderly placement that is topped up by a third party and currently costs £420 per week would be inflated by no more than 3.08% to a maximum of £433 per week. The change in contribution between the Council and third party in this example is set out below.

April 2011 placement cost = £420		April 2012 placement cost = £433	
Council pays	Third party pays	Council pays	Third party pays
£373	£47	£402.45	£30.55

- 3.5 Example Two: a nursing home Elderly placement that is topped up by a third party and currently costs £450 per week (not including the Registered Nursing care Contribution paid separately by the Primary Care Trust) would be inflated by no more than 3.08% to a maximum of £464 per week. The change in contribution between the Council and third party in this example is set out below.

April 2011 placement cost = £450		April 2012 placement cost = £464	
Council pays	Third party pays	Council pays	Third party pays
£384	£66	£413.45	£50.55

- 3.6 The Council proposes to inflate gross fees automatically as set out above, and to advise all third parties of the work that has taken place to ensure that a great majority of them will be expected to pay a lower contribution to the placement cost from April 2012.

## BACKGROUND TO THE COST MODEL

### 4.0 Summary: how the cost model for 2012-13 works

- 4.1 This section summarises how the model was put together. Subsequent sections explain the work that went in to each calculation.
- 4.2 The Council developed its approach to fee rates for 2012-13 after a series of meetings with the Derbyshire Care Homes Association (DCHA) in the autumn and early winter of 2011.
- 4.3 Firstly, the model uses actual costs gathered against the main areas of care home expenditure expressed as "cost per resident per week". See sections 5 and 6 below.
- 4.4 These costs are then increased to reflect an assumption of 94% occupancy and to allow for a 3.6% rate of return. See sections 7 and 8 below.
- 4.5 Cost of living inflation is then applied to all cost headings except the capital cost. See section 9 below.
- 4.6 These increased costs are then applied to a new framework of rates. See section 10 below.

### 5.0 Establishment of cost headings

- 5.1 Negotiation with the Derbyshire Care Homes Association (DCHA) has accepted key aspects of the Laing and Buisson cost modelling methodology, but not the content of the Laing and Buisson model for the East Midlands because it contained significant flaws in data quality and was not demonstrably reflective of local costs in Derby.



- 5.2 The cost model used by the Council incorporates the following cost headings:

Care costs	Establishment costs
Staff costs	Waste disposal
Agency	Council tax, water and insurance
Motivator provision	Fire equipment and environmental health
Staff clothing	Heat and light
Staff training and recruitment	Change of resident
Food	Cleaning and consumables
Consumables and equipment	Bedding and linen
Medical expenses and care services	Crockery, cutlery and utensils
Travelling expenses	Repairs and renewals
Entertainment	Funding repairs
Administrative overheads	Resident Xmas gifts
Office stationery	Fixture and fitting replacement
Contribution to head office costs	Funding from F&F reserve
Sundry office expenses	Service contracts
Telephones and communications	Electrical modifications
Professional charges	Sundry expenses
Registration fees	Gardening

The cost model also incorporates a separate heading relating to capital cost.

## 6.0 Gathering information to understand actual costs

- 6.1 The Council's focus, agreed with the DCHA, was to populate the above model via care home providers disclosing actual costs, most helpfully via full access to operating accounts.
- One independent sector residential home provided full access to their accounts
  - One independent sector nursing home provided an e-mail with very basic information about one year's food, energy, wages and maintenance costs
  - Three further residential home providers expressed a willingness to share their accounts with the Council but did not deliver this in spite of being aware of Council timescales for budget setting.
  - One further nursing home provider sent through some basic account information too late to be included in the Council's analysis
- 6.2 Although the response was relatively disappointing, the Council would like to thank the DCHA for the considerable liaison work undertaken with care home providers. Further information was obtained by the Council from other sources:
- Costs of the Council's own care home provision
  - Capital depreciation costs of independent sector care home providers declared within their publicly available accounts.

## 7.0 Reflecting the impact of occupancy

- 7.1 The Laing and Buisson methodology assumes care homes utilise their beds at 90% of capacity, and applies this to the cost model. This seems an unreasonably low utilisation level. Previous analysis in Derby indicated utilisation of 93-95% in residential homes in 2008-9. Since then new build care homes have decreased the overall utilisation level in both sectors, but the Council should not be subsidising uncompetitive care homes in a context of declining overall demand. Therefore within Council's model 94% occupancy should be assumed as realistic for residential homes.
- 7.2 This approach was discussed with independent sector care providers at the quarterly consultation meeting on 16<sup>th</sup> November. Some providers expressed concern but others were comfortable, stating they comfortably exceeded 94% occupancy.

## **8.0 Incorporating a rate of return**

- 8.1 The Laing and Buisson methodology assumes that care homes should also receive a rate of return that should "meet the requirements of investors" and therefore "enable a long-term sustainable care home market to exist".
- The Council believes that, as with the cost of care, the rate of return should be based upon current economic conditions and reasonable precedents set elsewhere.
  - The Council's proposal is to use the LIBOR rate (the interest rate at which London banks lend to one another) plus 2% to provide a rate of return on the costs of care. The LIBOR rate as at August 2011 was 1.6% so this creates a total rate of return of 3.6%. It is logical to set a rate of return in August because inflation figures are also modelled from this date.
- 8.2 The LIBOR approach was discussed with independent sector care providers at the quarterly consultation meeting on 16<sup>th</sup> November, having been e-mailed to DCHA members in the cost modelling sub group some time before. Providers did not express concern about the approach although some wanted longer to consider it. There was appreciation from some providers that the approach acknowledged rate of return as a variable that needed to be reflected in Council thinking.

## **9.0 Assessing 2012-13 inflationary pressures**

- 9.1 Discussion with the Derbyshire Care Home Association about inflationary pressures has indicated a significant amount of common ground as well as areas of divergence. Negotiations have concluded that:
- Inflationary pressures need to reflect information published by reputable sources, for example the Office of National Statistics (ONS), where this is available.
  - Where robust external validation is not possible, inflationary assumptions applied to the independent sector need to be consistent with the inflation the Council itself expects to pay for comparable cost lines.
  - This includes an assumption that, where more tailored information is not available, the Council will pay inflation consistent with RPIX.
- 9.2 The Derbyshire Care Home Association has agreed that staffing costs should be inflated by 2.5% to reflect the October 2011 increase in the National Minimum Wage.

- 9.3 The Office of National Statistics indicates 6.8% inflation in the cost of food in the year preceding August 2011. It is proposed to inflate the proportion of the fee rate supporting food costs by this amount for 2012-13. The Derbyshire Care Home Association have accepted this as in principle.
- 9.4 The Office of National Statistics indicates suppliers of utilities have increased gas costs between 15.7% and 18% and electricity costs between 7.2% and 16%. The Derbyshire Care Homes Association are keen for these increases to be fully reflected in an inflationary uplift but the Council response has been firstly that some care home providers will be within contracts that have not exposed them to these increases and secondly that care home providers, like other utility customers, need to shop around for the best deals. In recognition of the pressure on utilities costs the current proposal is to offer 11% inflation on this area.
- 9.5 Applying these figures to the overall cost base for providing residential or nursing care, with RPIX of 5.30% applied to the cost headings not covered above, the total inflationary uplift for care homes required for 2012-13 is assessed as 3.08%.

## **10.0 Establishing a framework of fee rates**

- 10.1 Agreement was reached with the Derbyshire Care Homes Association that the Council should apply three fee rate levels to older peoples' care homes for 2012-13: (a) Residential (b) Residential (dementia) (c) Nursing. This accords with the Laing and Buisson rationale. In particular it should be noted that Laing and Buisson found no justification for higher care costs in nursing homes that were managing dementia as compared to those that were not.
- 10.2 A care home's access to the Residential (dementia) rate will be determined via a selection process based on the Council's specification in terms of design and staffing. A care home's access to Residential and Nursing rates will be determined by their Care Quality Commission registration.
- 10.3 The great majority of information received to date from care home providers about the actual costs of care has been from standard residential homes without dementia specialism. This means that it is not possible to model the costs for residential (dementia) or nursing homes. Therefore the following assumptions will be made:
- Residential (dementia) fees will be £30 per person per week higher than the baseline residential fee. This approximately accords both with the current Council fee rate differential and that modelled by Laing and Buisson.
  - Nursing fee rates will be £11 per person per week higher than the baseline residential fee, net of the Registered Nursing Care Contribution paid by the NHS. This precisely accords with the current Council fee rate differential.
- In future years these assumptions can be tested if appropriate cost information is received from care providers.

- 10.4 The cost of care may also vary as influenced by the size of the home (creating the potential for staffing economies) and its age (out-of-date design impacting upon staffing efficiency as well as upkeep costs). However, insufficient cost information has been received from care homes to explore issues that may arise from establishment size, age and design. Again, in future years these assumptions can be tested if appropriate cost information is received from care providers.

### **Appendix 3**

#### **Liversage Trust**

#### **Response to consultation regarding Care Home fees for elderly people proposed approach to fee rates 2012/13 (received 17<sup>th</sup> January 2012)**

1. The Trust is pleased to note the approach by Derby City Council this year, in adopting a more open consultation, sufficient for a more meaningful involvement to take place.
2. We welcome the proposals contained in the consultation document and feel some element of ownership of it, due to our extensive participation in the process which led to the paper.
3. The comments set out in this response are limited to the care of the elderly on the very dependant elderly rate upon which Liversage Court operates.

#### **Proposed fee rate**

1. The Trust considers that the rate of £404.28 is a reasonable reflection of the cost of providing care and a basis for the establishment of a level of fees for future years.
2. The rate advanced in the consultation paper provides a foundation upon which future years consultation can be based and notes the points made regarding specific figures by other providers.
3. There is a need for ongoing consultation year upon year as the cost pattern of Care Homes is driven by two factors:
  - Inflation as it affects the various headings of expenditure.
  - The ever increasing level of frailty of residents which produces an ever increasing level of cost.

#### **Approach to implementation**

The Trust is generally supportive of the approach to implementation referred to in the paper, but would draw attention to a particular difficulty with regard to the scrapping of the dependant elderly rate which has in the past been of use to the Trust with regard to some of its Almshouse residents. The Trust, however, supports the consolidation into a single rate.

#### **Process followed to date**

The Trust has fully participated in the process which culminated in the production of the consultation paper and has found this a valuable exercise. The Trust endorses

the method of utilising a Laing and Buisson based model with the substitution wherever practicable of figures gleaned from actual local operations. In this connection we found some figures difficult to follow, whilst others such as the rate of return to capital are open to a variety of opinions.

The Trust considers that the present position forms a basis for future consultation along similar lines.

We would welcome a copy of the final report once approved by Cabinet.

**Submission from DCHA received 23<sup>rd</sup> January 2012**

P Holmes

Head of Integrated Commissioning, Older People and Enablement

Derby City Council

29 St Mary's Gate

Derby

DE1 3NU

23<sup>rd</sup> January 2012

Dear Phil

Response to the Derby City Council Consultation paper dated 23<sup>rd</sup> December 2011 titled "Care Homes for Older People – Proposed Approach to Fee Rates 2012-13"

The Derbyshire Care Homes Association held a meeting on 18<sup>th</sup> January 2011 for the purpose of discussing the above Consultation paper and this response incorporates the matters raised and discussed at that meeting by Care Home Owners and Management staff and emails received from other members.

We would firstly like to mention that the Care Homes owners are pleased that a dialogue has been established this year for discussion over next year's fee levels and appreciate that both parties have tried to cooperate and some good work put in by both parties.

The letters follows in the order of the Consultation paper for ease of cross reference.

1. Paragraph 3.2 states "The Council wishes to protect third parties (most often family members) from having to increase their contributions to care home placements in this difficult financial climate".

**Our Response:**

The Care Home owners appreciate that the Council must try to protect their clients but it is disappointing that the Council does not also consider protecting the Care Homes service as a priority? If a particular Care Home's inflation is higher than the 3.08%, why should it be discouraged from increasing the fees to match their costs increases to maintain standards required by the Council? If it cannot do that it will put the financial viability and quality standards of the Home at risk and hence all the residents in it at risk. To protect the Home and hence the residents has to be a priority, and because each home will incur a slightly different cost inflation they must be allowed the discretion to charge an appropriate increase.

We would therefore propose that the wording in the consultation document in paragraph 3.3 be changed from the current dictatorial manner to a more consultative manner.

2. Paragraph 3.6 states "The Council proposes to inflate gross fees automatically as set out above, and to advise all third parties of the work that has taken place to

ensure that a great majority of them will be expected to pay a lower contribution to the placement cost from April 2012.

Our response:

That is unreasonable as the fee paid by the Council does not cover the full cost of the Home, as evidenced by Laing & Buisson (L&B) Fair Price for Care Model dated October 2010. This will result in the gap between the Council fee level and full cost of the Care Homes widening again year on year and resulting in increasing third party top up's each year.

3. Paragraph 5.1 states "Negotiation with the Derbyshire Care Homes Association (DCHA) has **accepted** key aspects of the Laing and Buisson cost modelling methodology, but not the content of the Laing and Buisson model for the East Midlands because it contained **significant flaws** in data quality and was not demonstrably reflective of local costs in Derby.

Our response:

What are the significant flaws?

The minutes of the initial meeting of the fees subgroup held on 4<sup>th</sup> August 2011 state that Providers and the Council felt that the L&B model was a good starting point in terms of exploring cost categories that affected Care Home provision. The group agreed that it did not contain Derby only costs as it was East Midlands focussed with a small sample of Derby City Care Homes and there was some disagreement over the staffing hours but the minutes do not note any disagreement over non staff costs and L&B could have been used for these, as there is usually little variation in these because of region.

A comparison against L&B Non staff costs shows some significant differences in the following areas:

- staff training and recruitment: £4 per L&B and £0.15 per the Council. The figure used in the model equates to £7.82 per bed per year which for a 40 bed Home would equate to £313 per annum. As there are a number of mandatory training courses for staff to attend each year including Health and Safety, Fire Safety, First Aid, Food Hygiene, Infection Control etc and there is very little funding available to cover the cost of these courses, the figure used in the model is clearly too low and the L&B figure is a much more accurate reflection of the cost that should be included in the model.
- Medical expenses and care services: £3 per L&B and £1.38 per the Council,
- Heat and light, Utilities, telephones, Council tax, water and insurance: £29 per L&B and £22.31 per the Council,
- All headings relating renewals and repairs: £33 per L&B and £6.54 per the Council,
- Gardening: £8 per L&B and £0.07 per the Council,
- Contribution to Head Office Costs: £40 per L&B and £8.87 per the Council, and
- Registration fees: £3 per L&B and £0.54 per the Council. The figure used in the Council's model does not cover the CQC registration fee for between 31 and 60 beds (which covers most Care Homes in the area) which equates to an average of £2.28 per bed per week (or between £1.79 and £2.66 per bed per week for those numbers of beds).

The minutes of the meeting of the fees subgroup held on 3<sup>rd</sup> October 2011 state that Care Home Providers would need an explanation of any areas in which the Council diverged from the contents of the L&B regional model, therefore please provide an explanation for the above listed areas of expenditure.

4. Paragraph 6.2 states "Costs of the Council's own care home provision and Capital depreciation costs of independent sector care home providers declared within their publicly available accounts have been used in the exercise.

Our response:

Please provide us with this information (Council's own Homes data and the other anonymised providers) so that we can make a proper evaluation of the rates proposed.

5. Paragraph 7.1 states that an occupancy rate of 94% is a realistic rate for Residential Homes.

Our response:

The paper justifies this by an analysis done 3 years ago in 2008/9 and arguing that more recent events, the impact of new Care Homes being built are irrelevant. This is incorrect and the rate should be set based current occupancy levels. Coxbench Hall has only achieved 94% in one of the last 7 years, each of the other 6 years it is nearer 90%.

90% is widely accepted as a reasonable occupancy. To expect homes to maintain an average of 94% occupancy is completely unreasonable. The needs and average age of clients in care homes has increased substantially over the past few years and the turnover of residents has increased with that. This has impacted on the average occupancy as you cannot expect to have a new resident in a room on the day that another resident has passed away!!

In addition, Independent Valuers such as Christies, use 90% when valuing Care Homes and therefore we would propose that this rate is used for Occupancy in the model.

6. Paragraph 7.2 states that the approach was discussed at the quarterly meetings which we agree to but.....

Our response: What are the occupancy rates for the Council Homes, particularly as this exercise is based heavily on their data and these were not disclosed at the meeting? Please provide details to us.

7. Paragraph 8.1 states "The Council believes that, as with the cost of care, the rate of return should be based upon current economic conditions and reasonable precedents set elsewhere".

Our Response:

This is what Laing & Buisson has done in their East Midlands model. They decreased the Rate of Return from models in previous years! The L&B model



splits rate of return between return on total capital investment and return on business operations, the Council model only appears to consider rate of return on total capital investment. We feel that the L&B model and methodology is a precedent that should be used in the model.

Paragraph 8.1 also states “The Council proposes to use LIBOR plus 2% for rate of return”.

Our Response:

We do not agree that this makes sense for the following reasons:

- a. This assumes 100% of the funding for a care home is via bank loan.
- b. In ALL situations, there is private capital invested which has a higher risk element to it (the bank gets the money before private capital if the company goes bust) and therefore requires a higher return to compensate for this. That is what L&B has taken into account in their model.
- c. Some banks require businesses to take on fixed long term rates, and therefore higher interest rates to protect themselves from increases in LIBOR.
- d. 3.60% would only satisfy shareholders of blue chip companies which the Care Home industry is clearly not. The Office for National Statistics shows a rate of return for the service sector of 15.9%, this is therefore what should be applied in the model for return on capital.

In addition, how has the 3.6% been applied? As a rate of return on invested capital/market value of the business? Or is it applied as a profit margin? The model and supporting paper does not make this clear at all. Please provide us with the calculation of the additional Capital amount of £9.89 so that we can understand what it is based on and its computation?

8. Paragraph 8.2 states “Providers did not express concern about the approach of using LIBOR

Our Response:

This is incorrect, the Home representatives did express concern at its use as it was considered far too low by many.

9. Paragraph 10.2 re Dementia

Our response:

How has the Dementia “design and staffing” specification been costed out? Please provide details to us.

10. Paragraph 10.3 states that the differential between the baseline Residential fees and Residential (dementia) fees accords with the current Council fee rate differential and that modelled by Laing and Buisson. It also states that the differential for Nursing Homes compared to Residential Homes accords with the current Council fee rate differential.

Our response:

Whilst the differential in the Nursing Homes fee rate matches the current Council fee rate differential it is significantly less than the differential calculated in the L&B

model. The L&B model came up with Residential ceiling fair price of £521 and Nursing ceiling fair price of £680, a differential of £159 compared to the Council fee differential of only £11 which given the additional staffing and equipment requirements of the residents and complex needs of the residents in Nursing Homes is not surprising!

Regarding the overall model used and the data contained therein, many Care Home owners have expressed to us their concern at providing the Council with financially sensitive data as was requested for this exercise and hence the very low amount of data received by yourselves.

Many of the Care Home owners have said that they would be willing to provide data to an Independent Financial Consultants, like Laing and Buisson, for them to compile the fair cost of care, as was done by some of our members to Laing and Buisson for the 2010 model.

The Care Home members of the fees subgroup agreed that it would be beneficial for them to be involved in the agreement of the specification for those Consultants as they could assist in the content of the request sent out to Home Owners to ensure that data received is comparable in terms of the content of cost categories etc.

Please provide us with the information requested above so that we can complete our analysis of the model and respond to us on the proposed changes you have made and any other changes that will be made to the calculation of the proposed fee rate for 2012/13.

Regards,

Yours sincerely

Brian Ballin and Gail Winfield  
Derbyshire Care Homes Association representatives

**Submission from Barchester Healthcare received 23<sup>rd</sup> January 2012**

Mr Phil Holmes  
Head of Integrated Commissioning  
Derby City Council  
Room 136  
29 St Mary's Gate  
Derby  
DE1 3NU

23<sup>rd</sup> January 2012

Dear Mr Holmes

**Re: Consultation on Derby City Council proposed fee rates 2012/13**

With reference to the above and your recent communications, please find below some initial comments that I would ideally prefer to discuss further in more detail in person. Unfortunately we have not been made aware of any meeting being held by the DCHA, hence my request to meet with you direct.

As I am sure that you are aware Barchester Healthcare is one of the largest care providers in the UK. We always welcome the opportunity to work with Councils, NHS Trusts and PCTs in ensuring that the communities we work within have high quality care establishments for their relatives and friends to live and staff to work in.

We appreciate Council's financial difficulties and we have worked with them on addressing these with efficiency savings in the past. However we are no longer in a position to keep our fees at a rate that are not a true reflection on the increased cost pressures of providing a quality care service and environment for all our residents.

Last year it was well publicised that there were increases in all utility costs, fuel, VAT, CQC registration fees, food, national insurance, minimum wage and insurance cover. This increased cost pressure will also present itself for the 2012/13 period.

In addition, we at Barchester Healthcare provide a very high level of home maintenance ensuring that the environments that our residents live in and staff work in are always kept at a very high standard. Whilst I appreciate that Bluebell Park is a new home being only 1 year old, we have ensured that this new home has been built to a very high standard and should you visit the home, you will see evidence of the quality of the building and environment.

We have invested in the My Amego Person Centred Telecare system throughout the home which ensures that our residents enjoy a continuity of lifestyle whilst respecting dignity and personal preferences.

We provide award winning Dementia Care in our Memory Lane Communities, have 5 star Dining by award winning chefs, provide Music Therapy from Nordoff Robins, to

name some of the initiatives that many other providers in the care industry wish to replicate.

For our staff, we have a Chef's academy and even a Business School to support staff wishing to enhance their career opportunities both internally and externally. The Business School is able to provide Management and Leadership qualifications to a Master Degree level.

We appreciate and thank you for your planned increase in care fees for the 2012/13 period, but I am sure you will see that this increase is still very much short of the true cost of care for delivering a quality care service.

We have a cost of care model that reflects our true cost of providing a quality care service in our homes. It would be appreciated in the interests of transparency and working together that you send me a copy of how you have calculated the weekly fees that you propose for 2012/13. You refer to your own care home provision and that you used your costs for these. However these have not been made available for discussion.

This would enable us to review both business models. It is acknowledged that you have published the sections that were used to gather such costs for your calculations, however no figures have been input. In addition, from the information that you have provided it appears that you only obtained financial information from six care establishments, with one being too late to be considered. I have calculated this to be no more than 10% of your total care provision in the Derby area. This could not possibly provide you with enough information to calculate a reasonable and accurate fee rate for your region.

With reference to third party 'top ups', we retain the right not to have a limit on the top up or at least have a limit that is agreeable to both parties. Your proposed limit is not acceptable to us. Whilst it is appreciated that you wish to offer some protection to such parties, we would suggest that if we had a fair price paid for our care provision, then such 'top ups' would not be necessary.

As previously mentioned, we use a cost of care model that illustrates how our care fee is calculated. We have a duty to ensure that we maintain this fee, so that we do not discriminate against those residents privately funded, hence our request that a 'top up' is paid to meet our care fee.

You have used 3.6% as the rate of return. I am sure that this rate would not cover any banking commitments that many care homes may have. I would suggest that a higher rate of return is used as this rate is in reality very poor.

I have sent this letter both electronically and in hard format in order to meet your deadline for response.

Please do not hesitate to contact me should you require further information and I again would welcome the opportunity to meet you in person to discuss in more detail.

Yours sincerely

Bev Williams  
Deputy Operations Director

**Consultation feedback received via e-mail**

1) From the registered manager of the Limes residential home in Mickleover

*Dated 28<sup>th</sup> December 2011*

"I have received the proposed rates for 2012-13 thank you. The Limes has no fee issues regarding council rates".

2) From the Managing Director of the Adept Care Group which run one residential home in Derby

*a) Dated 28<sup>th</sup> December 2011*

"I consider Derby City Council's 'proposed Approach to Fee rates 2012-13' is a good first step towards what is required to properly fund care home provision and will allow operators to provide a better level of service. However, more is required to enable us to fully achieve the level of service that Derby City senior citizens deserve. In particular there are some areas of your methodology that I am concerned were not taken into account. There is no inclusion of the 1% increase in the Employers NI into the staffing cost inflationary figures. This should be proportionally added to the inflationary uplift of 3.08%. Your rate of return on capital employed i.e.; LIBOR + 2% = 3.6% is inadequate. This return would only be satisfactory for shareholders of blue chip companies, whereas Southern Cross and the current high rate of home closers prove that ours is certainly not a blue chip industry. The rate is therefore entirely inappropriate. Investors in small to medium sized, medium risk businesses such as ours currently expect a minimum of 12% return. This is the rate that should be used."

*b) Dated 5<sup>th</sup> January 2012*

"It is necessary to make inflationary increases to top ups each year ( we use the RPI current at the time of the review in April) but your calculations make no allowance for this necessary increase assuming that it remains the same as 2011! Upon checking the Office for national statistics it is noted that the Net return on Capital for the service sector is 15.9% which backs up my previous claim that this is "at least 12%".

## Remodelled Derby City Council VDE residential fee rate from April 2012

Cost heading	Occupancy	Rate of return	Inflation	<u>2012/13</u> <u>allocation/bed/wk</u>
<u>Care</u>				
Staff costs	94%	3.60%	2.50%	£299.52
Agency	94%	3.60%	2.50%	£8.64
Motivator provision	94%	3.60%	5.30%	£0.22
Staff clothing	94%	3.60%	5.30%	£0.44
Staff training and recruitment	94%	3.60%	5.30%	£0.15
Food	94%	3.60%	6.80%	£25.82
Consumables and equipment	94%	3.60%	5.30%	£0.15
Medical expenses and care services	94%	3.60%	5.30%	£1.38
Travelling expenses	94%	3.60%	5.30%	£0.09
Entertainment	94%	3.60%	5.30%	£ 0.97
TOTAL				£337.38
<u>Establishment</u>				
Waste disposal	94%	3.60%	5.30%	£0.79
Council tax, water and insurance	94%	3.60%	5.30%	£5.50
Fire equipment, environmental health	94%	3.60%	5.30%	£1.32
Heat and light	94%	3.60%	11.00%	£15.38
Change of resident	94%	3.60%	5.30%	£0.07
Cleaning and consumables	94%	3.60%	5.30%	£2.04
Bedding and linen	94%	3.60%	5.30%	£3.75
Crockery, cutlery and utensils	94%	3.60%	5.30%	£0.09
Repairs and renewals	94%	3.60%	5.30%	£2.51
Funding repairs	94%	3.60%	5.30%	£0.21
Fixture and fitting replacement	94%	3.60%	5.30%	£3.40
Service contracts	94%	3.60%	5.30%	£6.21
Electrical modifications	94%	3.60%	5.30%	£0.44
Sundry expenses	94%	3.60%	5.30%	£4.34
Gardening	94%	3.60%	5.30%	£0.07
TOTAL				£46.12
<u>Administrative overheads</u>				
Office stationery	94%	3.60%	5.30%	£0.82
Contribution to head office costs	94%	3.60%	5.30%	£8.87
Sundry office expenses	94%	3.60%	5.30%	£0.39
Telephone and communications	94%	3.60%	5.30%	£1.43
Professional charges	94%	3.60%	5.30%	£0.30
Registration fees	94%	3.60%	5.30%	£2.38
TOTAL				£14.19
<u>Capital</u>	94%	3.60%		£ 9.89
<b>TOTAL</b>				<b>£407.58</b>

