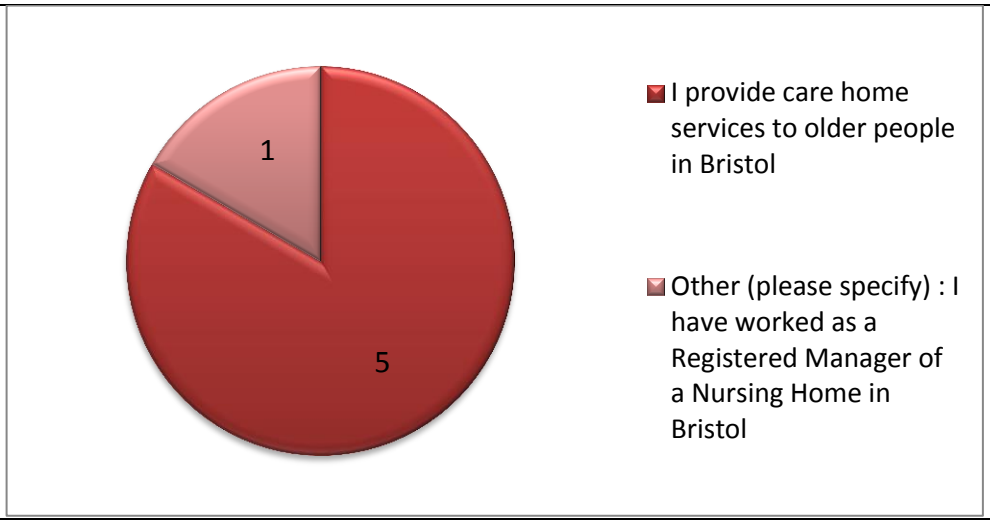
Appendix B

Bristol City Council Care Home Proposed Prices (for Older People Placements)

Analysis of provider responses to engagement exercise on cost of residential and nursing care and proposed new fixed prices.

12th April 2018

Introduction	Bristol City Council has conducted a cost of care exercise for Residential and Nursing Care (Older People's Homes). The Council asked providers to submit actual costs to inform this exercise. A review and analysis was completed with this information and a Market Engagement Report published, setting out the proposed ceiling prices for Residential and Nursing Care for Older People for the year 2018/2019. The Council has sought to consult with Providers on its costs to deliver care and provider views on proposals as set out in this report.
Engagement Period	The Consultation Period ran from: 9th March 2018 until the 9th April 2018.
Engagement Methods	A letter was emailed to Care Home Providers on 9th March 2018 attaching the Cost of Care Market Engagement Report also dated 9th March 2018. This letter invited providers to read the Market Engagement Report and provide feedback on the proposed prices. Providers were invited to do this by: a) Completing an on-line Survey. A link to the Survey was included in the letter. Six responses were received. b) Contacting the Care Home Commissioning Team directly. The email address to do so was included in the letter. c) Completing the 'Data Collection Template' if not already done so. A blank template was attached to the emailed letter sent on 9th March 2018. One further completed template was received. d) Attending face to face meetings. A Provider Engagement Session

	was held on 28th March 2018. 14 Provider Representatives attended the event.
Online Survey	
Number of Responses	Six responses were submitted to the Online Survey.
Who Responded to the Survey	
What we asked	**Question 1: The proposed rate for 'Residential & Low Level Dementia' care home placements is £616.92. What is your view on the proposed rate?** Response breakdown: 100% of the 6 Respondents answered the rate is too low. **Question 2: The proposed rate for 'Specialist Dementia (Medium to High Level Need) care home placements is £661.26. What is your view on the proposed rate?** Response breakdown: 100% of the 6 Respondents answered the rate is too low. **Question 3: The proposed rate for 'Nursing Only' care home placements is £787.75. What is your view on the proposed rate?** Response breakdown: 100% of the 6 Respondents answered the rate is too low. **Question 4: The proposed rate for Nursing and Dementia' care home placements is £832.09. What is your view on the proposed rate?** Response breakdown: 100% of the 6 Respondents answered the rate is too low. **We asked Respondents to provide reasons for their views of the**

	proposed rates. **5 of the 6 Respondents provided comments, as follows:** ➢ The First Respondent gave the view that the model used is flawed with internal inconsistency. They explained that there are inconsistencies with the assumptions of a profit rate at 5% and return on capital at 7%. They used a scenario of a new build 60 bed nursing care home costing £6m and with a 95% occupancy assumption. Using these figures, the respondent stated that a profit rate set at 5% of sales would give a profit of £116,744. This yields a return on capital of only 1.95% rather than the 7% stated. To achieve 7% return on capital on the same 95% occupancy rate, the room rate would need to rise by £102.31 to £890.06. It was suggested that a different model be used whereby providers are invited to submit a fixed price for the financial year ahead for each category of care. ➢ The Second Respondent gave comprehensive reasons for their view that the rates are too low. They explained that there are cost pressures on their organisation from staff wage increases due to national living wage, additional increase in pension contribution, increase in council tax, increase in CQC registration fee, removal of employer's reimbursement of Statutory sick pay, training costs, and high cost of food, fuel and energy. Difficulties in retaining staff have compounded these problems. Brexit has also provided a level of uncertainty in terms of the long term movement of EU workers. The Home has decided to increase wages and meet the full 5% pension contribution in an effort to discourage staff leaving. A national shortage of Home Managers has led to an increase of 25% in the Respondent's Home Manager's wage. This increase was made to reduce the possibility of the Manager leaving for a competitor and destabilising the service. In light of this, they call for anuplift in rates to a minimum of £850 per week for all Local Authority clients. They quote that the Independent Care Group has warned about the decade of underfunding in social care and that this, coupled with projected increases in extra beds needed in the next 10 – 18 years, leads them to feel concerned about the potential for hardship and the possibility of service users going without needed care. ➢ The Third Respondent asserted that the rates were too low for Residential and Low Level Nursing Care, advising that, in their view, the rate is barely sufficient for a 50 bed minimum wage/minimum care home with training by e-learning only and no loan repayments. Therefore it will drive quality down. They felt the same for the Specialist Dementia (medium to high level need) rate, adding: "This

	rate is about £100 per week too low to staff a 50 bed minimum wage Medium to High level needs dementia care home". In response to "Nursing only" and "Nursing and Dementia" rates they stated: "Assuming that FNC is on top of this rate it is barely sufficient to staff a 50 bed Home by e-learning only and no loan repayments. It will not allow RN salaries to be high enough to retain staff and avoid agency costs. Therefore it will drive quality down" ➢ The Fourth Respondent gave the view that the proposed rates "reflect a really low base rate". They added that "Even basic care should be higher than this". They listed: maintenance of Health & Safety of the building, activities, staffing, training, food, and utilities as factors to consider. The cost of all of which continue to rise with high inflation. ➢ The Fifth Respondent gave the view that the rates were too low because they are based on care staff hourly pay rate of £8.75. They explained that higher salaries have to be paid to attract staff to work in social care, and avoid excessive agency costs. The Respondent raised the issue of whether provision for agency costs had been included in the breakdown of the proposed rates. They referenced that the model used assumes that providers have cross subsidy of up to 50% of their beds from self-funders and explained that this is not the case for them. They are heavily focused towards local authority provision. They also raised a moral argument that the private sector should not be expected to bear the shortfall. They commented that the void assumption of 95% occupancy (rising to 98% occupancy) is unrealistic and that 90% occupancy would be more realistic. The Respondent considered that the calculation of holiday cover at 10.74% was understated. They questioned the value of the data collection exercise in this consultation process due to the methodology used when the indicative cost values derived from independent providers differed from validation sources. **Question 5: Comments invited on Staffing Ratio Assumptions for Care Staff** **3 of the 6 Respondents provided comments, as follows:** ➢ The assumptions for extra staff to provide care in higher need cases are entirely arbitrary. ➢ Staffing ratios are 1 carer to 4-5 residents (for nursing care) and 1 carer to 7 residents (for residential care). ➢ These would appear to be very low. In our service the vast majority of residents either have additional funding via ESN or additional identified 1:1 support needs.

	Question 6: Comments invited on Pay rates **4 of the 6 Respondents provided comments, as follows:** ➢ In relation to pay rates: Living wage increases are higher than inflation and differentials have to be maintained. ➢ Wages are typically £16 per hour for nurses and Minimum Living Wage for carers. ➢ Staff retention problems and issues with the Brexit induced uncertainty of movement of EU workers has led to increases in staff pay rates and employer pension contributions. ➢ National shortage of Home Managers has led to large increase in salary of current home manager to prevent destabilisation of home if she were to leave for a competitor. ➢ £8.75 an hour as an 'average' of support workers, senior support workers and team leaders is too low to be able to attract good staff to work in the social care sector. **Question 7: Comments invited on Occupancy Levels** **3 of the 6 Respondents provided comments, as follows:** ➢ There is no logic to the assumption that occupancy can increase from 95% to 98%. Regular resident turnover implies a 5% vacancy rate. ➢ Occupancy levels range from 88% to 95%. ➢ 95% occupancy and then 98% occupancy is unreasonable. 90% possibly rising to 93% would be more reasonable. **Question 8: Comments invited on Profit and why a different percentage might be more applicable** **4 of the 6 Respondents provided comments, as follows:** ➢ 5% seems reasonable. ➢ The model's profit and ROCE assumptions are inconsistent. ➢ Profit percentage should be as much as is possible to keep the building in good condition reward staff to retain them and provide good care and meals. ➢ Funders do not always give the issue of profit the prominence it deserves when looking at fees, believing on the application of a fixed percentage to all returns to account for return on capital employed. Profits made on the business are normally used to cover interest on bank debt, repayment over bank debt, capital expenditure (new beds, boilers, refurbishment), owner's time, ability to build reserves to cover unforeseen events, and a return on the amount of capital (asset value) invested in the business. Profit is equally an important element within the calculation of the true cost of providing care. Proportionately we need to ask ourselves, how can businesses grow if providers can't make or

	show profits to their funders and who will continue to serve the industry if owner's time isn't being compensated? **Question 9: Comments invited on Return on Capital and why a different percentage might be more applicable.** **4 of the 6 Respondents provided comments, as follows:** ➢ 7% seems reasonable. ➢ The model's profit and ROCE assumptions are inconsistent. ➢ The rate of return on capital ought to be as much as required to replace the building after 25-40 years. ➢ It makes good business sense to accept that there must be an annual budget for capital expenditure. Ideally, costs for equipment, repairs and maintenance are met from profits, either directly or indirectly or by way of funding further debt to buy assets on a HP agreement. Any provider funded by bank or other debt will almost certainly have profit targets (bank covenants). Failure to meet those targets by a significant margin will over the longer term have consequences for continued availability of funding and the viability of the business. It does also impact on the ability to repay debt. A stable care sector requires investment to maintain and improve on quality standards over time and ultimately to have a sustainable provision of social care. Profit is a vital part of this element alongside other costs.
Main Issues raised	**<u>Summary of the main issues raised within the survey responses</u>** ➢ All of the responses received indicated that the proposed rates as of March 9th were too low. ➢ Two of the responses indicated an increase of around £100.00 on the proposed rates would be required to achieve the profit rate and return on capital expenditure the model suggests. ***The new proposed rates as a result of engagement with providers are nearer this figure.*** ➢ Most of the responses received indicated that the proposed occupancy levels are too high. There were differing suggestions as to a reasonable average occupancy level ranging from 88-95%. ➢ Overall Respondents disagreed with the staffing ratios, suggesting that the ratios are too low. ➢ Cost pressures on providers were highlighted within the responses. National Living Wage, National Minimum Wage, pension contributions, training, CQC registration fees, building maintenance, food, fuel, energy are all increasing cost challenges that Providers face. ➢ Issues with recruitment and retention of staff are impacting on staff costs. Wages need to be at a level to attract and retain staff. Staff shortages, Brexit and the movement of the EU workforce are also

	influencing this. High agency staff costs compound this issue. ➢ One Respondent answered that 5% profit rate and 7% return on capital expenditure (ROCE) were reasonable. Other responses indicated that the model's profit and ROCE assumptions were internally inconsistent. ➢ Profits are an important element in calculating the true cost of care. Profits are used for the repayment of bank debts, meeting bank covenants, building reserves to ensure sustainability, meeting costs for equipment, repairs, maintenance and owner's time.
Written Feedback sent directly to Commissioning Team	
Number of responses received	➢ A number of responses were received and analysed.
Main Issues raised	➢ The rates are too low and are internally inconsistent. ➢ The current system of pricing includes the local authority rate and Exceptional Special Needs (ESN) to arrive at a bed price. There are also service users who are funded for some additional 1:1 support hours. How will the new pricing model take into account these needs and additional funding streams?
Provider Engagement Session 28th March 2018	
Attendees	14 Provider Representatives attended the Engagement Session
Main Issues raised	➢ The proposed rates are too low. Assumptions made about staff ratios are not correct which means that staff salary costs have been calculated too low. ➢ This is a highly regulated industry. Staff ratios are linked with CQC ratings on quality. The assumed staffing ratios are too low. Concern about delivering high quality of care. ➢ Rate of return on investment assumptions are too low given bank lending policies and the fact that providers need significant capital in order to borrow more. This has an effect on the rate of return on capital expenditure. ➢ Profit rate of return of 5% is too low in such a risky and costly sector. ➢ There are cost pressures on providers from National Minimum Wage, National Living Wage, apprenticeship levy, council tax costs, recruitment costs due to turnover of staff through Brexit and seasonal shortages. ➢ Staff training costs and backfill costs need to be factored into model. ➢ The NHS Funded Nursing Care (£158.16 as of April 1st 2018) is not enough to cover the real costs of nursing care. Social care cannot address this but this squeeze is a real cost to providers. ➢ There is no need for four different bands of price. Two pricing bands could be implemented instead.

	➢ Homes tend to operate with higher vacancy rates that those factored into original assumptions set out in the market engagement report. ➢ Different providers have different cost bases depending on their hotel costs. The pricing needs to reflect these differences.
Summary	
Key Messages	After consideration of all the different responses received, the key messages of this consultation are: a) The original proposed rates were too low. b) Cost pressures on providers are mounting. c) Staff shortages and Brexit are driving up wage costs. The high turnover of staff increases training and recruitment costs. d) Providers' businesses have different cost bases and average prices need to reflect these differences. e) Staffing ratio assumptions are too low f) Occupancy level assumptions are too high g) The original profit assumptions and returns on capital expenditure rate did not marry up with the proposed rates and occupancy level assumptions. h) Two price bands could be implemented instead of four. This would be simpler. i) Price ranges would be beneficial rather than just two fixed rates.