

<b>DECISION TITLE: Approve the new agreed rates the council pays for residential care for over 65 placements</b>
<b>Councillor Wayne Fitzgerald, Cabinet Member for Adult Social Care</b>
<b>NOVEMBER 2014</b>
<b>Deadline date: November 2014</b>

Cabinet portfolio holder: Responsible Director:	Wayne Fitzgerald Cabinet Member for Adult Social Care Jana Burton, Director of Adult Social Care
Is this a Key Decision?	Yes If yes has it been included on the Forward Plan : Yes Unique Key decision Reference from Forward Plan : KEY/22AUG14/03
Is this decision eligible for call-in?	Yes
Does this Public report have any annex that contains exempt information?	NO
Is this a project and if so has it been registered on Verto?	NO Verto number:

### R E C O M M E N D A T I O N S

The Cabinet Member is recommended to:

1. Approve the revised rate the Council pays for standard residential, dementia and nursing placements; and
2. Approve back dating the revised rate to April 2014.

The Cabinet Member is asked to note that the revised rates have been agreed following a consultation with local care homes and service providers and that this exercise shall be carried out annually to ensure that the Council pays a fair rate for residential and nursing care for adults.

#### 1. SUMMARY OF MAIN ISSUES

- 1.1 This report seeks Cabinet Member approval to issue new contracts to the residential homes the Council uses for service users. The contracts include the revised rates that have been agreed with the homes that the Council pays for the three types of residential care:
  - a) Standard residential care;
  - b) Residential dementia care;
  - c) Nursing care.

- 1.2 The new rates have been developed in consultation with a selection of local providers and include analysis of the costs they incur to deliver their service. This approach is in line with statutory guidance (Local Authority circular 2004) which states councils have a duty to ensure rates give due regard for the actual costs to deliver care and other local circumstances. Failure to consider actual cost when setting the rate can result in care homes taking councils to court and pursuing a judicial review challenge.
- 1.3 The financial implications, (paragraph 9.1 below), detail the new rate of care and the impact this change has on the amount the Council spends on residential care each year.

## 2. PURPOSE OF THIS REPORT

- 2.1 This report is for Cabinet Member for Adult Social Care to consider exercising delegated authority under paragraph 3.4.3 of Part 3 of the constitution in accordance with the terms of their portfolio at paragraph (b).

## 3. TIMESCALE *(If this is not a Major Policy item, answer NO and delete second line of boxes).*

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	
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## 4. DETAILS OF DECISION REQUIRED

- 4.1 This report seeks approval to:
- i) Implement the revised rate the Council pays for standard residential, dementia and nursing care placements and,
  - (ii) Back date the revised rate to April 2014.
- 4.2 The new rate for the three types of residential are set out in table 1.0 below.

Table 1.0

Type	2013/14 Rate	2014/15 Rate	% -/+
Standard Residential	£387.03	£394.06	+1.82%
Residential Dementia	£444.99	£455.47	+2.36%
Nursing	£521.56	£532.23	+2.05%

- 4.3 This new rate was developed by a project group that included input from the Category Manager from Procurement, Principal Accountant from Finance and the Head of Commissioning for Older People. The group was chaired by the Assistant Director of Adult Social Care Commissioning.
- 4.4 The project group incorporated four factors into the financial model that was used to calculate the new agreed rates:
- a) the suppliers' actual costs of running their business, (a copy of the cost questionnaire appears in paragraph 11 below);
  - b) the Council's market share e.g. how many of the 821 care home beds for over 65 year olds are bought by the City Council;

c) the occupancy rate across the over 65s care home market in Peterborough;

d) guidance documents from Laing and Buisson and Association of Directors of Adult Social Care (ADASS) on the expected return on investment or profit margin.

- 4.5 To ensure the Council fully considered the local market economy, the cost questionnaire on income and expenditure included some questions about the economic landscape the service providers are working in and invited them to share the risks and challenges they are experiencing currently.
- 4.6 A forum was held on 10 March 2014. All seventeen local care homes supporting people over 65 were invited. Nine of the homes were represented. The forum was used to introduce the ADASS standard terms and conditions of contract and the plan to adopt these terms and conditions for all residential placements made by the Council. This included advising the care homes that the agreed rate the Council pays will be reviewed to coincide with adopting the ADASS contract. Minutes of the forum and the ADASS contract were circulated to all seventeen homes after the meeting
- 4.7 On 26 June 2014 all seventeen local care homes were invited to attend a second forum to feedback on the ADASS contract and specification. Eight of the seventeen homes were represented. The forum was also used to share some analysis of the local residential market including the Council's spend on local homes and those outside of the Peterborough area. Providers shared their thoughts on the terms and conditions and asked questions in order to clarify some of the conditions included in the contract.
- 4.8 The June event was also used to share the implementation plan for the project including how the Council intends to work in partnership with providers to understand and develop a fair price for care that reflects the actual costs of supporting people in residential care in Peterborough.
- 4.9 Providers were asked to complete a cost questionnaire breaking down in detail the costs they incur in terms of property, management and care staff. They were also invited to volunteer to join a representative group whose task would be to help the Council analyse anonymised questionnaire returns. Four providers volunteered to join this group. Minutes from the June forum were circulated to all seventeen providers and the invite to join the representative group was extended to those that were unable to attend.
- 4.10 The cost questionnaire was circulated on 11<sup>th</sup> July 2014 with providers being asked to return completed questionnaires on or before 30<sup>th</sup> July 2014. In total five responses were received (one provider completed questionnaires for the two homes they own). However one of the responses was discounted as it had not completed the questionnaire and had merely provided a summary of costs in a corporate template.
- 4.11 This was a disappointing return rate (24%) considering the emphasis the Council had placed on the importance of transparency and the fact that without co-operation from the market the Council would not be able develop a rate that reflects the actual cost of delivering care. However the four responses received were completed in full and so the decision was taken to use those to analyse whether the existing rate was fair.
- 4.12 On the 6<sup>th</sup> August 2014 the Council met with the three providers, (representing four homes) to share its initial analysis and thoughts on methodology. The group was given an anonymised summary of the responses breaking down the percentage variation between the costs per bed per year. For example, the analysis showed that the average cost of food per bed was £965 per annum. The highest variation was £158 above the mean average. The lowest £158 below the mean average.

- 4.13 This initial analysis demonstrated that although the homes were of different sizes, once broken down by number of beds, the variation between how much the providers spent on food, utilities, supplies and property, (including mortgage repayment) was relatively low. So whilst the response rate was low the consistency in costs across the care homes provided reassurance that these costs were a good representation of the local market.
- 4.14 The questionnaire responses also detailed the hourly rate the homes pay for the various job roles and how many hours per week they employ those roles. These costs were assessed against the size of the home and the occupancy levels. The responses were tested for correlation and were also compared to industry standards. This gave the Council an average direct staff cost per bed per annum.
- 4.15 Direct staff costs were then calculated across the three types of residential care purchased (residential, dementia and nursing), to calculate the actual direct staff cost of delivering the particular type of care, e.g. number of hours of care staff compared to nursing staff.
- 4.16 The management overheads were then added to the staffing levels, (pro rata) and the fixed costs, (food, utilities, supplies, capital) to determine the detailed actual cost of delivering care. A 7% return on capital expenditure and 7% return on revenue was then applied. Laing and Buisson, (a provider of information and market intelligence on independent health, community care and childcare sectors), advise applying 7% on revenue and 5% on capital.
- 4.17 The financial model then factored in that in Peterborough, care homes are running at a 99% occupancy and that Peterborough City Council's market share is circa 35%. In order to identify a rate that fairly reflects the cost for care, due regard was given to this local market.

## **5. CONSULTATION**

- 5.1 The consultation focused on engagement with local care home providers and is detailed above.

## **6. ANTICIPATED OUTCOMES**

- 6.1 An agreed rate that is reflective of the actual cost of delivering care;
- 6.2 A more robust contract formalising the relationship between the Council and service providers;
- 6.3 A more sustainable care home market resulting in better choice for service users;
- 6.4 A more attractive care market to do business in, increasing choice and addressing the current lack of supply.

## **7. REASONS FOR RECOMMENDATIONS & ANY RELEVANT BACKGROUND INFORMATION**

- 7.1 So that the revised prices as detailed in Table 1.0 can be applied with effect from 1 April 2014.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

- 8.1 Do nothing – leave the agreed rate the same. This option was discounted as Council's have a duty to ensure their rates give due regard to the market and the actual cost of care. Whilst the rate paid for dementia care was reviewed relatively recently, the rate for standard residential care had not been reviewed for over five years and as a result left the Council open to challenge from providers.

## 9. IMPLICATIONS

### Financial

- 9.1 The financial implications of the proposed change equate to an increased spend on residential care for over 65s for 2013/14 of approximately £96,000. This figure is based on the new rate being applied from 1<sup>st</sup> April 2014 to all placements at or under the Council's agreed rate. This revenue increase is within budget.
- 9.2 The implications of a provider not accepting the new rate are that placements will be subject to a third party contribution or "top up". If a service user does not have a third party that can contribute the top up they will be placed in a home that may not be their preferred choice but which does accept the Council's rate and can meet their assessed need.
- 9.3 It is hoped that the increased rate will reduce the likelihood of a home charging a top up. However it is also acknowledged that currently demand for beds in Peterborough is exceeding supply, thus making it difficult to negotiate a lower price with providers.
- 9.4 This review of rates shall be an annual exercise to ensure the price responds to fluctuations in the cost of delivering care in Peterborough. In March 2015 Adult Social Commissioning will carry out a similar exercise evaluating the market conditions and consulting with the local residential care market.

### Legal

- 9.5 It is necessary and appropriate to consult with stakeholders when a change to a statutory service is being considered. The report sets out in detail the work carried out to consult the market and to understand what the fair cost of care in Peterborough is. The report also explains that service providers have been given considerable advance notice with regards to the Council's intention to use the ADASS terms and conditions of contract going forwards. This will ensure a consistency of approach with regards to contract documentation which should in turn assist the task of contract and performance management.

### Procurement

- 9.6 There are no procurement implications resulting from this decision.

## 10. DECLARATIONS / CONFLICTS OF INTEREST & DISPENSATIONS GRANTED

*Declarations by any cabinet member consulted by the decision maker and any dispensation granted by the Audit Committee or Head of Paid Service (Chief Executive). Note, the Audit Committee grants dispensations where the member concerned has a pecuniary interest, whereas the Chief executive may grant a dispensation for these purposes to any cabinet member consulted on these proposals whether by an officer or another individual cabinet member where there is a common law conflict of interest that may not amount to a pecuniary interest under the Regulations.*

## 11. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985) and The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012



Residential Cost  
questionnaire Final

### 1. Cost Questionnaire