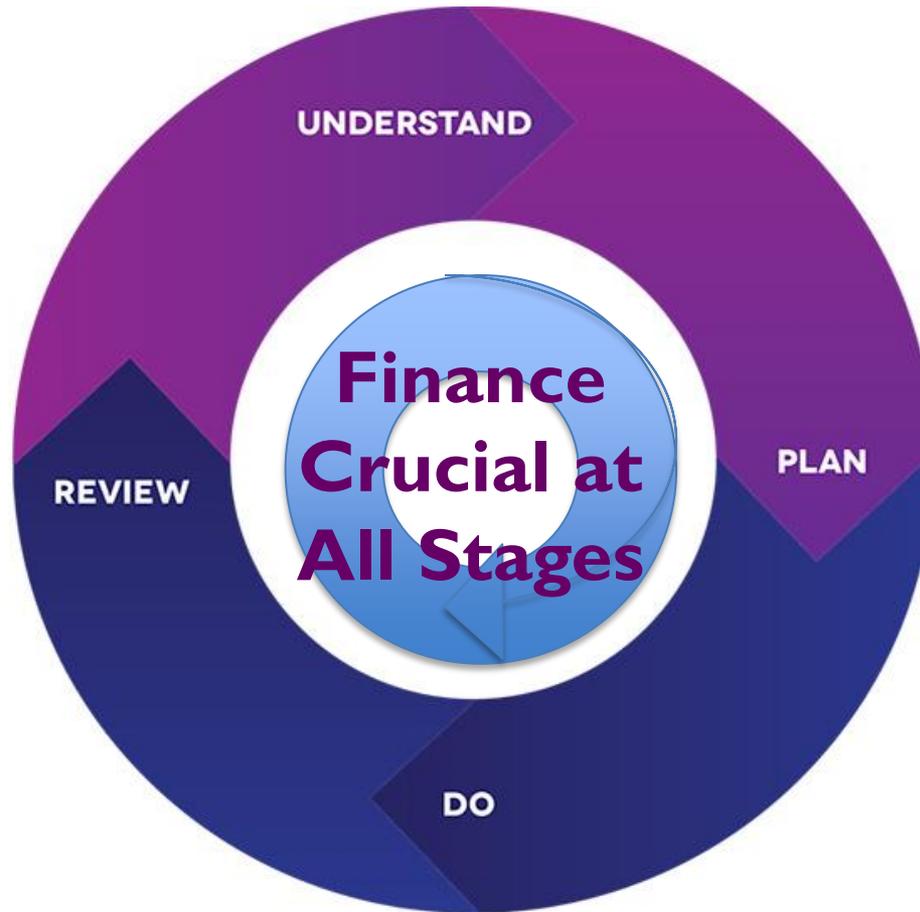


Getting the Price Right For Sustainable Care and Support



But focus of our work ***now*** is to look at cost analysis to support the basis of fee negotiation and agreement

Getting the Price Right For Sustainable Care and Support

Legislative and Project Background

- Meet the expectations of the Care Act to: -
 - **Be cost effective** – to commission services that offer value for money for public funds;
 - **Understand the costs of differing types of care and support** - in preparing commissioning plans and setting fee levels; and
 - **Understand the business environment of providers** - collaborating with them to ensure market sustainability - that there is sufficient provision to meet local need now and in the future.
- Recognise the **additional challenges** of these expectations **during a period of continuing austerity** – so over the next 2 years – 16-17 and 17-18.
 - The £1bn gap between costs & funding for Social Care & £4.5bn gap in other council costs & funding – and the hugely varying local and regional nature of these pressures.
- We are working closely with the Institute of Public Care who are leading a Market Shaping Review project

Getting the Price Right For Sustainable Care and Support

Care Act Guidance – Costs and Fees - local authorities should assure themselves and evidence that contract terms, conditions and fee levels for care and support services, taking account of the local economic environment, are appropriate to: -

- provide the delivery of the agreed care packages with agreed quality of care;
- promote the wellbeing of people who receive care and support;
- allow the service provider the ability to pay at least the national minimum wage and provide effective training and development of staff;
- retain staff commensurate with delivering services to the agreed quality;
- encourage innovation and improvement;
- allow for a reasonable rate of return by independent providers that is sufficient to allow the overall pool of efficient providers to remain sustainable in the long term.

Getting the Price Right For Sustainable Care and Support

The Guide –

- ***A summary of key conclusions and principles from our engagement with the sector***
- Description of ***costing approaches and tools*** that are available to be used in negotiating and agreeing prices
- Examination of the application of these costing tools and approaches in ***procurement***
- considers ***costs and income in different care settings including care homes, extra care, support at home/ home care and learning disabilities*** to help commissioners and providers have a better collaborative understanding of the business and social care environment

Getting the Price Right For Sustainable Care and Support

2014-15 Summary of Adult Social Care Expenditure and Income; by Primary Support Reason/ Commissioning Group

Commiss'g Group / Category of Spending	Physical Impairment and Sensory Impairment	"Older Persons" Physical Support / Dementia	Learning Disabilities	Mental Health	Total Commissioned Spend	Social Care Activities (Assessment & Review), Commissioning, ICT, Info & Advice etc	Total
	£m	£m	£m	£m	£m	£m	£m
Gross Total Cost	1,528	6,801	5,448	1,340	15,117	4,403	19,520
Total Income	267	2,593	767	320	3,947	969	4,918
Net Total cost	1,259	4,207	4,681	1,020	11,167	3,434	14,602

From HSCIC
Analysis

Looking at £15bn spend recognising increasing proportion of younger adults spend

Getting the Price Right For Sustainable Care and Support

Engagement with the sector –

- An analysis of a representative sample of over 30 Market Position Statements, Commissioning Intentions and Plans
- An analysis of half of the larger providers being monitored by CQC and research of other providers through other national research
- Input from seven sets of workshops so far – with involvement from providers as well as local authorities - over 120 people
- Dialogue with ADASS on some work they have done in this area
- Continuing dialogue and detailed discussions with local authorities and providers as part of our engagement approach.
- An analysis of Social Care Funding and Pressures and Overall Local Government Funding outside these pressures

Looking to add to this today

Getting the Price Right For Sustainable Care and Support

Process – Key conclusions

Starting the process at an earlier stage -

- Cost and fee negotiations often only begin close to the start of the year in which changes in fees needed to be agreed;
- There was a desire amongst local authorities and providers to start the process much earlier
- Fee increases considered in budget preparation and dialogue with members within the LA and paid as costs increase
- Crucial in context of significant increase in costs arising from the introduction of the national living wage.
- This will see pay increase from £6.70 in October 2015 to over £9 by 2020 – an increase of 34% in the next four years – with pay accounting for between 65% and 80% of costs.

Getting the Price Right For Sustainable Care and Support

Process – Key Conclusions

- ***Collaboration*** – providers and a number of local authorities were looking for greater collaboration between local authorities to minimise the calls for information as part of collecting information on costs. There are some examples of this type of collaboration in London and even with procurement with the West London Alliance.
- ***Transparency*** – there is a strong desire for greater transparency –to share more numerical and financial information –
 - *from local authorities* - on current and future volumes with some examples of this – for example- Liverpool
 - *from providers on costs* – with this part of the approaches adopted by Cheshire West, Essex, Kent, Lincolnshire and Norfolk – with Kent making this a part of their invitation to tender

Getting the Price Right For Sustainable Care and Support

Process – Key Conclusions

- ***Innovation*** – strong interest from local authorities and providers to be innovative in costing and procurement – including: -
 - Collaboration in costing and procurement across local authorities;
 - Having incentives to reduce demand – including making greater use of assistive technology – telehealth as well as telecare – use of hoists etc and approaches which reduce dependency over time – longer term reablement and therapy.
 - Arrangements that improve cash flow – paying in advance – or reduce costs such as use of councils procurement arrangements – access to training
- ***Evidence trail for the provider, local authority and the public*** – so it is clear how decisions have been made.
- ***More regular joint regional dialogue between commissioners, finance and providers?***

Anything Else?

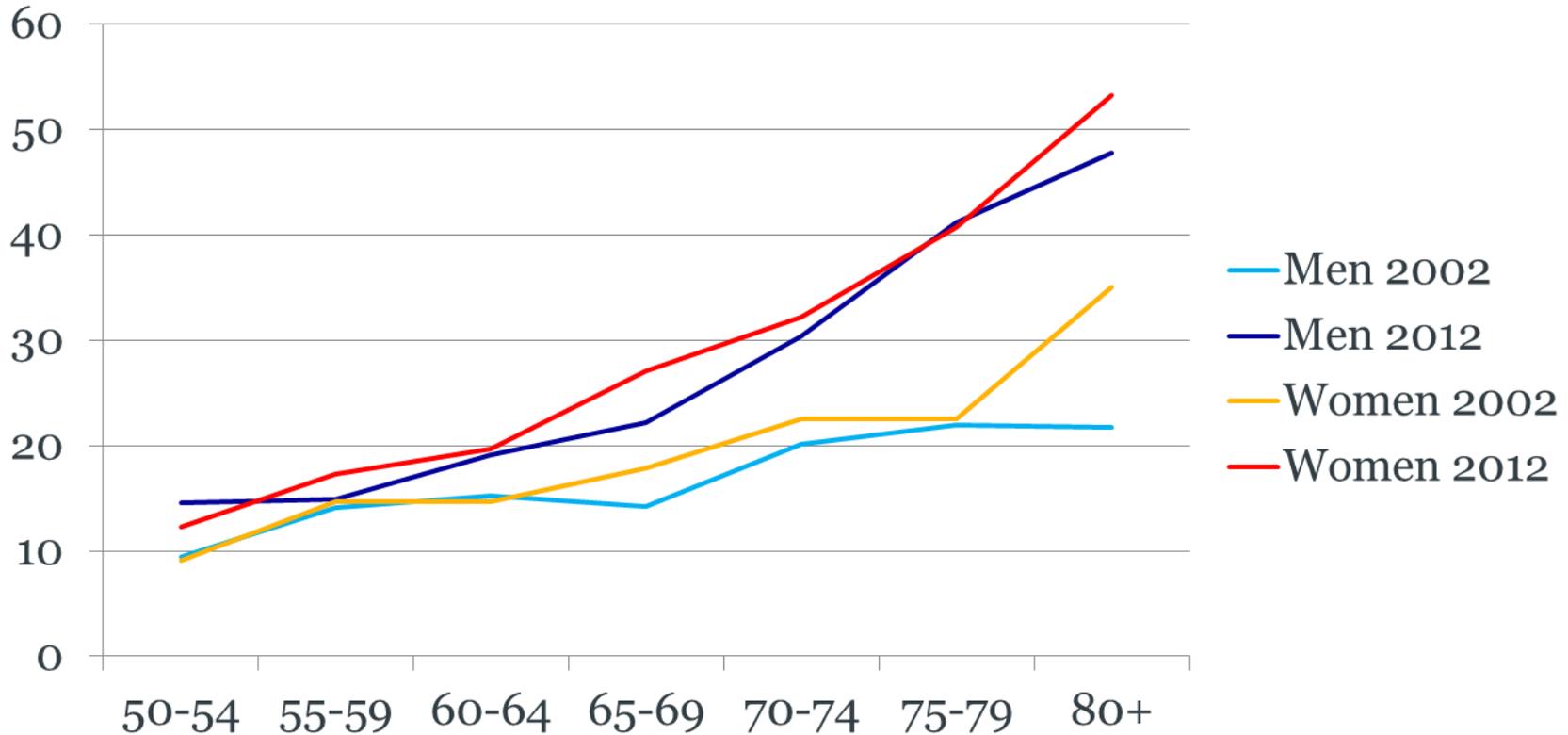
Getting the Price Right For Sustainable Care and Support

Costing Approaches – Key Conclusions

- ***Costing that most closely reflects actual costs incurred –***
 - ***Indices*** - can be used to measure changes in costs between years but - need to be relevant - RPI and CPI are simple tools of measuring consumer inflation and do not have any meaningful link with changes in social care costs – indeed the inappropriate use of indices between in the 1990's using RPI was one of the reasons for the creation of the fair cost of care model in 2002.
 - ***Models*** - these need to be regularly updated to recognise changing needs – see next few slides and have scope to vary key factors to take account of local circumstances – so on land and property costs .
 - ***Open book historic cost analysis*** – asking providers to provide a break down of costs reconciled to their accounts to reflect real costs incurred

Accelerating Need in Older Population

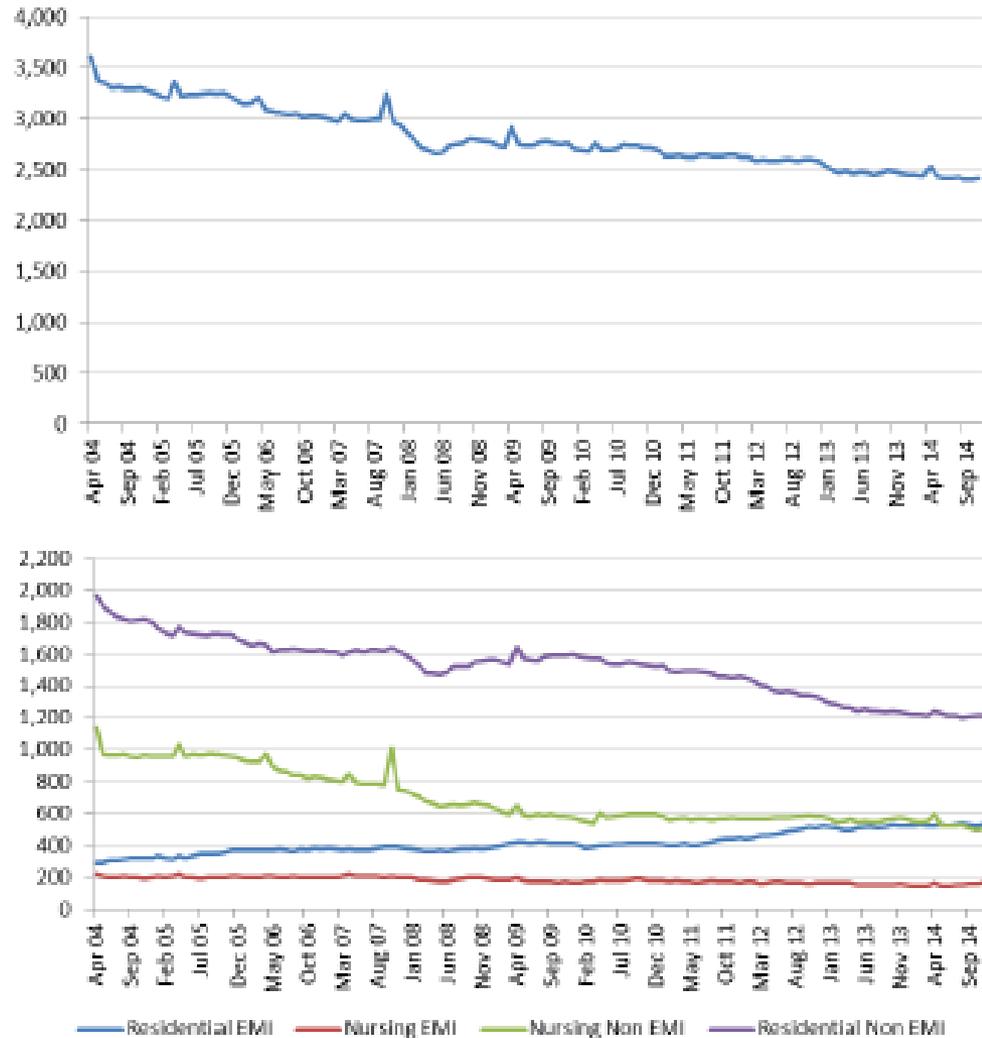
Percentage reporting difficulties with one or more activities of daily living, 2002 and 2012 ELSA



Respondents were asked if they had any difficulty with any of the following because of a mental, physical, emotional or memory problem: dressing, including putting on shoes and socks; walking across a room; bathing or showering; eating, such as cutting up food; getting into or out of bed; using the toilet, including getting up or down.

Further example of changing needs

These graphs show a long term reduction in numbers in residential care – but a change in the composition of those supported with a greater proportion of those entering residential care having EMI needs from 15% to over 50% between 2004 and 2014.



Getting the Price Right For Sustainable Care and Support

Care Home Model

Brief Description

Summary Comments

Fair Cost of Care – JRF-

Developed in 2002

Openly available but has not been updated since 2008

Laing and Buisson – “Fair Cost of Care”

Regularly updated model

latest update 2014-15 – allows for a number of local variables including building and land costs

Other Commercial Models

First developed on from JRF model

Not publically available. No indication that they are being used other than as a base for indexed increases.

ADASS

Seeks to draw on best practice.

Openly available but has not been updated since 2011. Not endorsed by the Care Providers Alliance.

Getting the Price Right

UKHCA Approach

At National Minimum Wage (and National Living Wage from April 2016)		From Oct 14 to Sep 15	From Oct 15 to Mar-16	From 1 st Apr 2016 to 30 th Sept 2016
Hourly rate for “contact time”		£6.50	£6.70	£7.13
Enhancement for unsocial hours, etc:	0% of basic hourly rate	£0.00	£0.00	£0.00
Travel time:	11.4 min per hr of contact time	£1.24	£1.27	£1.35
National Insurance Contributions:	9.50% of gross pay	£0.73	£0.76	£0.81
Holiday pay:	12.07% of gross pay	£0.93	£0.96	£1.02
Training and supervisory time:	1.73% of gross pay	£0.13	£0.14	£0.15
Pension contributions:	1% of gross pay	£0.08	£0.08	£0.08
Distance travelled:	4 miles to 1 hr of contact time	£1.40	£1.40	£1.40
Mileage rate:	£0.35 per mile			
Running the business Oct 14 – Mar 16	27.00% of total price	£4.25	£4.37	
Running the business – From Apr 16	25.50% of total price			£4.26
Profit or surplus:	3% of total price	£0.47	£0.48	£0.50
Total price:		£15.74	£16.16	£16.70

Getting the Price Right

UKHCA – Comparison with Actuals

Home Care Analysis	Company A		Company B	
	2013 £m	2014 £m	2013 £m	2014 £m
Turnover	21.95	23.79	33.93	35.91
Direct Costs	15.4	16.64	22.91	24.87
Gross Profit	6.55	7.15	11.02	11.04
Gross Margin %	29.80%	30.10%	32.50%	30.70%
Administrative Costs	5.2	5.2	7.74	7.97
Administrative Costs %	23.70%	21.90%	22.80%	22.20%
Earnings before ITDAR	1.44	2.03	3.33	3.13
Earnings %	6.56%	8.53%	9.81%	8.72%
Running the Business Costs	5.67	5.63	7.9	8.05
Running the Business Costs %	25.83%	23.67%	23.28%	22.42%
Staffing Costs	13.87	15.44	27.08	29.05
Staffing Costs %	63.19%	64.90%	79.81%	80.90%

Earnings Before Interest, Tax, Depreciation, Amortisation of goodwill and Rent (EBITDAR)

Running the Business Costs - includes depreciation, rent and interest

Getting the Price Right For Sustainable Care and Support

Costing Approaches – Key Conclusions

- **Use of common way of determining earnings and measuring returns** – earnings before interest, tax, depreciation, amortisation and rent and relating these earnings to capital employed were generally considered to the industry norm. This recognises that profit is not a good measure – as this will vary depending upon the funding approach adopted – see below

Funding Method	Income	Costs	Profit	Percentage
	£m	£m	£m	%
Equity	1.306	1.123	0.183	14.0%
Mortgage	1.306	1.240	0.066	5.1%
Rental	1.306	1.288	0.018	1.4%
<i>Income based on 6 % return on capital</i>				

Getting the Price Right For Sustainable Care and Support

Revenue cost head – Sample Breakdown	Nursing £	Personal £
Nursing costs	143.72	
Care costs	150.7	168.62
Domestic and other hourly-paid staff	74.66	74.66
Salaried staff	27.52	27.52
Food	24.76	24.76
Utilities, phone, CT	20.31	20.31
Insurance	3.24	3.24
Registration fees	2.77	2.77
Recruitment	1.24	1.24
Direct training expenses	1.3	4.18
Cleaning, uniforms, disposal, waste	16.72	10.43
Travel, outings, TV	2.02	2.92
Externally purchased services	4.1	4.71
Other non-staff current expenses	13.04	13.04
Repairs & maintenance	38.91	38.91
General overheads	3.79	3.79
Total of these revenue costs	528.8	401.1

Impact of Funding Method on Staffing as Percentage of Total Income

Funding Method	Income	Costs	Staffing Costs	Percentage
	£m	£m	£m	%
Equity	1.306	1.123	0.7861	70.0%
Mortgage	1.306	1.240	0.7861	63.4%
Rental	1.306	1.288	0.7861	61.0%

So more appropriate to take ***staffing costs as percentage of costs before financing costs etc.*** rather than as of income

Impact of Self Funders on Staffing as Percentage of Total Income

Proportion of Self Funders	Income including Self Funders	Costs	Staffing Costs	Staffing Costs as a percentage of Income
	£m	£m	£m	%
80% Self Funders	1.452	1.123	0.7861	54.1%
50% Self Funders	1.397	1.123	0.7861	56.3%
20% Self Funders	1.342	1.123	0.7861	58.6%

So more appropriate to take staffing costs as percentage of costs before financing costs rather than as of income

Getting the Price Right For Sustainable Care and Support

Costing Approaches – Key Conclusions

- **Use of common way of determining earnings and measuring returns** – with care in how to look at capital employed. This is covered in this example from Lincolnshire.
- 2011 – started approach to move to 3 year deals
- 12 Month period of Analyst – detailed analysis of costs – using survey questionnaire with providers – **older persons and young adults** - then process of consultation and review
- **First 3 year deal** implemented 2012-13 – to 2014-15
- 2014 – 9 month period of analysis etc. undertaken by Laing and Buisson
- **Second 3 Year Deal** – implemented 2015-16 to 2017-18 – with as first deal agreed percentage increases in each of the years of this deal
- This includes an allowance for the national living wage – recognising that it varies according to the composition of the work force

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■ ***Lincolnshire– Care Homes – Capital***

- Have taken an approach to capital based on current returns – so 6% rather than 12% used in other models.
- This is consistent with some returns elsewhere should the providers choose to sell up and invest elsewhere in particular the 6% return on the Prime Healthcare market.
- They applied this to an average capital cost per bed – of £44,000. This was based on what people were buying and selling care homes for in their LA area.
- This was less than the JRF toolkit price of new build of £59,000 per room – because in Authority A there is well established mix of homes with most built before 2003.

Getting the Price Right For Sustainable Care and Support

■ *Lincolnshire – Care Homes – Capital*

- The £44,000 figure was more than the average market price per bed of £41,759 but closer to the regional average of £43,712.
- Multiplying the value of a room at £44,000 by the nominal 6% rate of return provides a payment of £56.26 per person per week
- This represents an annual payment per room of £2,933. Given the assumption above of the capital cost per room of £44,000 this means that the initial investment would be recouped over a 15 year period

Getting the Price Right For Sustainable Care and Support

Costing Approaches – Key Conclusions

- ***Costing that most closely reflects actual costs incurred –***
 - ***Younger Adults – Cost of Care Calculator***
 - Helpful when first introduced in reducing very high cost packages of care
 - Very task driven so can they be adapted to recognise shift in care to more shared arrangements – move to making most of strengths rather than dependencies
 - ***Is there more scope to review costs and returns in the approach that Lincolnshire have adopted using the historic actual costs approach to younger adults in the same way as older people?***
 - ***What else?***

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Costing Approaches – Key Conclusions

- ***Incentives where looking for new development*** – the scope to apply incentives where a commissioner is looking for more provision;
- Kent have done this for Nursing and EMI – Norfolk have done so for new developments.
- In each case they offered higher rates of return to encourage new developments. In Kent's case they also offered a lower rate of return on developments they wanted to see less of – in this case ordinary residential care.

Getting the Price Right For Sustainable Care and Support

Costing Approaches – Key Conclusions

- ***Costing is just part of the negotiation process –*** however good the costing analysis, this analysis does not replace negotiation between commissioners and providers, and nor is it intended to do so.

Is there anything else?

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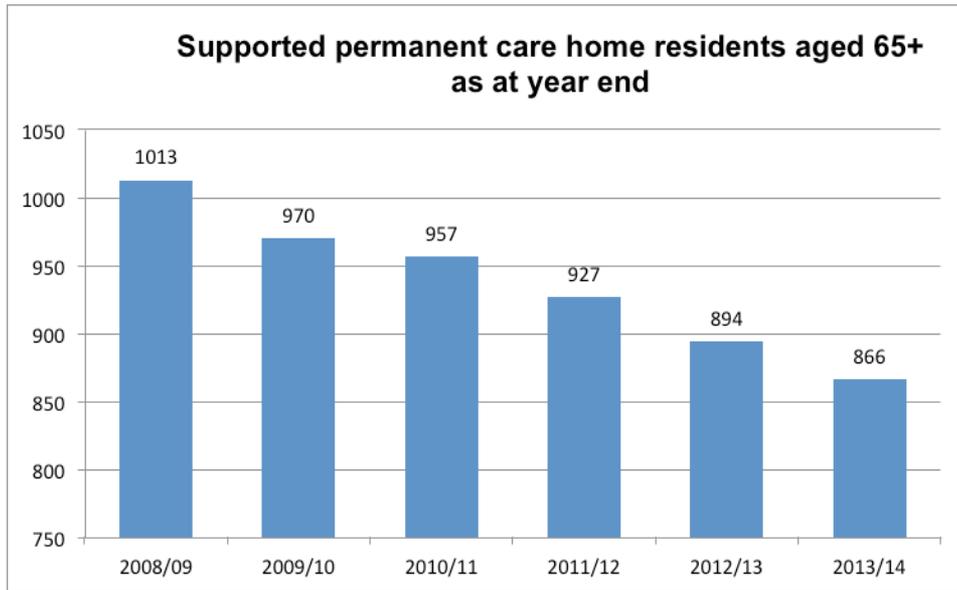
Procurement – Key Conclusions

Mix of volume as well as spot – there is scope to use more sophisticated forecasting to enable more consideration to be given to arrangements which include minimum volumes;

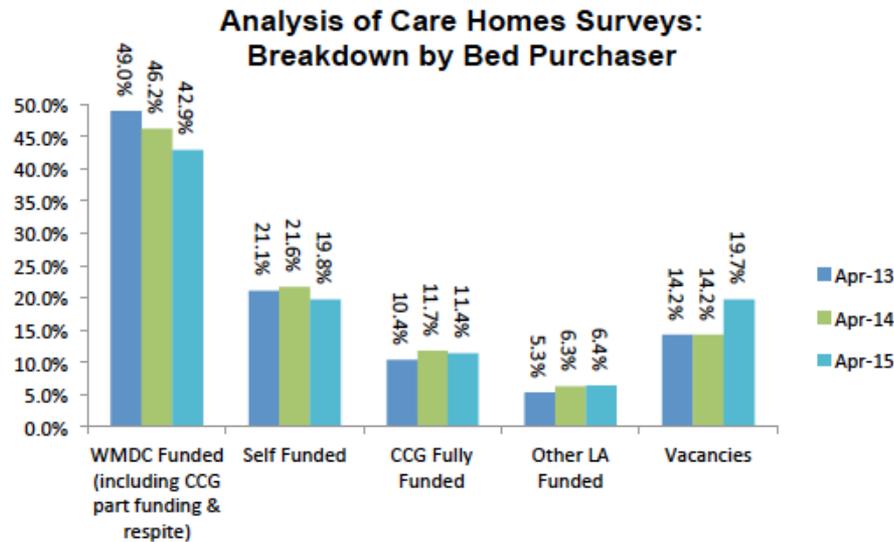
- There are Local Authorities who are tracking historic trends as well as starting to use this to start to do some forecasting.
- As seen in the next slide – the reduction in placements in some areas has led to reductions in occupancy which adds significantly to the cost per occupied bed in care homes.

***Much like costing is there scope to do
forecasting analysis collaboratively?***

Volumes



This is another example of where the local authority making less placements has led to a reduction in occupancy.



Getting the Price Right For Sustainable Care and Support

Procurement – Key Conclusions

Mix of volume as well as spot – there is scope to use more sophisticated forecasting to enable more consideration to be given to arrangements which include minimum volumes;

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***Much like costing is there scope to do
forecasting analysis collaboratively?***

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Procurement – Key Conclusions

- ***Move to longer term arrangements*** – mutual benefits to both providers and local authorities from longer term arrangements – in providing greater certainty over financial plans and avoiding the additional costs of annual negotiations;
- ***Consideration of transactions costs*** – for the provider as well as the local authority through differing procurement approaches.

Is there anything else ?

Next Stages

Next Steps

- Continuing engagement with the sector including participation in one more gathering like this.
- Continuing liaison with ADASS, CPA, DH, LGA and Market Shaping Study
- Plan for Guidance to be available in May

Background Slides

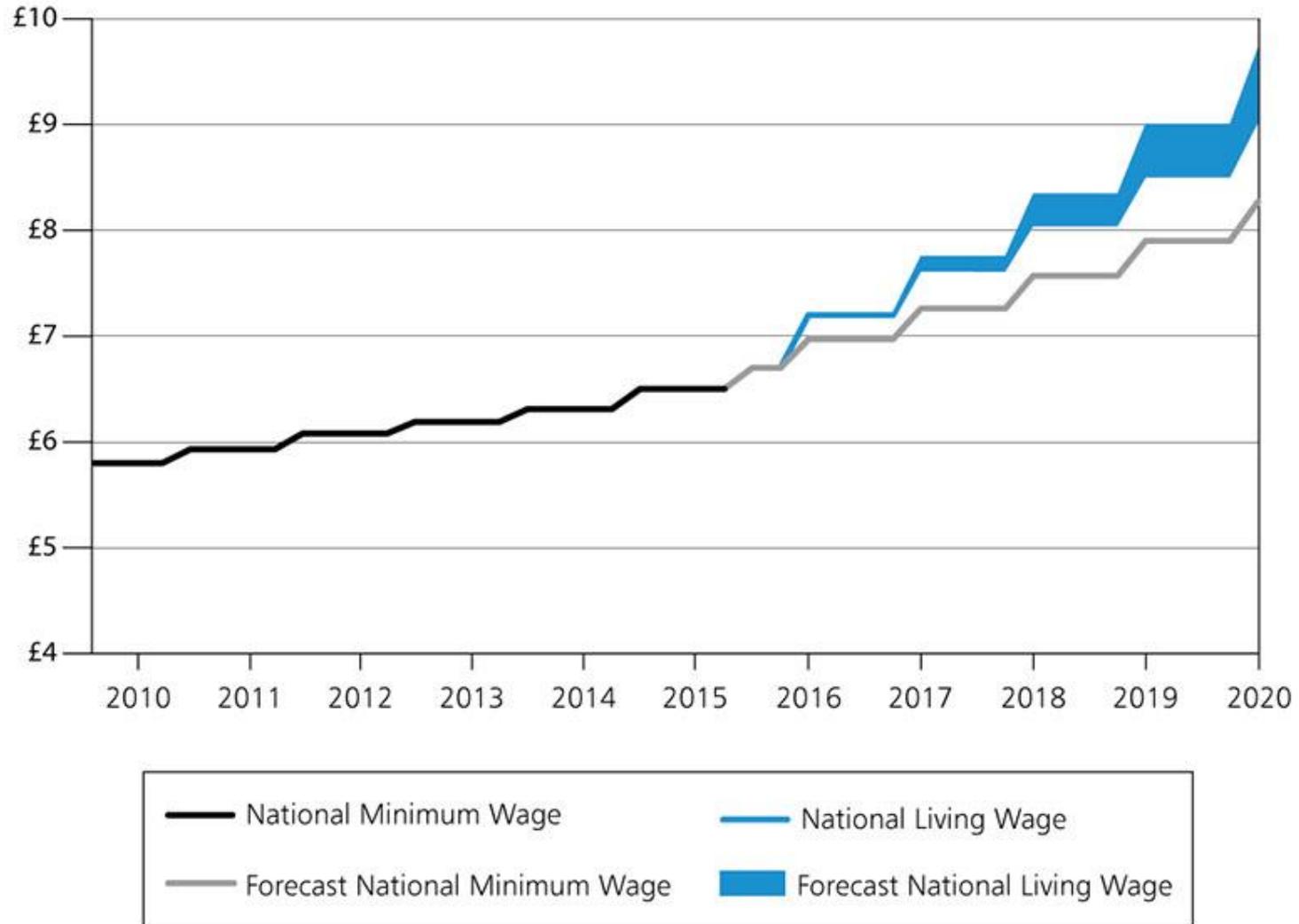
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Financial Context 2016-20

Adult Social Care Funding

Local Authority Cumulative Context	2016-17	2017-18	2018-19	2019-20
<i>Additional Social Care Funding</i>	£m	£m	£m	£m
Additional 2% Council Tax Revenue	393	821	1290	1804
Additional Better Care Fund	-	105	825	1500
Total Additional Funding	393	926	2115	3304
<i>Additional Pressures</i>				
Demographic Change - General Inflation	600	1200	1800	2400
Home Care inclusion of travel time	278	278	278	278
National Living Wage	330	530	930	1130
Total Pressures	1208	2008	3008	3808
Deficit	-815	-1082	-893	-504

National Living Wage



Source: HMT calculation based on OBR forecast of average hourly earnings and historical and announced National Minimum Wages.

Financial Context 2016-20

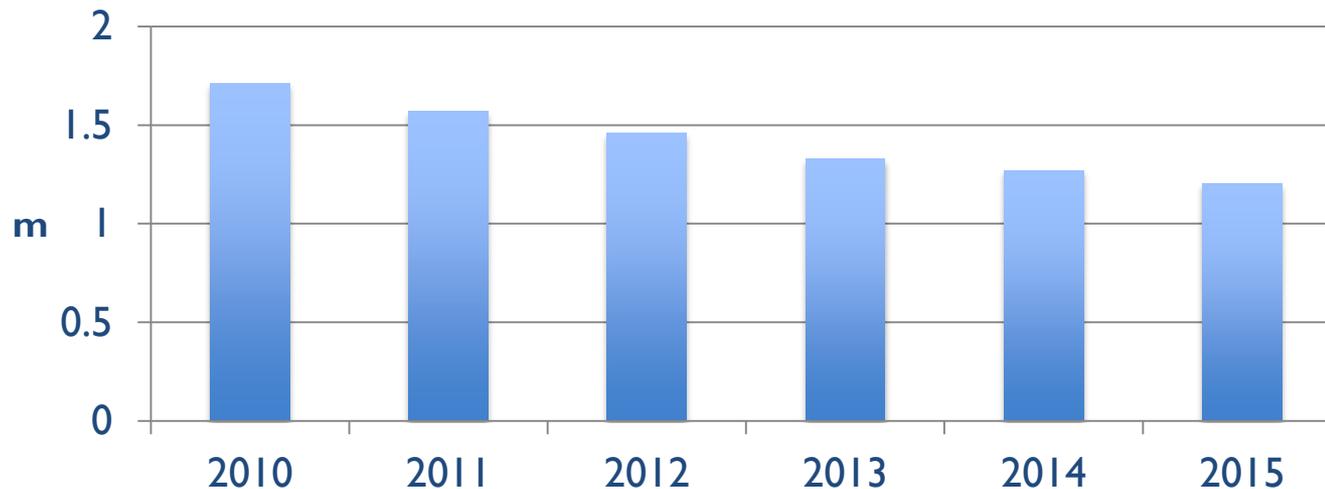
Local Authority – General Context

Local Authority Cumulative Context	2016-17	2017-18	2018-19	2019-20
	£m	£m	£m	£m
Reduction in Central Government Settlement Funding	-2,648	-4,628	-5,714	-6,750
Additional Council Tax	713	1,566	2,477	3,450
Total Reduction in Funding	-1,936	-3,062	-3,237	-3,300
<i>Additional Pressures</i>				
General Inflation excluding Social Care	583	866	1,128	1,576
National Insurance changes	797	797	797	797
Total Pressures	1,380	1,663	1,925	2,373
Deficit	-3,316	-4,725	-5,162	-5,673

Reduction in number of people receiving LA support

Despite formula grant falling from £29bn in 2010-11 to £21bn in 2015-16 – a cash reduction of £8bn – cash allocated to Social Care fell by only £1.2bn – with much of this reduction in a reduction in the people receiving support

**Adult Social Care
Number of People Receiving Support**



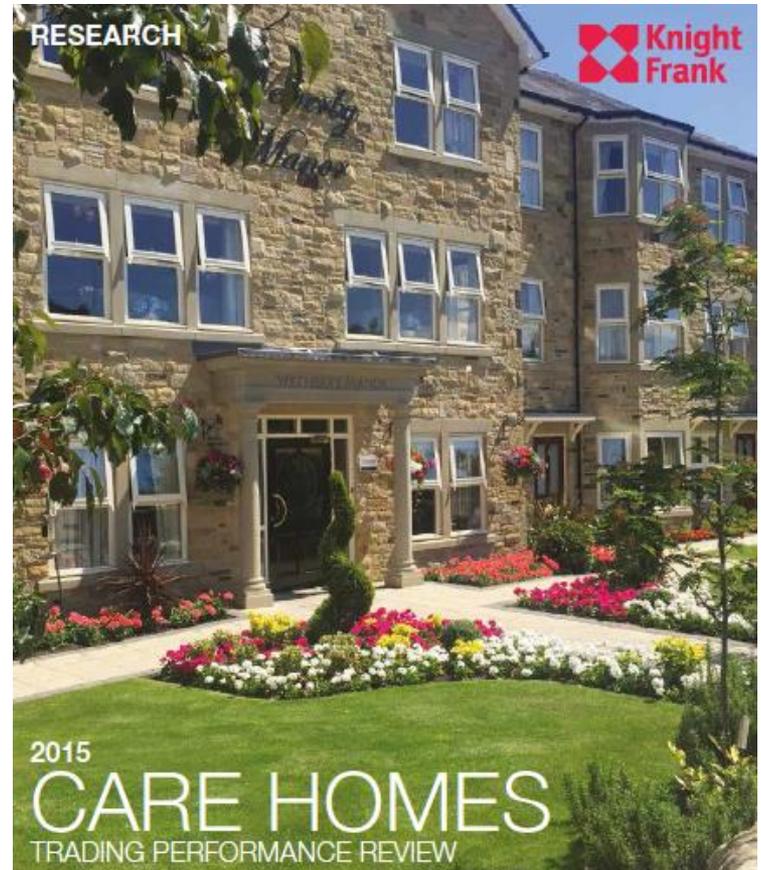
Without this reduction in the number of people being supported – then the sector would have probably experienced negative tariffs – instead rates have increased – see the next slide -

Care Homes

Care Homes - 2014-15

KF Research – 60% of Market

	Residential	Nursing
Occupancy –	90.4%	87.7%
Earnings	29.5%	26.5%
Fees -	£587	£699
Fee Increase	3.7%	1.6%
Staff Costs	56.7%	63.1%
(as % of income)		



Earnings = Earnings before Interest, Amortisation, Depreciation, Rent, Management and Tax – so consistent basis regardless of business model

Care Homes

Care Homes - Number of Care Places

- Analysis by Health Property Consultants (HPC) indicate that over the last three years new care places have averaged 6,033 a year, while closures have averaged 5,558 places a year.
- New homes opening have had an average of 58 places, while those closing have had an average of 27 places.

Home Care – Support at Home

Home Care / Support at Home Market

- Useful analysis by UKHCA of prices LA's pay
- Less readily available information on actual earnings across the sector
- Analysis of larger organisations shows mixed picture – some where margins are increasing – others reducing -
- Still many people entering the market – CQC report that in last five years – 42% increase in the number of providers in the market
- Looking for further sources of information – including Daltons – dialogue with UKHCA and with Laing and Buisson on their work in Home Care / Support at Home

