

Cost Review of Care Home Services for Older People

For Devon Council

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Final Report on 6th February 2024

1. Executive Summary

In December 2023, Devon Council (the Council) instructed Valuing Care Ltd to undertake a review of the cost of providing care home services to older people in Devon. The objective of the review is to provide the Council with the latest intelligence on what it usually costs to provide care home services, which can be used to inform its future budget and rate setting.

To identify the usual cost of delivering services locally, Valuing Care have undertaken a survey of care homes operating services in Devon. In response to the survey, template submissions were received from 48 different care homes, although 12 have been excluded for qualitative reasons.

A total of 36 completed survey templates have been consolidated in a sample group which has been used to identify the survey results, including 21 templates for residential homes and 15 for nursing homes.

Based on the local survey results Valuing Care have constructed Fair Price of Care (FPoC) rates for each of the service categories/ needs groups defined by the Council. 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 15 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 identified in the sample of all care home services.
- Provision for return on capital (ROC) provides a net yield of 5.5% on the mid freehold valuation of £83k 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.

As the survey results reflect the financial year ending 31st March 2024, the FPoC rates have been restated at an estimate of prices at September 2024. The following table summarises the FPoC Rates at September 2024 prices.

Table 1 – Fair Price of Care Rates (at September 2024 prices)

FPOC Rates	Cost Type / Driver	Residential Low	Residential Medium	Residential High	Nursing Standard	Nursing Advanced
Expenditure	Nursing Staff	£0	£0	£0	£244	£244
	Care Staff	£271	£404	£507	£418	£443
	Service Management	£62	£62	£62	£62	£62
	Other Care Home Staff	£157	£157	£157	£157	£157
	Premises	£50	£50	£50	£50	£50
	Supplies & Services	£111	£111	£111	£111	£111
	Head Office	£72	£72	£72	£72	£72
	Total Operating Costs	£723	£856	£959	£1,115	£1,139
	Return on Capital	£97	£97	£97	£97	£97
	Return on Operations	£36	£43	£48	£56	£57
	Total FPOC Rate	£856	£996	£1,104	£1,268	£1,294
Income	NHS Funded Nursing Care	£0	£0	£0	-£236	-£236
	FPOC Rate (Net of FNC)	£856	£996	£1,104	£1,032	£1,058
Staffing Costs	Direct Cost per Nursing Hour	n/a	n/a	n/a	£29.27	£29.27
	Direct Cost per Care Staff Hour	£16.83	£16.83	£16.83	£16.83	£16.83
Staffing Inputs	Nursing Hours PRW	-	-	-	8.4	8.4
	Care Staff Hours PRW	16.1	24.0	30.1	24.9	26.3

The table shows:

- the increased cost of care staff required to deliver residential high needs service compared to a medium needs service (+6.1 hrs, +£103 Per Resident Week (PRW))
- the additional cost of nursing staff required to deliver a nursing standard service compared to a residential medium service (+8.4 hrs, +£244 PRW)
- the increased cost of care staff required to deliver a nursing advanced service compared to nursing standard service (+1.4 hrs, +£25 PRW)

The estimated cost of nursing staff at £244 for nursing standard and advanced services exceeds the current rate of NHS funded nursing care (£235.88 /week).

Independent of the local cost survey, Valuing Care have used their cost model and database of service costs, to calculate benchmark rates for residential older people, residential dementia, nursing older people and nursing dementia. This provides an opportunity to compare the local survey results against Valuing Care’s national intelligence of service costs.

The following table compares the New FPOC rates against Valuing Care’s benchmark rates, assuming alignment between service categories.

Table 2 – Variance between FPoC and Benchmark Rates

Variance to Benchmark	Cost Type / Driver	Residential Medium	Residential High	Nursing Standard	Nursing Advanced
Income & Expenditure	Nursing Staff	£0	£0	-£20	-£7
	Care Staff	£13	£57	£31	£12
	Service Management	£5	£5	£13	£13
	Other Care Home Staff	£14	£14	£14	£14
	Premises	£0	£0	£0	£0
	Supplies & Services	-£21	-£21	-£25	-£25
	Head Office	-£3	-£3	-£6	-£6
	Total Operating Variance	£8	£51	£6	£0
	Return on Capital	£0	£0	£0	£0
	Return on Operations	£0	£3	£0	£0
	Total Rate Variance	£8	£53	£7	£0
Staffing Costs	Direct Cost per Nursing Hour	-	-	-£0.19	-£0.19
	Direct Cost per Care Staff Hour	£0.42	£0.42	£0.45	£0.45
Staffing Inputs	Nursing Hours PRW	-	-	-0.6	-0.2
	Care Staff Hours PRW	0.2	2.7	1.2	0.0

The table shows the FPoC rates to be closely consistent with the benchmark rates, except for residential high needs (+ £53 PRW).

The adverse variance for residential high needs can be largely attributed to provision for care staff, which exceeds the benchmark for residential dementia by £57 PRW. This may be explained by the service categories not being aligned.

Across all the needs groups provision for total staffing costs exceeds the benchmark provision, due to a combination of expenditure on care staff, service management and chefs / cooks. This is negated by lower expenditure on supplies and services and head office costs.

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, reflecting levels of income deprivation amongst older people, and the percentage of self-funders procuring services.

When calculating a fair price for services that meet the required 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 an estimate of September 2024 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 2025 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 25/26 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 3 – Valuing Care’s recommended adjustment for inflation

Year	Basis of Fee	Price Adjustment
Year 1 (2025/26)	FPoC rate (at Sept 2024 prices)	+ Estimate of future inflation to Sept 2025

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

- Provision for care home staffing (excluding nursing and service management) is uplifted by the percentage increase in the National Living Wage (NLW) for workers aged 21+. The National Living Wage is the minimum pay per hour most workers are entitled to.
- Provision for nursing staff, service management, and head office are adjusted 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 adjusted 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.

2.1 Bespoke Pricing of Services

The FPoC rates presented above are based on the delivery of an average level of care to service users within each needs group. Consequently, higher or lower levels of care may be required to meet the needs of some service users, which requires a bespoke pricing mechanism.

When calculating a bespoke price, the main cost driver is the number of care staff hours required to meet an individual service user's need. Valuing Care recommend these should be quantified in rota form, differentiating between shared care and additional 1:1 hours.

To allow the calculation of a fair price to meet the specific needs of individual service users, Valuing Care have calculated hourly rates for procuring additional care and nursing hours.

The rates for additional care and nursing hours cover the direct cost of employing staff (including on-costs, cover requirements and agency), and allowance for ROO at 5% of the additional operating costs.

The hourly rates do not include any further contribution to service management, central management & support service costs, which are assumed to be shared equally between all services users and therefore covered by the FPoC rates presented above.

The following table sets out new FPoC rates for additional care hours, based on the median direct cost of care and nursing staff reported in the local survey.

Table 4 – FPoC Rates for Additional Hours

Staff / Cost Type	Blended Care Assistant	Blended Nurse
Direct Cost per Hour	£16.83	£29.27
Return on Operations	£0.84	£1.46
Hourly Rate for Extra Hrs	£17.67	£30.73

When procuring additional hours for a service user, it is important to ensure their care requirements cannot be met by the hours allowed within the standard FPoC rate.