

**Bristol City Council**  
**Cost of Care – Older People’s Residential and Nursing Care**  
**Placements**

**Market Engagement Report**

**March 9<sup>th</sup> 2018**

**Proposed ceiling prices for Residential and Nursing Care for  
Older People in Bristol for the year 2018/19 and pathway  
for updating rates for the three year planning period  
2018/19 to 2020/21 inclusive**

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**March 9<sup>th</sup> 2018**

## **Foreword**

Bristol City Council (BCC) is committed to promoting the continued independence of all adults in Bristol by helping to prevent, reduce or delay the need for care and support. The Council recognises, nonetheless, that there are situations where people require care and support in a residential or nursing care home, and in these circumstances, the Council commissions from a market of independent care home providers.

BCC promotes the effective and efficient operation of this market through commissioning provision and funding the care costs of people who are unable to fund their own care according to the Care Act. BCC is also working collaboratively with Bristol, North Somerset and South Gloucestershire Clinical Commissioning Groups (BNSSG CCGs) and these neighbouring local authorities to jointly understand and plan for these care services. It is important that the prices paid for publicly funded care taken together with privately funded care is sufficient to ensure that care that is safe, of the right quality and that contracts are commercially sustainable for providers.

The Council is therefore undertaking a cost of care exercise aimed at establishing ceiling prices for commissioned residential and nursing care. In doing so, the Council has regard to its financial position.

Bristol City Council is now seeking your views to inform a decision on the prices that it will pay for new placements of residential and nursing care in Bristol as of June 4th 2018.

We hope that you will engage in this exercise to ensure that BCC has heard from as many residential and nursing providers as possible.

**Terry Dafter**  
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# **Proposed usual prices for Residential and Nursing Care for Older People in Bristol for the Year 2018/19 and pathway for updating rates for the three year planning period 2018/19 to 2020/21 inclusive**

## **1. Introduction**

### **1.1 Proposed usual prices for financial year 2018/19**

1.1.1 Bristol City Council (the Council) has undertaken a cost of care exercise to enable it to establish its usual prices for the 2018/19 financial year and the Council's next planning period.

1.1.2 In order to review and decide on what the Council would propose as its ceiling prices for the 2018/19 financial year, a cost of care exercise has been carried out. This has sought to understand what the actual cost of providing residential and nursing care in Bristol is and variables that determine this cost of care.

1.1.3 This report explains how the Council has had due regard to these matters, as well as to its requirements to both achieve Best Value under the Local Government Act 1999 and its market development duties under the Care Act 2014.

### **1.2 Bristol's Cost of Care Process for 2018/19 financial year**

#### **1.2.1 The cost of care process has involved the following stages:**

##### Stage 1 – Information Gathering

The Council has engaged with providers to collect information from them on their actual costs of providing residential and/or nursing services in Bristol. In addition, the Council gathered and researched information about the costs of care from a variety of cost models and data sets (see below).

##### Stage 2 - Initial Analysis and the Setting of a Provisional Rate

The Council has analysed all the information it received from 25 providers, together with information obtained from its own investigations. This has been considered alongside other local and other relevant factors, as well as the Council's duty of Best Value and its obligations under the Care Act 2014. This has enabled the Council to set out in this report what it provisionally considers its ceiling prices for publicly funded care should be and why.

##### Stage 3 – Market engagement

The market engagement process with providers of older people residential and/or nursing services in the City includes sending out an engagement pack which sets out:

- Methodology underpinning the cost of care exercise - explanation as to how the Council has arrived at its proposed ceiling prices, the proposed ceiling prices themselves and the proposed pathway and mechanisms for updating provisional rates
- What BCC heard from providers at a recent workshop on the cost of care exercise and proposed prices (March 6<sup>th</sup> 2018 workshop)
- Further engagement sessions over the next month - how providers can set out what they think may be appropriate, including but not limited to, further evidence, critique of methodology, additional reports, comments and concerns, in addition any data that they might want to share to support their arguments
- Timelines for change
- BCC contacts in case of queries

**The engagement process will be for 31 days. The last day of the consultation will be 9<sup>th</sup> April 2018.**

**The Council welcomes any further actual cost data during this period. Any data provided will be taken into account during the analysis stage.**

#### Stage 4 – Analysis

Once the engagement period ends, the Council will analyse all feedback to support its final proposals as to its ceiling prices, having due regard to any relevant local or other factors, any legislative changes that are likely to affect costs, its statutory duties and affordability, and will set out its final proposed prices with its reasons in a further report that will go to BCC's Cabinet for final decision and approval.

#### Stage 5 - Decision Making

A report will go to Cabinet for final decision and approval in June 2018. Providers will be informed of the process and outcome in due course.

### **1.3 Bristol's Cost of Care process for financial year 2018/19**

1.3.1 All older people residential and nursing care homes in the Bristol area were asked to complete a template to collect data about business costs to inform the establishing of 2018/19 prices. This also acts as a baseline for planning future pricing in the market without the need for renewed data collection.

1.3.2 Rather than carrying out full data collection processes every year for an annual planning period which would be burdensome and resource intensive for all concerned, the Council is proposing a three year planning cycle.

1.3.3 This cycle consists of establishing a new baseline every third year, with a data collection and cost of care process, followed by a three year period in which

proposed updated prices derived from the baseline year are set out. The first new three year planning period will cover the 2018/19 to 2020/21 financial years inclusive. The next baseline year will be 2021/22 followed by a three year planning period and so forth.

#### **1.4 Proposed pathway for updating rates in 2019/20 to 2020/21 inclusive**

1.4.1 The Council considers that giving providers an insight into its future provisional pricing intentions will be a significant aid to provider business planning as well as supporting market shaping as required by the Care Act 2014.

1.4.2 Therefore, as part of the 2018/19 cost of care process to set its ceiling prices in the baseline year of 2018/19, the Council is also setting out the indexation process for the following two years.

1.4.3 The Council recognises that the indexation will have to account for a range of factors. These factors include but are not limited to:

- Provider costs inflation/deflation
- Changes in market conditions
- Government policy and changes in legislation
- Performance of the economy
- The Council's financial position

#### **1.5 Other changes affecting the market**

1.5.1 The Council proposes to fully consider any other changes including market conditions, government policy, economic performance and the Council's financial position that could affect provider costs in dialogue with providers via the Care Home Provider Forum (CHPF).

#### **1.6 Data collection**

1.6.1 In summary, the Council is proposing to establish a cyclical process in which data gathering takes place every three years to establish the price baselines for the baseline year from which the planned prices for the following three years are set out to aid business planning and market shaping. These prices are subject to adjustment as described in this report and consultation before being implemented.

1.6.2 **For the avoidance of doubt, the ceiling prices being proposed later in this report for 2018/19 include the Council's current assessment of changes in costs impacting in the 2018/19 financial year.** These proposed ceiling prices are, however, subject to further change in the light of the consultation process.

- 1.6.3 The planned prices set out later in this report for the Year 2018/19 are what the Council is currently planning and reflect the Council's aspirations and intentions at this time. They represent real terms increases in each year to support the quality of services and the sustainability of the market. In addition, they are intended to support business planning and aid market shaping. They do not yet include any adjustments that may be applied as a result of the cost adjustment process and dialogue as a result of this engagement exercise.
- 1.6.4 The final prices will be determined in the light of the consultations and implemented accordingly.

## **1.7 Efficient and effective operation of the care market**

- 1.7.1 The Council recognises that occupancy rates vary from provider to provider and over time. The average occupancy rate for residential and nursing care homes in England in 2016 as determined by Laing & Buisson was approximately 90%. The mean occupancy rate determined from the data supplied by Bristol providers is 95%.
- 1.7.2 Occupancy rate is a measure of efficient asset use. Many other councils use an assumed occupancy rate of 95% and at least one other council uses an assumed rate of 98%.
- 1.7.3 As occupancy rate increases the unit price per bed required to generate the same income reduces. The Council believes that it is reasonable and consistent with its duties under Best Value and the Care Act to assume that the market improves the efficiency of its asset use and is proposing, therefore, to adjust the ceiling prices it pays to reflect a gradual increase in efficiency from 95% in 2018/19 to an occupancy rate of 98% by 2020/218/19 which is the final year of the proposed new planning period.
- 1.7.4 The Council understands that this may not be possible for some providers to achieve, however, its market shaping duties under the Care Act 2014 require it to seek a balance of supply and demand in the care home market in Bristol. The Council will keep its proposals regarding occupancy rates under review as part of the dialogue process described earlier in this report.
- 1.7.5 These proposals will require the Council to adjust its current contracts for residential and nursing care so that they are fully aligned to the final ceiling prices and other proposals in this report.

## **1.8 Equality Impact Assessment (EqIA)**

- 1.8.1 Under the Equality Act 2010, public bodies must pay due regard to the Equality Duty when planning, changing or commissioning services. It is up to public bodies how they implement the duty. However they must be able to provide evidence that the

duty was considered before a decision is made. Equality impact assessments (EqIA) are an effective way of demonstrating that. The Council will undertake an equality impact assessment on the cost of care review.

## 1.9 The market engagement process

- 1.9.1 Providers have been/will be able to participate in the cost of care exercise. A survey has been set up to enable providers to respond to the proposed fees for care homes for older people for the duration of the consultation period. The survey will be available online and providers may respond anonymously if they prefer to do so. There is also another opportunity to engage in the cost of care exercise.
- 1.9.2 Providers will be notified about the process via email. Correspondence notifying providers that the process has commenced will consist of a covering letter incorporating a summary of the proposals letter with links to the survey and details of the cost of care exercise.
- 1.9.3 The process will include the detailed cost of care report, any other supporting documentation and details of how to participate in the exercise. The online survey poses a number of questions about the exercise and the proposed ceiling prices which providers are encouraged to respond to. The process provides an opportunity for providers to submit further information, challenge proposals, pose questions and seek clarification of any points they may wish to raise.
- 1.9.4 Some providers may wish to provide cost data if they have not done so already or have clarification questions or queries that need addressing whilst completing the process.

Providers will be able to do so throughout the period via emailing: [carehomecommissioning@bristol.gov.uk](mailto:carehomecommissioning@bristol.gov.uk)

- 1.9.5 **When the period ends, the Council will carefully consider all responses and complete its final analysis to enable it to determine the final proposed ceiling prices for the 2018/19 financial year and the indexation methodology for the financial years to 2020/21.** In doing so, the Council will have due regard to the proposals, the reasoning for it and the responses from the market engagement.
- 1.9.6 These prices will be reported into the Adult Care and Support Divisional Management Team and onto Cabinet to enable Cabinet to decide on the Council's final ceiling prices.

## 1.10 Payment of ceiling prices

- 1.10.1 The Council will use the banding system shown in the table below.
- 1.10.2 The proposed bands to be used are:

- Residential & Low Level Dementia
- Specialist Dementia (Medium to High Level Need)
- Nursing Only
- Nursing and Dementia

	Residential & Dementia £	Specialist Dementia £	Nursing only £	Nursing + Dementia £
<b>Output from Cost of Care Model</b>	616.92	661.26	629.59	673.93
Funded Nursing Care			158.16	158.16
<b>Total Fee</b>	<b>616.92</b>	<b>661.26</b>	<b>787.75</b>	<b>832.09</b>

## 2. Legal framework

### 2.1 National Assistance Act 1948 (Choice of Accommodation) Directions 1992 ('The Guidance')

- 2.1.1 Where the Council has assessed an adult person as being in need of care, it may lead to a decision to make a placement in a residential care home or a nursing care home. Where the person expresses a preference for particular accommodation, the Council should arrange for care in that accommodation, provided that a number of factors are determined, including whether the setting would not cost the Council more than it would usually expect to pay for accommodation for someone with the person's assessed needs. This cost is expected to be below the ceiling cost.
- 2.1.2 The Council is required to determine the ceiling prices that it would expect to pay for residential and nursing care in accordance with the statutory guidance.
- 2.1.3 The guidance states that usual costs should be sufficient to meet the assessed care needs of supported residents in residential accommodation and that in setting and reviewing their usual costs, councils should have regard to the actual costs of providing care and other local factors. Councils should also have due regard to Best Value requirements under the Local Government Act 1999.
- 2.1.4 This means that when setting the ceiling prices a council should be able to demonstrate that these prices are sufficient to allow providers to meet the assessed care needs and to provide residents with the level of care services that they would reasonably expect to receive if the possibility of resident and third party contributions did not exist.

## **2.2 Best value**

- 2.2.1 When the Guidance refers to the Council's Best Value obligations under the Local Government Act 1999, it means that it has a duty to make arrangements to secure continuous improvement in the way in which its functions, in this case placing service users and establishing its usual prices, are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 2.2.2 It then went on to publish its Best Value statutory guidance noting that the Council should consider overall value, including economic, environment and social value when reviewing service provision.

## **2.3 Market development duty in the Care Act**

- 2.3.1 The promotion of the effective and efficient operation of the care market as a whole (including residential and nursing care) became a new legal duty under the Care Act in April 2014. In practical terms this means that the Council needs to ensure that the actions it takes, including its commissioning and payment for services, support sustainable and quality care services.

## **3 Actual Cost of Care**

- 3.1 Residential and nursing care for older people in Bristol is provided in the main by many separate independent businesses. Each business is unique and operates with a whole range of diverse business models and financial structures. Some businesses are highly geared whilst others have little or no debt financing. This has a marked effect of the return on capital required by individual providers which can be a significant sum or a modest sum and will vary over time.
- 3.2 Whilst the majority of care homes in Bristol have between 30 and 35 beds some are much smaller and some much bigger. Some will provide generous amounts of space for each resident and provide private bathroom and toilet facilities whilst others will be less generous and may not offer private facilities. In addition the amount of direct care provision will vary from individual resident to individual resident because needs vary and change over time.
- 3.3 It is therefore self-evident that there is no one single actual cost of care but rather a range of actual costs reflecting the diversity of providers in the market including the quality and value of their care homes, the level of need of their residents and provider expectations in relation to profits and return on capital employed.
- 3.4 It is also the case that there is no one method of calculating ceiling prices based on actual costs of care. It is rather a matter of judgement in the context of local factors and the legal duties placed on the Council as described above.

### **3.5 Costs Model**

3.5.1 The costs model structures costs in the following categories:

These are:

- Residential & Low Level Dementia
- Specialist Dementia (Medium to High Level Need)
- Nursing Only
- Nursing and Dementia

3.5.2 The costs model structures costs in the following categories:

- Direct Care Costs covering staff costs that relate to the direct provision of care
- Indirect Care Costs covering staff costs that do not relate to the direct provision of care and includes registered manager, deputy manager, administration and reception staff
- Accommodation costs covering non staffing operating costs that Bristol City Council would expect a care home to incur in the delivery of an effective and efficient service
- Overheads covering costs such as Central / Regional Management, Support Services (finance / HR / Payroll / legal etc.)
  - Returns covering a reasonable allowance for return on capital employed and operating profit of 5%

### **3.6 Actual cost data**

#### **3.6.1 Care Homes in which Bristol City Council make placements**

The cost of care process included a data collection phase in order to obtain actual cost data from independent providers operating in Bristol. The Council e-mailed a letter dated 12 October 2017 to providers asking them to set out their actual costs in specified cost categories in a template attached to the e mail. These specified cost categories match the cost categories in the Council's indicative actual costs of care model with the exception of return on capital and margin.

In all 25 templates were completed with 21 covering residential care and 4 covering nursing care. The Council was able to fully use all 25 templates which had been completed. The templates and other information supplied by Bristol providers covered about 25% of the publicly funded residential and nursing care market in Bristol.

Where the validation process indicated that the indicative costs values derived from

independent providers were reasonable those values have been used unaltered.

Where the validation process indicated that the indicative costs values derived from the independent providers were out of line with the validation sources the Council has used a value that it considers to be reasonable.

In the case of direct labour costs the value could only be determined through calculation. In this case the independent provider indicative direct labour costs were used without any alterations.

In the case of overheads the values supplied by providers varied so widely that the Council decided to use an assumed percentage of 5% of operating costs to determine a value that it considers to be reasonable.

In the case of profit margin the Council has determined a value that it considers to be reasonable by applying a 5% uplift to operating costs including overheads.

In the case of return on capital, the Council developed a methodology to determine an assumed value of capital employed based on a mix of land values, building costs and sale values. The Council then applied a rate of return of 7% to arrive at the value used in its indicative actual costs model.

### **3.6.2 Validation sources**

The validation sources referred to above are described below together with an explanation as to how each has been used.

### **3.6.3 Laing & Buisson Fair Price for Care model 2016**

The Laing & Buisson Fair Price for Care model (the L&B model) is a nationally published reference model built up from data provided by care home operators throughout England using a range of assumptions. It is not designed to identify actual costs as such but does derive “fair prices” from cost data and assumptions. It uses the same four categories of need that the Council is using for this exercise. The “fair prices” are indicative and are based on a hypothetical 50 bed care home. The model is not based on Bristol specific data and uses instead indicative values for England and indicative values derived from 43 care homes in the East of England region for some cost categories considered to vary according to region. The Council has used the Laing & Buisson model to validate the independent provider data set and test the Council’s assumptions. The model has not been used to directly populate the Council’s indicative actual costs model.

### **3.6.4 Valuing Care FM model**

The Valuing Care database has been built up over a number of years from actual cost information supplied by providers of residential and nursing care throughout England. The Council commissioned work to enable these cost data to be used to generate indicative costs for Bristol in relation to the four categories of need set out above. The Council has

used the Valuing Care FM model to validate the independent provider data set and test the Council's assumptions. The model has not been used to directly populate the Council's indicative actual costs model

### **3.6.5 The National Minimum Data Set for Social Care (NMDS-SC)**

This dataset was created by Skills for Care in 2005 and currently holds information on around 24,000 care providing organisations and 700,000 workers in the adult social care sector. The information includes rates of pay and is supplied by providers themselves on at least an annual basis. This data set provides Bristol specific data including rates of pay and has been used to help determine labour costs used to help populate the Council's indicative actual costs model.

## **4 Assumptions**

### **4.10 occupancy and size of care home**

4.1.1 The Council recognises that care homes cannot operate at 100% occupancy throughout the year and the Council has therefore assumed a current average occupancy rate of 95%. This is consistent with the average occupancy rate for residential care in England as a whole as determined by Laing & Buisson for 2014 and was agreed as reasonable by provider representatives in Bristol with whom the Council has been working early on in the process and prior to the legal challenge. This is in fact lower than the occupancy rates applying in many other councils who assume rates of 95% or more. The Council thinks that it is reasonable and consistent with the duty of Best Value under the Local Government Act 1999 and the market shaping duties in the Care Act 2014 to move towards an assumed occupancy rate of 98% by 2020/21. This is reflected in the Council's calculations.

4.1.2 The Council has assumed that the average care home in Bristol has 35 beds. This is derived from published CQC data.

### **4.2 Direct care costs older people (Residential & Low Level Dementia)**

4.2.1 To calculate direct care costs the Council has identified the cost of staff that directly deliver care which includes care assistants and senior care assistants.

4.2.2 The Council has analysed its data sets and had regard to its cost models and as a result judges that the number of care hours required for each resident in the residential standard band of need is 19.9 hours per week.

4.2.3 To calculate the cost of direct care provision the Council has used the Foundation Living Wage effective from 1<sup>st</sup> April 2018 of £8.75.

4.2.4 The Council has taken account of the uplift required to reflect labour related on costs in all models and have judged an uplift of 24.5% to be reasonable. This results in a labour rate for direct residential care for older people of £8.88 per hour. The Council has

used this rate in populating its costs model.

### **4.3 Direct care costs older people with dementia (Specialist Dementia (Medium to High Level Need))**

4.3.1 The Council has analysed its data sets and had regard to its cost models and as a result judges that in addition to the 19.9 hours per resident per week required for the residential standard category an additional 3.5 hours per resident per week of direct care is required to reflect the greater level of need in the residential enhanced category. The Council has accordingly used the enhanced figure of 23.4 hours at £8.75 per hour to determine direct care costs in this category of need.

### **4.4 Direct care costs older people nursing (Nursing Only)**

4.4.1 Funding for Nursing care lies outside the scope of the cost of care exercise as home providing nursing care are funded at £158.16 per resident per week.

4.4.2 The Council recognises that individuals with a nursing requirement are likely to have additional non clinical care needs. The Council has analysed its data sets and had regard to its cost models and as a result judge that an additional one hour per resident per week of care assistant time at £8.75 t in addition to the nursing cost in line is required. This results in an additional cost of £8.75 per resident per week. The Council has populated its costs model accordingly.

### **4.5 Direct care costs older people dementia nursing (Nursing and Dementia)**

4.5.1 The Council has analysed its indicative actual costs data set and had regard to its validation source and as a result judges the direct care provision to be the same as the level in the residential enhanced category together with the additional 1 hour per resident per week in the nursing standard category. The Council has populated its costs model accordingly.

### **4.6 Indirect care costs**

4.6.1 These costs arise from non-direct care staffing and the Council has analysed the indirect care costs in its data sets and had regard to its cost models and as a result has reached a judgement on the indicative indirect care costs and has populated its cost model accordingly.

### **4.7 Accommodation costs**

4.7.1 These costs include utilities, buildings upkeep, gardening, food and so forth. To calculate accommodation costs the Council has had regard to all the data sets and models and derived an indicative cost that the Council judges to be reasonable. The Council has populated its costs model accordingly.

4.7.2 To reflect the additional non labour related costs of providing care in a nursing

setting as opposed to a residential setting the Council has allowed an additional £5 per resident per week to cover additional medical supplies

#### **4.8 Overheads**

4.8.1 The Council has regard to all the data sets and has used the average of the data received to populate the model.

#### **4.9 Operating profit**

4.9.1 Strictly speaking profit is not a cost but reflects provider expectations as to return on operations. These expectations will vary between providers. The Council considers that a profit of up to 5% of operational costs including overhead costs is reasonable having regard to the care economy in Bristol and affordability. The Council has populated the costs model accordingly treating profit as if it were a cost.

#### **4.10 Return on Capital**

4.10.1 There is no one accepted method of determining what providers might expect or require as a return on the capital that they may have employed in developing and running their businesses. Requirements will vary for a variety of reasons including the financial structure of the business, the maturity of the business and various business models.

4.10.2 The Council judges that the main capital investment, however, relates to the value of the land and buildings required for the enterprise in question whether owned or rented and the Council has therefore based its judgement on these values.

4.10.3 The Council has reflected the fact that the majority of the care estate in Bristol was built many years ago with a minority of the estate comprising new or more recently built care homes.

4.10.4 In the case of the older care estate the Council judges that a reasonable proxy for capital employed is likely to be the current sale value of the business. The Council has gathered information about sale values of care homes in Bristol to help it understand the value of capital employed in the older care estate.

4.10.5 In the case of newer build the Council judges that the current land value and turnkey build costs provide a reasonable proxy for capital employed. The Council has adopted the method used in the Laing & Buisson model but using Bristol land values rather than South West of England land values. This has enabled the Council to understand the value of capital employed in the new or recently built care estate.

4.10.6 This mix of buildings in the care estate is reflected in the Council judgements of an indicative value of capital employed. The Council judges that a return of 7% on the capital employed is reasonable in the current financial climate. The Council has populated the costs model accordingly.

## **5 Indicative actual costs of care**

5.1 Based on the methodology set out in section 4 above the Council judges that the indicative actual costs of care for each of the four categories of need per week in the financial year 2018/19 are as set out in the table below:

	<b>Residential &amp; Dementia £</b>	<b>Specialist Dementia £</b>	<b>Nursing only £</b>	<b>Nursing + Dementia £</b>
<b>Assumed Staffing Hours per Bed</b>				
Care	19.90	23.40	20.90	24.40
Catering/Kitchen	3.53	3.53	3.53	3.53
Cleaning/Laundry/Domestic	3.47	3.47	3.47	3.47
Management/administration/reception/activity	3.28	3.28	3.28	3.28
<b>Staffing Costs</b>				
Care	174.13	204.75	182.88	213.50
Catering/Kitchen	30.87	30.87	30.87	30.87
Cleaning/Laundry/Domestic	28.51	28.51	28.51	28.51
Management/administration/reception/activity	38.42	38.42	38.42	38.42
Holiday Cover	29.20	32.49	30.14	33.43
<b>Total Direct Staffing Costs</b>	<b>301.12</b>	<b>335.04</b>	<b>310.81</b>	<b>344.73</b>
Staffing Oncosts	73.77	82.08	76.15	84.46
<b>Total Staffing Costs</b>	<b>374.89</b>	<b>417.12</b>	<b>386.96</b>	<b>429.19</b>
<b>Accommodation &amp; Administrative Costs</b>				
Utilities	19.60	19.60	19.60	19.60
Insurance	5.51	5.51	5.51	5.51
Repairs & Maintenance	13.57	13.57	13.57	13.57
Handyman / Grounds Maintenance	4.69	4.69	4.69	4.69
Service Contracts	9.65	9.65	9.65	9.65
Waste / Cleaning Services	5.27	5.27	5.27	5.27
Equipment Rental	3.81	3.81	3.81	3.81
Telephone	3.16	3.16	3.16	3.16
Administration	8.16	8.16	8.16	8.16
Staff Expenses	4.04	4.04	4.04	4.04
Legal & Professional	5.24	5.24	5.24	5.24
Recruitment	4.01	4.01	4.01	4.01
General Expenses (incl Head office costs)	47.96	47.96	47.96	47.96
<b>Total</b>	<b>134.66</b>	<b>134.66</b>	<b>134.66</b>	<b>134.66</b>
<b>Total Operating Costs</b>	<b>509.55</b>	<b>551.78</b>	<b>521.62</b>	<b>563.85</b>
<b>Returns</b>				
Return on Land & Buildings	81.89	81.89	81.89	81.89
Profit	25.48	27.59	26.08	28.19
<b>Total Returns</b>	<b>107.37</b>	<b>109.48</b>	<b>107.97</b>	<b>110.08</b>
<b>Charge price per Bed</b>	<b>616.92</b>	<b>661.26</b>	<b>629.59</b>	<b>673.93</b>
<b>Funded Nursing Care</b>	-	-	158.16	158.16
<b>Proposed Base Fee</b>	<b>616.92</b>	<b>661.26</b>	<b>787.75</b>	<b>832.09</b>

## 6 Economic Issues

### 6.1 The care economy

**6.1.1 Care Quality Commission data as at February 2018 indicates that in Bristol there are 2901 registered beds in care homes. There are 74 residential care homes which account for 917 of the beds and 74 care homes with nursing which account for 917 beds.**

6.1.2 The Council only provides public funding for people who are eligible for services following assessment against national criteria and either provides all the funding required by a provider or a contribution towards it depending upon the financial circumstances of the individual concerned.

6.1.3 Data published by the Care Quality Commission show that over the past three years 22 care homes have closed, however, 19 new providers have entered the market over the same period as shown in the diagram below. The general picture is of a stable market. This suggests that current incomes have on the whole been sufficient to sustain continued provision.

#### 1. Combined Residential and Nursing Home Closures and Openings - Bristol 2013-2015

	2015	2016	2017	Total
Homes Opening	1	14	4	19
Homes Closing	3	13	6	22

### 6.1.8 Quality of Care

6.1.9 At the end of November 2017 the Council analysed the quality ratings for residential care homes awarded by the Care Quality Commission (CQC) which is the statutory regulatory body with responsibility for rating the quality of care. The showed that:

- 2% Care Homes were rated Outstanding
- 70% Care Homes were rated Good
- 26% Care Homes were rated Requires Improvement
- 2% Care Homes were rated Inadequate

6.1.10 This reflects a better position than the quality ratings for all registered services (not just residential care) nationwide where 6% are inadequate and 28% require improvement.

6.1.11 In the light of this assessment of the residential care market in Bristol the Council judges that the market could continue to operate effectively and sustainably on a range of

prices paid by the Council. The Council has had regard to the market characteristics described above in arriving at its proposed ceiling prices.

## **7 Proposals**

### **7.1 Actual Costs of Care**

7.1.1 The process described in this report has enabled the Council to quantify indicative actual costs of providing residential and nursing care for older people in Bristol as set out in the table in section 5 of this report. Given that there is no single actual cost of care that is accurate for all providers, the Council has had regard to the actual cost of care by using the indicative actual costs of care and used these to populate its costs model to help in the formulation of its proposed ceiling prices.

7.1.2 In doing so, the Council recognises the need to ensure that the prices it would usually expect to pay for residential and nursing care in Bristol are sufficient to enable the average provider operating their business reasonably efficiently, taken together with private income, to cover their operational costs as set out in the tables in section 5 of this report and provide a reasonable element of profit and return on capital.

7.1.3 The Council recognises that providers operate in a competitive market and will set their prices accordingly. The Council takes the view that to be reasonable its proposed ceiling prices should sit between the operational costs figure and the operational costs with returns figure set out in the indicative actual costs table in section 5 of this report.

7.1.4 The Council judges that any price lower than the operational cost in the table risks the need for excessive cross subsidisation by private funders to make the business sustainable. In addition it would be unreasonable for the Council's proposed ceiling prices to make no contribution to return on capital which is a cost.

7.1.5 The Council judges that ceiling prices set at a level above that of operational costs plus returns in the table in section 5 of this report (that is to say operational costs together with full allowance for the indicative cost of capital and a 5% profit margin) would exceed the price that it would usually expect to pay having regard to the statutory guidance and the matters set out below.

7.1.6 It is important to note, however, that both the proposed ceiling prices for 2018/19 and the planned prices derived from them for 2016/17 to 2018/19 inclusive set out in this report are themselves subject to further review and should therefore be considered as provisional and providing the basis for further consideration following the consultation process at this stage.

### **7.2 Best Value and Market Development duty in the Care Act**

7.2.1 The Council believes that increasing efficiency in the residential and nursing care market as a whole is an essential element in discharging its legal duties of Best Value in the Local Government Act 1999 and the market development duties under the Care Act 2014.

Accordingly the Council considers that its ceiling prices should incentivise improved efficiency and value for money. To do so the Council proposes to assume an occupancy rate of 95% in 2018/19, 96.5% in 2019/20 and finally 98% in 2020/21. The Council has factored this thinking into its proposals on ceiling prices; however, the Council proposes to keep assumed occupancy rates under review as part of the proposed dialogue with provider representatives described earlier in this report.

### **7.3 Local Factors**

7.3.1 The local residential and nursing care economy relies to varying degrees on the payments made by the Council. On average, the Council estimates that independent providers of residential and nursing care to older people in Bristol rely on Council payments for about 50% of their turnover. There will continue to be considerable scope for generating income from private funding at rates that the market will stand whilst avoiding excessive cross subsidisation.

7.3.2 There is no evidence of significant numbers of providers leaving the Bristol market due to financial difficulties or business failure, indeed, bed numbers have remained remarkably stable over the past three years and there has been a small net gain in providers over the same period. In addition there is evidence that there is a degree of overcapacity in the market. The Council has factored these local factors into its proposals on ceiling prices.

### **7.4 Affordability**

7.4.1 The Council is faced with the reality of the funding position set out earlier in this report in section 7 but nevertheless aspires to ensuring that its proposed ceiling prices will enable sufficient provision of the right quality to continue to be provided in Bristol not only in the current year but throughout the Council's proposed pathway for updating rates in the years to come.

### **7.5 Ceiling prices**

7.5.1 In the light of all the considerations set out above in this report the proposed ceiling prices for 2018/19 are subject to further adjustment in the light of the consultation.

## **8 Conclusion**

8.1 In this report, the Council has set out in some detail the process that it has developed and implemented to enable it to take a new decision about its ceiling prices for the 2018/19 financial year. It sets out the proposed ceiling prices for older people for the current year as well as the next planning period (being the following three years), together with a full explanation of how further adjustments to prices will be carried out in the future.

**8.2 The Council now wishes to consult providers on its proposed ceiling prices and the proposed arrangements for dealing with ceiling prices in the future.**

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