

Executive Summary

Cost Review of Care Home Services for Older People

For Dorset Council

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1 Executive Summary

In September 2021, Dorset Council (the Council) instructed Valuing Care Ltd (VC) to undertake a review of the cost of providing care home services to older people in Dorset. The objective of the review is to provide the Council with reliable information on what it usually costs to provide care home services, which can be used to inform a sustainable fee structure.

To identify the usual cost of delivering services locally, VC have undertaken a survey of care homes operating services in the area. A total of 24 completed survey templates were received, representing 24% of care homes located within the Council's boundaries. This included 16 residential homes and 8 nursing homes.

Based on the local survey results Valuing Care have constructed Fair Price of Care (FPoC) Rates for each needs group. The following points summarise how the rates have been calculated.

- The cost of nursing staff has been calculated by multiplying the median number of nursing hours (reported across all 8 nursing homes), by the median direct cost of nursing staff per hour
- The cost of care staff has been calculated by multiplying the median number of care hours provided to service users in each needs group, by the median direct cost of care staff per hour
- All other operating costs reflect the median costs reported by all care homes that participated in the survey
- Provision for return on capital (ROC) is based on the Local Housing Allowance (LHA) 1 bedroom rate for Mid & West Dorset BRMA, which provides a net yield of 5.1% on the median freehold valuation of £85,000 per bed
- Provision for return on operations (ROO) has been calculated at 5% of total operating costs

Valuing Care recognise that there is rational for varying provision for Return on Capital and Operations in accordance with the location of the service, the quality of the care home environment, and the quality of the services provided.

The following table summarises the FPoC Rates at September 2021 prices.

The number of care homes reporting the cost of delivering residential services, should provide a high level of confidence in the results for these needs groups.

The smaller number of homes reporting the cost of delivering nursing services creates greater uncertainty about the reliability of these results, although the consistency between registration categories should provide some assurance.

Please note these figures have been adjusted to exclude the average cost of COVID, which have been shown to be largely met by a corresponding increase in income.

Table 1 – Fair Price of Care Rates (at September 2021 prices)

Survey Section	Cost Type / Driver	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Income & Expenditure	Nursing Staff	£0	£0	£225	£225
	Care Staff	£344	£379	£372	£399
	Service Management	£44	£44	£44	£44
	Other Care Home Staff	£124	£124	£124	£124
	Premises	£36	£36	£36	£36
	Supplies & Services	£102	£102	£102	£102
	Head Office	£57	£57	£57	£57
	Total Operating Costs	£707	£741	£959	£987
	Return on Capital	£90	£90	£90	£90
	Return on Operations	£35	£37	£48	£49
	FPoC Rate	£832	£868	£1,097	£1,126
Staffing Costs	Direct Cost per Nursing Hour	n/a	n/a	£27.47	£27.47
	Direct Cost per Care Staff Hour	£13.02	£13.02	£13.02	£13.02
Staffing Inputs	Nursing Hours PRW	0.0	0.0	8.2	8.2
	Care Staff Hours PRW	26.4	29.1	28.5	30.6

The table shows:

- the increased cost of care staff to deliver a residential dementia service compared to a residential older people service (+2.7 hrs, +£35 Per Resident Week (PRW))
- the increased cost of care staff to deliver a nursing older people service compared to a residential older people service (+2.1 hrs, +£28 PRW)
- the increased cost of care staff to deliver a nursing dementia service compared to a nursing older people service (+2.1 hrs, +£27 PRW)
- the estimated cost of nursing staff at £225 for nursing older people and dementia exceeds the current rate of NHS funded nursing care (£187.60/week), leaving a potential funding shortfall of £37 PRW

Independent of the local cost survey, Valuing Care have used their cost model and database of service costs, to calculate benchmark rates for care home services for each needs group. This provides an opportunity to compare the local survey results against Valuing Care’s cost model and national intelligence of service costs.

The following tables provide, a summary of the benchmark rates for care home services in Dorset (Table 3), and a summary of the variance between the FPoC rates and the benchmark (Table 4).

Table 3 – Valuing Care Benchmark Rates (at September 2021 Prices)

	Cost Type / Driver	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Income & Expenditure	Nursing Staff	£0	£0	£204	£189
	Care Staff	£279	£314	£271	£326
	Service Management	£42	£42	£36	£36
	Other Care Home Staff	£102	£102	£102	£102
	Premises	£37	£37	£37	£37
	Supplies & Services	£84	£84	£88	£88
	Head Office	£50	£51	£52	£52
	Total Operating Costs	£594	£629	£790	£829
	Return on Capital	£90	£90	£90	£90
	Return on Operations	£30	£31	£39	£41
	Total Benchmark Rate	£713	£750	£919	£960
Staffing Costs	Direct Cost per Nursing Hour	n/a	n/a	£26.36	£26.36
	Direct Cost per Care Staff Hour	£12.77	£12.77	£12.70	£12.70
Staffing Inputs	Nursing Hours PRW	0.0	0.0	7.8	7.2
	Care Staff Hours PRW	21.8	24.6	21.4	25.7

Table 4 – Variance between FPoC and Benchmark

Survey Section	Cost Type / Driver	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Income & Expenditure	Nursing Staff	£0	£0	£21	£37
	Care Staff	£66	£65	£101	£73
	Service Management	£2	£2	£9	£9
	Other Care Home Staff	£22	£22	£22	£22
	Premises	-£1	-£1	-£1	-£1
	Supplies & Services	£18	£18	£14	£14
	Head Office	£6	£6	£5	£5
	Total Operating Variance	£113	£112	£170	£158
	Return on Capital	£0	£0	£0	£0
	Return on Operations	£6	£6	£8	£8
	Total Rate Variance	£119	£117	£178	£166
Staffing Costs	Direct Cost per Nursing Hour	-	-	£1.11	£1.11
	Direct Cost per Care Staff Hour	£0.26	£0.26	£0.32	£0.32
Staffing Inputs	Nursing Hours PRW	0.0	0.0	0.4	1.0
	Care Staff Hours PRW	4.6	4.5	7.2	5.0

Comparison of the FPoC Rates against the benchmark allocations indicates that care homes in Dorset are incurring higher levels of expenditure across most cost groups.

The main reason for the adverse variances are the high level of care staff inputs reported in the local survey (residential older people +4.6 hrs, residential dementia +4.5 hrs, nursing older people +7.2 hrs, nursing dementia +5.0 hrs). Reported expenditure on nursing staff (+£21 to +£37), other care home staff (+£22), and supplies & services (+£14), also appear high compared to previous surveys undertaken by Valuing Care.

In VC's experience undertaking cost surveys for Councils and the NHS across the country, benchmark provision for operating costs is likely to be a good indication of the usual cost of providing care home services. VC also acknowledge that there is likely to be variation in the average service offer between areas, likely reflecting levels of income deprivation amongst older people, and the percentage of self-funders procuring services.

In assessing a value for money cost structure that meets required service standards, it is important that identified costs are fair to allow for the long-term sustainability of the services and to allow for a reasonable return for the care provider. However this requirement must be balanced with an expectation that costs are not disproportionately high for delivery of the required service standard and represent a cost-effective purchase for the commissioner of the service.

2 Managing the Annual Fee Adjustment

The Fair Price of Care (FPoC) Rates are stated at September 2021 prices.

To ensure they continue to reflect the actual costs of providing services, Valuing Care recommend they are adjusted on an annual basis, by an estimate of future inflation in year 1 (to September 2022 prices), and then to reflect actual inflation in subsequent years.

An estimate of future inflation is necessary in year 1 as actual inflation to mid-year 22/23 prices is not yet known. The estimate of future inflation should be updated annually to reflect anticipated cost pressures, with separate adjustment to reflect actual inflation over the previous year.

The following table summarises Valuing Care’s recommended adjustment for inflation over the next three years.

Table 5 – Valuing Care’s recommended adjustment for inflation

Year	Basis of Fee	Price Adjustment
Year 1 (2022/23)	FPoC rate (at Sept 2021 prices)	+ Estimate of future inflation to Sept 2022
Year 2 (2023/24)	FPoC rate (at 22/23 prices)	+ Adjusted to reflect actual inflation to September 2022 + Estimate of future inflation to Sept 2023
Year 3 (2024/25)	FPoC rate (at 23/24 prices)	+ Adjusted to reflect actual inflation to September 2023 + Estimate of future inflation to Sept 2024

Valuing Care recommend the following indices as the basis for adjusting the benchmark rates to reflect actual inflation:

- Staff costs are inflated in line with the Average Weekly Earnings (AWE) series for health and social work (K5BC). The AWE is the Office for National Statistics (ONS) headline measure of short-term earnings growth
- Non staff costs are inflated in line with Consumer Price Index (CPI). The CPI is a measure of inflation published monthly by the Office for National Statistics. It measures the change in the cost of a basket of retail goods and services, excluding house prices and mortgage interest
- Provision for return on capital is adjusted in line with Local Housing Allowance rates

- Provision for return on operations is maintained at 5% mark up on total operating costs

Valuing Care recognise there are other equally valid indices (or combinations of) which may be used to uplift care home fees but suggest that it is the adoption of clear methodology applied consistently on a year-to-year basis that is of primary importance to gain provider trust and confidence.