

**From:** Andrew Ireland, Corporate Director for Social Care, Health and Wellbeing

**To:** Graham Gibbens. Cabinet Member for Adult Social Care and Public Health

**Decision No:** 14/00064

**Subject:** OLDER PERSONS RESIDENTIAL TENDER STAGE ONE ANALYSIS AND GUIDE PRICE RECOMMENDATION

**Decision No:** 14/00065

**Subject:** NURSING RESIDENTIAL TENDER STAGE ONE ANALYSIS AND GUIDE PRICE RECOMMENDATION

**Classification:** Unrestricted

Electoral Division: All

**Summary:** This report provides the results of the stage one tender process, which includes our analysis of the market by home type and the considerations for understanding the actual, and determining the fair cost of care for these services in Kent.

In accordance with Local Authority Circular (2004) 20, the Council is obliged to pay due regard to the actual cost of care provision. This report details how we have conducted that analysis and includes officer recommendations for how these professional judgements should be applied in order to ensure we have a sustainable market place that is in line with our future residential requirements as detailed in the Accommodation Strategy.

Attached to this report is Appendix One which contains information that is Exempt from publication as contains commercially sensitive information

The 2014-15 budget for these services was approved by the Council on 13<sup>th</sup> February 2014 with a provision for price pressures. This paper seeks to demonstrate how this budget allocation might most fairly and appropriately be allocated against our identified bands of care, taking into account the actual cost of that care provision and other local factors including the preferred future shape of the care sector in Kent.

Upon approval of this report, and in line with our governance process, stage two of the tender process will commence with new contracts coming into effect on 6<sup>th</sup> October 2014.

**Recommendation:** The Cabinet Member for Adult Social Care and Public Health is asked to:

- 1) Agree, as Decision 14/00064, the recommendations contained in the report and appendix and confirm the new guide prices for residential care as follows:
  - Area 1 and 2 Residential (medium needs) £352.18
  - Area 1 EMI Residential (high needs) £408.48
  - Area 2 EMI Residential (high needs) £440.30
- 2) Agree, as Decision 14/00065, the recommendations contained in the report and appendix and confirm the new guide prices for nursing care as follows:

- Area 1 Nursing £450.72
  - Area 2 Nursing £487.42
- 3) Delegate to the Corporate Director of Social Care, Health and Wellbeing, or other suitable nominated officer, responsibility to take all steps that are necessary to implement these decisions.

### 1. Context

The Council spends over £100m on residential and nursing care for older people. Following the decision in December 2013 to competitively tender these services a report was presented to Procurement Board in January 2014. This paper outlined the procurement options available in order to re-let the older persons residential and nursing care contracts and the requirement for any price review based for the financial year 2014/15.

In order to ensure compliance with the Choice Directive, appropriate competition within the market and our support of new market entrants, the decision was taken to re-let the contract using a Dynamic Purchasing System (DPS).

Strategic Sourcing and Strategic Commissioning have worked closely together and progressed through a competitive tender process led by the Procurement team. Full market participation was a key requirement to ensure the success of the procurement exercise. This was achieved by holding several market engagement events and enabled the market to be fully prepared for the tender process and to understand the importance of registering for and completing the documentation and our online cost model.

Older Persons Residential and Older Persons Nursing Care have been tendered separately but in order to consider the overall impact on the budget and our allocation of any price increases the outcome of stage one of both tenders are provided in this report.

### 2. Description of Service

Older persons' (usually, but not limited to, those over 65 years of age) residential care in Residential Care Homes and Nursing Homes situated within the administrative area of Kent County Council.

### 3. Background

The Council has not been out to tender for older persons' residential care since 2002, with current framework agreements awarded in 2003.

In order to comply with Local Authority Circular (2004) 20, the Council has had to consider annually how the cost of providing older persons' residential care has fluctuated and has had to conduct an appropriate fee review each financial year. The table below shows the 'usual rates' payable each year since 2004/05 in respect of the various categories of care:

OLDER PERSONS RESIDENTIAL		
Year	Fee	Guide/Usual Price

	<b>Increase for Existing Clients</b>	<b>Residential (Area 1)</b>	<b>Residential (Area 2)</b>	<b>EMI (Area 1)</b>	<b>EMI (Area 2)</b>
2013/14	1%	£336.93	£351.29	£404.44	£440.30
2012/13	1%	£333.00	£348.01	£400.44	£436.00
2011/12	0.5%	£330.29	£344.56	£396.48	£431.62
2010/11	0%	£328.65	£342.85	£396.48	£431.62
2009/10	2.5%	£328.65	£342.85	£396.48	£431.62
2008/09	2.5%	£320.63	£334.49	£386.61	£421.09
2007/08	£9.56	£312.81	£326.33	£377.38	£410.82
2006/07	2.5%	£303.25	£316.77	£367.82	£401.26
2005/06	3%	£295.85	£309.04	£358.85	£391.47
2004/05	2.5%	£287.23	£300.04	£348.40	£380.07

<b>OLDER PERSON WITH NURSING</b>			
<b>Year</b>	<b>Fee Increase for Existing Clients</b>	<b>Guide/Usual Price</b>	
		<b>Nursing area 1</b>	<b>Nursing Area2</b>
2013/14	1%	429.26	480.22
2012/13	1%	425.01	475.47
2011/12	0%	420.80	470.76
2010/11	0%	420.80	470.76
2009/10	2.5%	420.80	470.76
2008/09	3.53%	410.54	459.28
2007/08	2.47%	396.54	445.28
2006/07	2.5%	386.98	435.72
2005/06	3%	377.54	410.16
2004/05	2.5%	366.54	398.21

In preparation for the 2013/14 review the Council undertook formal consultation with the Kent market, supported by the Trade Associations, to investigate how the cost of older persons' residential care had altered throughout the course of 2012/13. The consultation did not receive a large response, many providers being unwilling to share information about their costs. Re-tendering the contract in 2014 gave the Council the ability to request accounts as part of the tender exercise in order to clarify providers' costs and income. This information enabled us to carry out a full cost analysis in order to ensure our compliance with Circular (2004) 20 and minimise the prospects of successful legal action against the Council.

Responses were received from approximately 60% of the Kent market for this tender. The high level of responses has provided confidence that the data provides an adequate picture of the sector upon which to base the analysis on which we have calculated the new guide prices.

In more general terms the information enabled the Council to gain a better understanding of the Kent market, including different home types and their relative efficiency. The data has also helped to demonstrate the importance of the Accommodation Strategy in clearly stating our purchasing strategy for residential placements in order to ensure there is a sustainable and cost efficient market as we move towards the implementation of the Care Act and the residential market for 2016.

#### **4. Procurement Route**

The Dynamic Purchasing System (DPS) was selected to ensure that all providers who wished to participate, and who met the basic criteria, were invited to join the contract.

The strategy for this procurement is to facilitate as much choice as possible for those older persons who require accommodation in an older persons' residential or nursing home. The DPS therefore encourages as many potential suppliers to apply to join the DPS.

The DPS is a two stage process as follows:

- **Stage One** – Pre-Qualification Questionnaire (including the submission of an online cost model for each care home situated within the administrative area of Kent County Council); and
- **Stage Two** – Technical and Commercial Response.

All individual placements will be advertised under the new contract, and we are proposing placing a regular notice on the portal to ensure that any new market entrants, or existing providers with new capacity, are able to apply to join. Providers will express their interest to tender for placements and submit their real price, which is based on their occupancy/availability at the time of placement and reflect the needs of the client. They will not be able to exceed their tendered maximum indicative cost submitted at stage two. Third party top ups will be clearly defined and explained at the start as will any other financial implications for the service user. This should reduce the confusion for individuals, their families and providers and should subsequently reduce officer time responding to complaints and enquiries.

As part of this process it is our intention not to initially place any clients with providers who are not registered on the DPS, which providers currently account for 38% of the available beds for standard and EMI care. This is until such time as these providers have signed up to our Terms and Conditions and agree to deliver to our specification, conducted through the DPS procurement route. There may however need to be arrangements in place to allow such placements in order to comply with the Choice Directive and so individual contractual process arrangements are being developed.

## **5. The Process**

As part of their response to stage one of the tender process, suppliers were required to complete and submit a separate Cost Model and Pre-Qualification Questionnaire for each older persons' Residential and Nursing Home situated within the administrative area of Kent County Council.

The model was completed in accordance with published instructions to ensure that all data were measured in the same way, so as to prevent any distortion of the figures and to ensure that we were able to undertake a proper analysis and comparison of the data. To this end providers' accounts were considered and the analysis endeavoured to identify, clarify, rectify and/or remove any obvious anomalies in the evidence submitted by suppliers.

As part of KCC's obligation to pay due regard to the actual cost of care, the Council is committed to understanding the cost of older persons' residential and nursing care, and only once this understanding is satisfactory will the Council be able to set a fair guide/usual price for the duration of the DPS, based on our budget allocation for the corresponding financial period. This guide price will also be the basis for applying any increase for existing residents from 6<sup>th</sup> October 2014.

The information is also crucial to understand the potential implications of the Care Act as the Council will be exposed to the costs charged to the self-funded individuals. The majority of changes being introduced to the residential market through the Care Act will become effective in April 2016.

The agreed usual/guide price will be published as soon as the decision is implementable as part of the documentation of stage two of this tender process. Tenderers will therefore be able to submit an indicative price as part of stage two knowing what, if any implications will arise for Third Party Top-Ups.

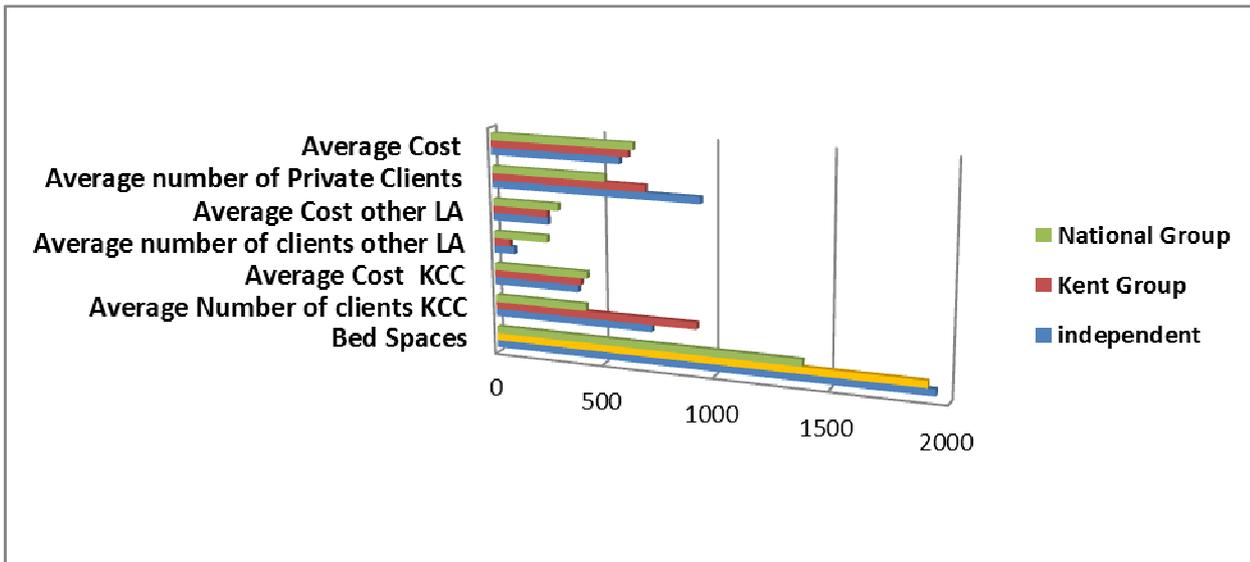
In order to simplify the current guide prices and in an attempt to reduce any confusion with providers and service users, it was our intention to remove the geographical bands and replace these with one band per category of care, regardless of the geographical location. However, this has not been possible at this stage and there is commitment that this should be addressed in future.

## **6. Evaluation Methodology**

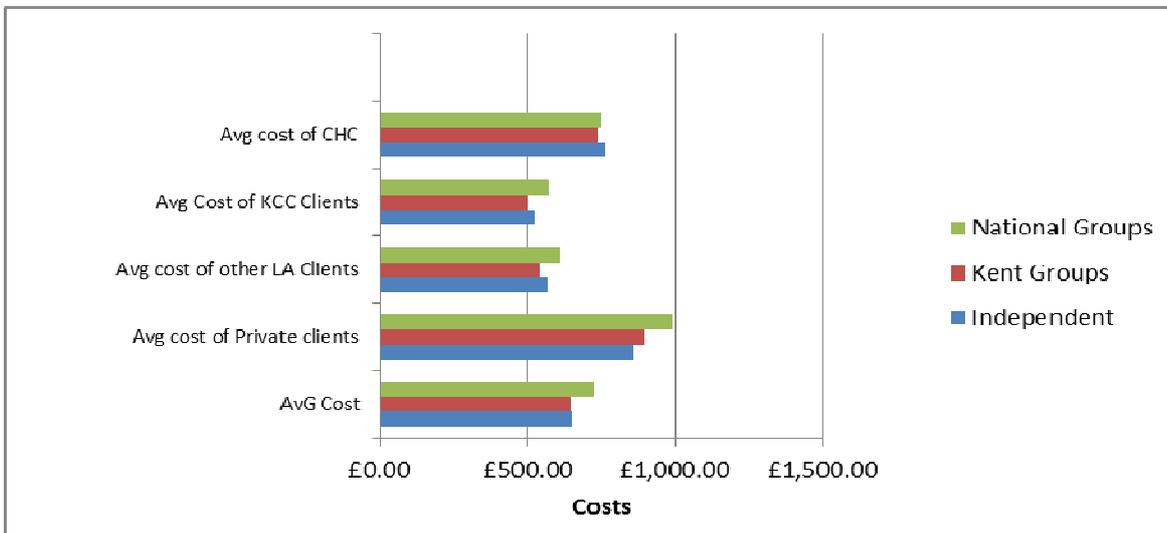
In total, cost models were received for 144 older persons' residential care homes and 68 nursing homes situated within the administrative area of Kent County Council.

The level of data received provides further weight to the Accommodation Strategy and will support Strategic Commissioning in order to focus their attention on certain areas of the market that require further support, direction and encouragement.

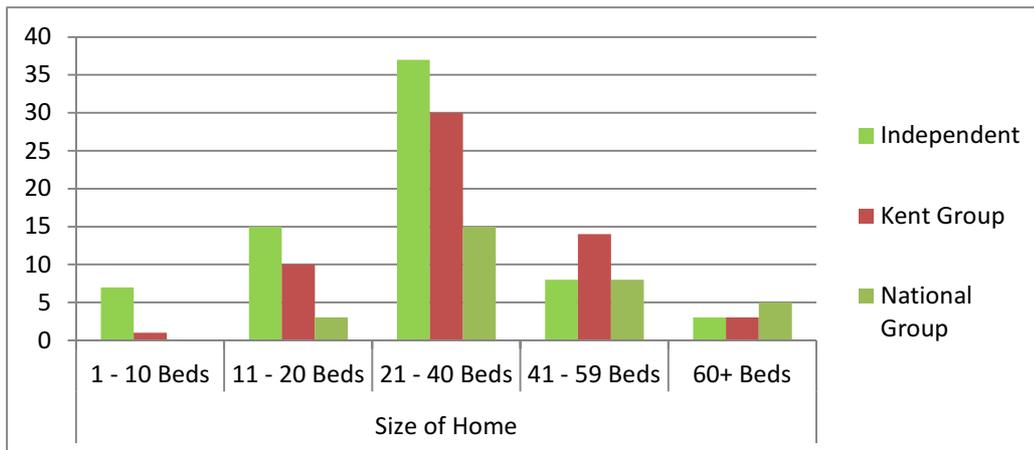
**Older Person Residential Average no of client and Client Cost**



**Nursing Average Client Costs**

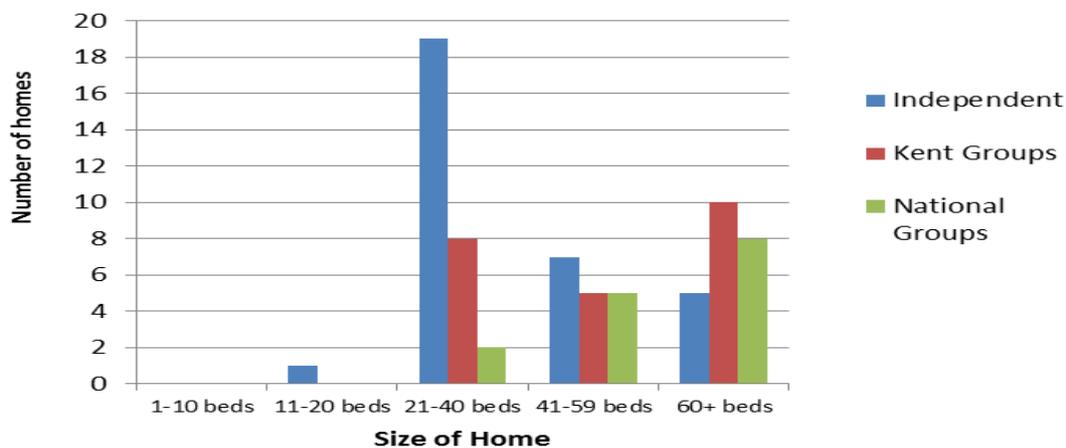


## Older Persons Standard Residential – Provider Overview

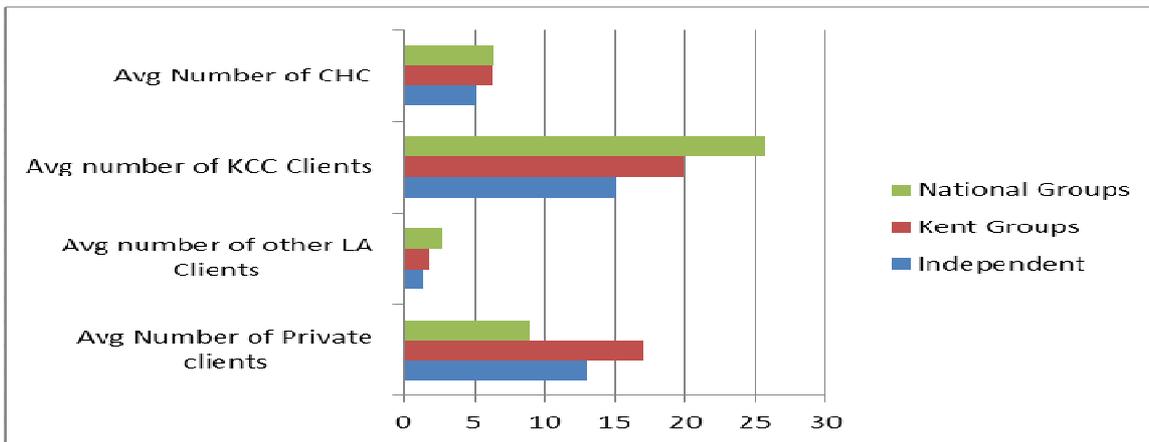


- 40 of 159 care homes DO NOT have a mortgage on their property.
- Build year range:
  - ❖ Independent 1800 to 2013;
  - ❖ Kent Group 1750 to 2011;
  - ❖ National Group 1676 to 2011.
- Total number of beds across all responses **5237**. CQC registered number of beds **8200**

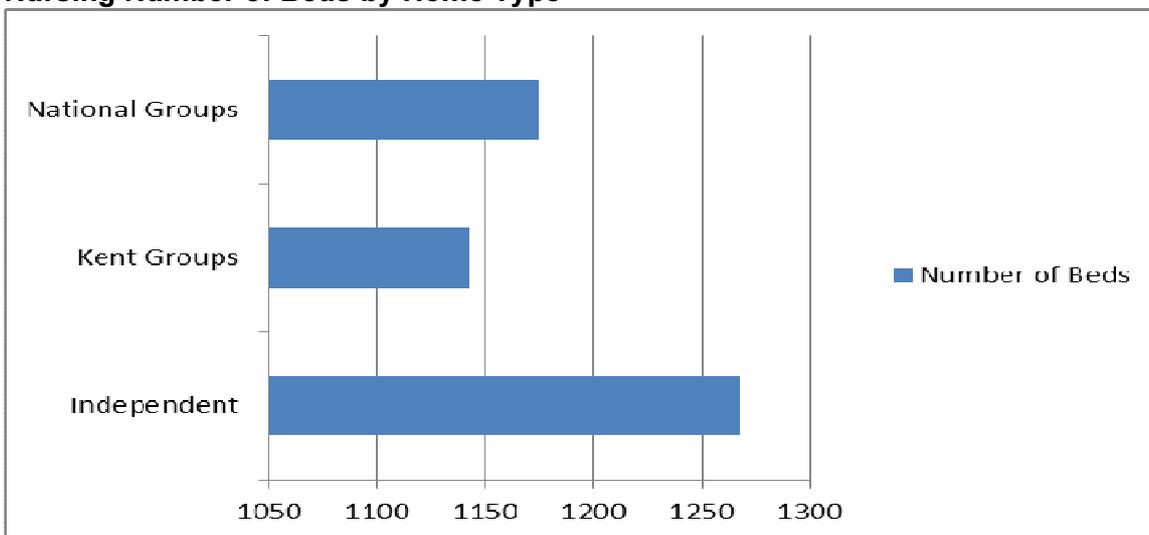
## Nursing Care – Provider Overview



- 28 of 68 care homes DO NOT have a mortgage on their property.
- Build year range:
  - ❖ Independent 1700 > 2011;
  - ❖ Kent Group 1800 > 2011;
  - ❖ National Group 1810 > 2009.
- Total number of beds across all responses **3960**.



### Nursing Number of Beds by Home Type



The data submitted and analysed was based upon a forecast cost for 12 months, providers being asked to provide:

- average occupancy level (forecast and actual);
- variable hotel and management costs;
- fixed hotel and management costs;
- resource costs; which included total number of staff, forecast and actual cost for staff,
- costs for capital
- forecasted profit.

Procurement then analysed the average cost of care across Kent, including the average cost of care across the different types of organisations, the different CCG areas within Kent and the different sizes of homes.

To ensure that the data used was correct, there was an ongoing clarification process to review and cleanse all information. An audit trail has been kept on all changes made and providers will be informed, as part of stage two, of assumptions made.

The data enabled us to determine the most cost efficient home size to ensure that, in paying due regard to the actual cost of care, account could be taken of unnecessary inefficiencies in the system. As part of this process the following steps needed to be taken:

- providers' type of organisation classification were reviewed against the published criteria within the qualification questionnaire.

- CQC Fee's information was recalculated against the new fee structure published by CQC and a standard approach applied.
- occupancy levels across all of the 3 types of homes, both the average and the mode (most common), were measured. They came out at 90% for Residential and an average of 91% for Nursing. It is important to note that this does not account for any beds that cannot be utilised due to quality issues. In a snapshot survey undertaken for the Accommodation Strategy, the vacancy level was 3%.
- based on the data received, resource costs (staffing) were calculated as a percentage of the total operating costs (an average of **61.24%** for Residential and EMI and **66.16%** for Nursing across the county of Kent).
- based on the data received, corporate overheads were calculated as a percentage of the total operating costs (an average of **6.14%** for Residential and **4.82%** for Nursing across the county).

## 7. Data Analysis

### Residential

The analysis is based upon cost data collected from the market for a total of **144** homes, managed by **93** different organisations, including both national and Kent group as well as independently owned homes:

		Number of Organisations	Number of Homes	Number of Beds
Type of Organisation	TOTAL	93	144	4794
	Independent Homes	65	65	1820
	Kent Groups	18	56	1837
	National Groups	8	23	1137

### Nursing

The analysis is based upon cost data collected from the market for a total of **68** homes, managed by **45** different organisations, including both national and Kent group as well as independently owned homes:

		Number of Organisations	Number of Homes	Number of Beds
Type of Organisation	TOTAL	45	68	3583
	Independent Homes	25	32	1267
	Kent Groups	12	21	1142
	National Groups	8	15	1174

All organisations provided a breakdown of the following information for each of their care homes in Kent; the data provided is based upon a forecast for 12 months from 1<sup>st</sup> October 2014:

- Average occupancy level (forecast and actual)
- Variable hotel and management costs
- Fixed hotel and management costs
- Resource costs

### 7.1 Occupancy Levels

The data shows the Council that across all types of organisations, homes of different sizes and locations in different areas in Kent, the average and most common occupancy levels for Residential is 90% and for Nursing is 91%. It must be noted that, in some care homes, short term care services are offered which means that occupancy data is lower due to the turnover of residents. This in turn provides a reduction of the occupancy rate when long term care is calculated.

The following factors have been taken into account in order to consider the most appropriate percentage occupancy level:

- The analysis of the cost model feedback for residential care determined that in Kent there is a 90% occupancy rate for Residential and 91% for Nursing. This rate includes short term bed activity which, by its very nature, means that there are additional vacancies included in this data. Care homes deliver a mix of long and short term services, some more than others which means this data is not reliable to determine a set model.
- The market consultation events held as part of the pre-tender process activity, the market fed back that occupancy could be anywhere between 60% and 98%
- The Association of Directors of Adult Social Services (ADASS) model recommends a rate of 94%
- Research from other local authorities shows a rate between 90% and 95% occupancy in residential and nursing homes.
- In preparation for the Accommodation Strategy a spot survey found that only 3% of the current vacancies were accessible. This was due to quality issues where contract sanctions have been applied, thus resulting in some beds not being accessible.

Based on the above reasons the recommendation is to apply an occupancy level of 90% for Older Persons and 92% for Nursing. It is important to note that we will be working with the market to improve this rate, so that a higher level can be applied for April 2016.

## **7.2 Variable and Fixed Hotel and Management Costs**

All organisations submitted data which reflect the cost per resident per week based upon 100% occupancy. The only exception to this is the cost of CQC registration, which was provided as an annual value per care home; the Council has therefore calculated the equivalent of the average cost per resident per week based upon these annual figures.

## **7.3 Corporate Overheads**

The Council calculated the cost of corporate overheads based upon the average percentage of the cost of corporate overheads in relation to the total operational costs of running a care home in Kent.

The Charter Institute of Purchasing and Supply (CIPS) define overheads as “the fixed costs that are not product-related to the goods or services produced by the business”.<sup>1</sup> On this basis, the Council considers the following costs to be corporate overheads:

- insurance;
- CQC Registration;
- recruitment; and
- training.

The costs submitted for the above, including the cost submitted for other ‘corporate overheads’, shall be replaced using the assumption that the cost of corporate overheads amount to an average of 6.14% for Residential and EMI and 4.82% for Nursing of the overall operating cost of running a care home in Kent.

The data shows the Council that across all types of organisations, homes of different sizes and locations in different areas in Kent that the average and most common proportionate cost of corporate overheads is around 6.14% for Residential 4.82% for Nursing.

---

<sup>1</sup>

The Council can now therefore assume that cost of corporate overheads amounts to an average of 6.14% for Residential and EMI and 4.82% for Nursing of the overall operating cost of running a care home in Kent.

#### **7.4 Resource Costs (staffing)**

The Council calculated the average resource cost based upon the average percentage of the resource cost in relation to the total operational costs of running a care home in Kent.

Twenty nine providers for Residential and eight providers for Nursing submitted an incoherent value for the annual staff costs. In the main the Council has been able to identify where these errors had occurred and recalculated the values accordingly. However, in one case, where the care home has a total of 58 staff and 59 beds, the organisation input a value of £45.04 for the annual total for staff costs. This organisation also failed to provide any accounts from which the Council would have been able to retrieve an actual value. In order to ensure this data did not impact on the analysis these costs were discounted for the purpose of this exercise.

The data shows the Council that, across all types of organisations, homes of different sizes and locations in different areas in Kent, the average and most common proportionate cost of resource is around 61.24% for both standard residential and EMI and 66.16% for Nursing.

The Council can now therefore assume that resource costs amount to an average of 61.24% for residential and EMI and 66.16% for nursing of the overall operating cost of running a care home in Kent.

#### **7.5 Costs for Capital**

For the purpose of this exercise we have separated profit and a return to the cost of capital. Therefore there is no specific consideration of profit allocated in this section of the report.

Cost of Capital reflects the cost of financing assets. For example interest on a loan. Cost of Capital is relevant to the all of the sector, as at the very least modernisation and, and general improvements will be required in order to meet and maintain the standards required in our specification and in line with the Accommodation Strategy and CQC requirements. A key example being the provision of en-suite facilities, not all homes have this facility and will be required to borrow money to modernise in this way. This is of course on the assumption that the property can be converted and does not make the home unviable in doing so.

The data shows that a cost for capital does not apply to 41.61% for residential and 42.65% for nursing care homes. However, it is prudent and standard practice to reflect the cost of capital. For example with regards to future enhancements required to meet the standards. The data is so varied (presented differently as a cost per resident, weekly cost, annual cost, proportionate cost, etc.). We do recognise that capital costs are applicable more widely than for home improvements. We therefore recommend that a percentage based on the average net asset value is applied to reflect the cost of capital.

The following considerations have been taken into account when considering the percentage cost of capital:

- The Kent property market has seen a significant boom in the last year, with a further rapid increase in the price of land and buildings expected in the near future. Between April 2012 and June 2014, the average property price in Kent has risen from 1.4% to 7.5%. Although this is likely to be offset slightly by a potential hike in interest rates, the overall increase in property values goes some way to provide a return to capital for providers

- We also considered the actual cost of homes in Kent and the impact our cost of capital calculation would have. The table below shows the variance in home value to bed size and rate. The sale prices show the indicative value of homes.

District	Type of Property	For Sale Price	No of beds	Turnover	Rates being obtained
Mid kent	Nursing Home	4,000,000.00	50	1.6m	496.00 - 765.00
Coastal	Standard Resi	2,500,000.00 for both	75	1m	
			50	850k	336.93 to £535
South east Kent	Dementia	1,300,000.00	25	528k	
North kent coast	Standard Resi	1,050,000.00	25	489k	330.00 to 550.00
Mid kent	Dementia	995,000.00	18	418k	
North kent coast	Dementia	850,000.00	21	509k	440.00 to 600.00
Tunbridge wells	Standard Resi	820,000.00	14	275.k	342.00 to 525.00
Maidstone	Standard Resi	710,000.00	16	259k	
Folkestone	Dementia	675,000.00	20	not provided	336.00 to 610.00
Margate	Standard Resi	560,000.00	18	310k	
Folkestone	Standard Resi	499,950.00	20	258k	320.00 to 437.00
Canterbury	Dementia	450,000.00	16		440.00 to 600.00

Current cost of capital in the market is 7.3%, with the increase in value of property, we have calculated that at 4% this will more than cover the cost of capital.

Based on the above reasons we are applying a cost of capital of 4% for Nursing and EMI and 3% for ordinary residential. The variation of rate is considered appropriate due our desire to not purchase ordinary residential care in accordance with our Accommodation Strategy.

## 7.6 Profit

In analysing the data and applying our consideration for an appropriate level of profit, the Council were clear that we wanted to apply a separate value of profit to the cost of capital. As previously stated our Accommodation Strategy clearly states our intention to depart from purchasing ordinary residential care with a stronger focus on extra care housing and EMI residential provision.

By applying profit as a separate value, this also enabled us to apply a different level to each band, which would signal to the market the areas we wished to invest in.

### Residential

A significant amount of the data the Council received from the market regarding the forecasted profit (%) was questionable. According to the data received, 11 care homes aim to break even only, forecasting 0% profit; 6 care homes forecast making a loss, forecasting less than 0% profit; and 6 care homes failed to input a forecasted figure. A further 15 care homes input an actual value, rather than a % figure as instructed (ranging from £52.71 to £582,029). Of the remaining 106 care homes, on average, the forecasted profit is 13.56% (ranging from 1.5% to 35%):

	Forecast >13.56% Profit	Forecast <13.56% Profit	Forecast 0% Profit	Forecast <0% Profit	Actual Value	No Data
<b>Number of Care Homes</b>	56 (38.89%)	50 (34.72%)	11 (34.72%)	6 (4.16%)	15 (10.42%)	6 (4.16%)

## Nursing

A significant amount of the data the Council received from the market regarding the forecasted profit (%) is also questionable. According to the data received, 7 care homes aim to break even only, no homes are expecting to make a loss and only 2 care homes failed to input a forecasted figure. Of the remaining 59 care homes, on average, the forecasted profit is 13.13% (ranging from 4% > 35%):

	Forecast >13.13% Profit	Forecast <13.13% Profit	Forecast 0% Profit	Forecast <0% Profit	Actual Value	No Data
<b>Number of Care Homes</b>	29 (48.52%)	30 (44.11%)	7 (4.69%)	0	0	2 (2.94%)

Due to the cross subsidisation of private and local authority clients, there is an appreciation that providers make most of their profit from their private clients and this is not usually expected in the same measure from the local authority.

Although ADASS recommends a range of between 6-8% for profit, this covers all client groups and it is also important to note that these are difficult austere times and normal levels of profit should not be expected.

The following factors have been taken into account in order to consider the most appropriate percentage profit level:

- the analysis of the cost model feedback for residential care determined that the data on profit is incoherent with providers forecasting profit from less than 0% to over 30%
- Laing and Buisson profit it is combined within the return of capital investment of 12%
- In 2010 ADASS assume a figure of 6-8% across all client groups, however we are now in austere times and all parts of the commercial market are having to adjust.
- It is recommended to apply a higher level of profit to Nursing, EMI residential and EMI Nursing than to standard residential to achieve growth and sustainability in the areas the Council wishes to encourage. It is recognised that our neighbouring authorities pay more for their cost of care and Kent has a buoyant private market of self funders, which helps to sustain sufficient margins.
- Some private organisations have separate charging schedules for private payers, health and other local authorities. In some circumstances, KCC understands that the private payer is likely to be paying in excess of 50% more than the local authority price. Regardless of the charge, the individual will receive the same standard of care and the same food from the same staff group. Additional charges are made based on the provider's judgment of a better positioned larger room and additional facilities.
- KCC's current terms and conditions make working with the local authority beneficial to the market due to the Council a) being a gross payer and accepting the debt risk, b) paying two weeks in advance and two weeks in arrears, meaning that there is regular cash flow for

organisations and c) providing strategic direction for business planning and supporting the home to meet their regulatory function with CQC

- The Accommodation Strategy seeks to address the lack of market direction by developing Market Position Statements. KCC knows that there will need to be more EMI residential, more nursing and more EMI nursing.

For these reasons it is our intention to allow for profit of 5% in EMI, 5% in Nursing and 2% in standard Residential.

## 7.7 The Cost of Older Persons' Residential Care

### Residential

The Council analysed the average cost of care across Kent. In addition, the Council analysed the average cost of care across the different types of organisation (i.e. independent homes, Kent groups and national groups), the different CCG areas within Kent and the different sizes of homes. In addition, the Council analysed the average cost of care across the different types of organisation (i.e. independent homes, Kent groups and national groups), the different locations within Kent (by CCG area) and the different sizes of homes.

On average, national groups appear to be running their care homes in Kent more efficiently than either those owned by Kent groups or that are independently owned. However, on average, national groups appear to spend proportionally more on staffing than either Kent groups or independently owned. Whilst, on average, care homes owned by Kent groups are run with proportionately less staff but with higher hotel and management costs.

There were a few instances in which the data received from organisations, indicating the type of organisation responsible for each care home, appeared to be incorrect based upon the published criteria. The Council, therefore using the data provided in section one of the online qualification questionnaire, reclassified the type of organisation responsible for some care homes in accordance with the following criteria:

- **Independent Homes** are providers, which are responsible for only one care home, which is located in the county of Kent.
- **Kent Groups** are providers, which are responsible for more than one care home, or under a holding organisation, located in the county of Kent.
- **National Groups** are organisations, which are responsible for care homes, which are located both in and outside the county of Kent.

### Nursing

The Council analysed the average cost of care across Kent. In addition, the Council analysed the average cost of care across the different types of organisation (i.e. independent homes, Kent groups and national groups), Kent and the different sizes of homes. In addition, the Council analysed the average cost of care utilising 3 models:

1. Data received complete (including the full range of submitted data).
2. Revised data (including clarifications and anomalies removed)
3. Cleansed data (removal of all nursing homes that contain anomalies)

On average, national groups appear to be running their care homes in Kent more efficiently than either those owned by Kent groups or that are independently owned. However, on average, national groups appear to spend proportionally more on staffing than either Kent groups or independently owned. Whilst for residential, on average, care homes owned by Kent groups are run with proportionately less

staff but with higher hotel and management costs, however, for nursing Kent groups have a higher staffing cost, but lower hotel and management costs.

There were a few instances in which the data received from organisations, indicating the type of organisation responsible for each care home, appeared to be incorrect based upon the published criteria. The Council, therefore using the data provided in section one of the online qualification questionnaire, reclassified the type of organisation responsible for some care homes in accordance with the following criteria:

- Independent Homes are providers, which are responsible for only one care home, which is located in the county of Kent.
- Kent Groups are providers, which are responsible for more than one care home, or under a holding organisation, located in the county of Kent.
- National Groups are organisations, which are responsible for care homes, which are located both in and outside the county of Kent.

## 7.8 Location

The Council does not have an equal distribution of data from care homes across each of the different CCG areas in Kent. The data shows no tangible difference between the costs of running a care home based upon where it is located within Kent. Whilst, on average, the cost of running a care home, which is situated in Medway or out of county, appears to be significantly greater, this assumption would be based upon data from Residential three out of county care homes (i.e. two in East Sussex and one in Bexleyheath) and only four care homes situated in Medway. The data used in residential is from the original data set and has not been revised based on new clarifications/analysis. The data from Nursing showed two out of county homes.

### Residential

	Number of Organisations	Number of Homes	Number of Beds	Independent Homes	No. of Homes owned by Kent Groups	No. of Homes owned by National Groups
Ashford CCG	5	5	160	4	1	0
Canterbury & Coastal CCG	19	23	697	10	7	2
Dartford, Gravesham & Swanley CCG	13	17	509	8	2	3
South Kent Coast CCG	27	38	1094	14	9	4
Swale CCG	9	12	492	5	2	2
Thanet CCG	19	23	699	14	5	0
West Kent CCG	20	31	1143	11	3	6

### Nursing

CCG	Number of Organisations	Number of Homes	Number of Beds	Independent homes	No of Homes owned by Kent Groups	No of Homes owned by National Groups
Ashford	7	7	460	4	3	1
Canterbury & Coastal	7	10	416	9	0	1
Dartford Gravesham & Swanley	5	8	508	2	2	4
South Kent Coast	6	9	423	4	5	0
Swale	2	2	133	0	1	1

Thanet	5	7	277	6	1	0
West Kent	17	21	1273	6	8	7

## 7.9 Size of Home

### Residential

On average, care homes with 11 – 20 beds are run with proportionately less staff, but with higher hotel and management costs; care homes with 11 – 20 beds are the least efficient, with the highest average operating cost.

On average, care homes with 41 – 51 beds are run with proportionately more staff, but with relatively low hotel and management costs. However, on average, care homes with 60+ beds are marginally more efficient overall, with the lowest average operating cost.

As stated previously, the average number of care homes de-registering with CQC is 27 beds and the average size registering is 57 beds.

### Nursing

11 – 20 beds - information has been clarified.

On average 21 – 40 beds range is run with less staff, however cost per resident is greater than the 41 - 59 range, but hotel costs are less than the 41-59 range

On average the 41 – 59 beds range is run with a greater number of staff than the 21 – 40 range. This range of Providers has the greatest hotel costs per resident of all the ranges.

On average the 60+ bed range is run with more staff than the other ranges, with the lowest cost per resident for hotel costs, but highest staff costs per resident.

As stated previously, the average number of care homes de-registering with CQC is 27 beds and the average size registering is 57 beds.

## 8. Quality Audit

### Residential

Strategic and Corporate Services Projects Team have undertaken a review of the calculations, assumptions and processes in order to provide quality assurance to the process. They have provided some recommendation on how to enhance the quality of the data presented by revisiting some of the formulas used. Where appropriate these recommendations have been built into the final analysis.

### Nursing

This has not been carried out for the Nursing Data, however the same principles and process as residential was used for nursing.

On the request of the Cabinet Member external auditors have also reviewed our analysis and are happy with our process.

## 9. Financial Implications

The Council is required to give three months' notice to terminate all existing framework agreements for this service, as they will all become obsolete from 6th October 2014. The Council's Accommodation Commissioning Group agreed the following regarding existing clients:

- If a supplier applies to join the DPS and is successful **AND** the Council has current contractual placements with the supplier, the current contractual arrangements for these placements will automatically be renewed under the DPS. This means that the new guide/usual price shall apply from 6 October 2014.
- If a supplier does not apply to join the DPS **AND** the Council has current contractual placements with the supplier, the Council shall offer to renew current contractual arrangements for these placements, in accordance with the terms and conditions of the DPS. However, the guide/usual price shall remain the same for all existing clients placed with this supplier, until the supplier has successfully joined the DPS.
- If a supplier applies to join the DPS and is unsuccessful **AND** the Council has current contractual placements with the supplier, the Council shall need to investigate the reasons why the supplier failed the process. Unless the Council needs to terminate the placement/s and move clients (in extreme cases based on quality and safeguarding), the Council shall offer to renew current contractual arrangements for these placements, in accordance with the terms and conditions of the DPS. However, the guide/usual price shall remain the same for all existing clients placed with this supplier, until the supplier has successfully joined the DPS.

## **10. Legal Implications**

When agreeing the Council's new guide/usual price, the Council must pay due regard to the actual cost of providing older persons' residential and nursing care within the county of Kent. Paying such regard does not in our view require the Council to pay for market inefficiency or over supply. In determining the relationship between the actual cost of care provision and the price the Council is prepared to pay for such care (the 'usual cost'), the Council is entitled to take into account considerations of efficiency and Kent's Accommodation Strategy.

To this end, the cost of care has been calculated on the basis of 31+ beds for Residential, because such homes are more efficient and account for over 48% of the available beds in the responses received.

For Nursing, using cleansed data with a reduced population of returns, the most efficient homes have between 31 & 45 beds. When using the unclesed data and abridged data the most efficient homes have 60+ beds.

The Council is keen to ensure we have fulfilled our obligations within our available budget and have demonstrated our commitment to showing due regard to the fair cost of care.

## **11. Equality Impact Assessments**

An EQIA has been completed by Strategic Commissioning in order to consider and address any implications of the recommendations. This is provided in the exempt appendix 2.

## **12. Sustainability Implications**

By agreeing a new usual/guide price, with due regard to the cost of providing older persons' residential and nursing care within the county of Kent which has been determined through thorough analysis of cost data provided by the market, the Council should be helping to ensure sustainable provision. The new guide/usual price pays due regard to the actual cost of care and reflects a fair price which should sustain all suppliers providing older persons' residential care within the county of Kent.

Fee increases shall no longer be a solution for any issues raised regarding the sustainability of a care home; instead the Council shall work collaboratively with suppliers to identify why a care home is having financial difficulty; for instance, low occupancy, etc.

The flexibility of the DPS shall allow the Council to attract new suppliers if more provision is required. The flexibility and call-off process of the DPS shall also encourage the market to operate more efficiently and to continuously improve the required service.

**13. Alternatives and Options**

As the Council decided to tender these services, rather than conduct a price review, there would be a significant legal risk of any other option, rather than concluding the tender process.

**14. Conclusion**

The Council must show due regard to the cost of providing older persons’ residential care within the county of Kent. This process has enabled the Council to understand in more detail what these costs should be and what accounts for any differences.

As previously stated our intention was to remove the geographical bands within each category of care and this intention was further supported by our analysis which showed that there is no distinguishable difference between the cost of provision across different geographies. Supply, however, is still an issue in certain parts of the County.

Analysis of the costs incurred by these homes gave us our base line cost to which we applied our professional judgement in making assumptions in respect of occupancy, cost of capital and profit. These lead us to conclude that the actual cost of care for Older Persons Residential and Nursing is as follows:

<b>AVERAGE ACTUAL COST OF CARE PROVISION</b>			
Band	Current Guide Price	Actual Average Cost of Care	Difference
Band 1 Resi	336.93	352.18	4.53%
Band 2 Resi	351.49	352.18	0.20%
Band 1 EMI	404.44	397.46	-1.76%
Band 2 EMI	440.3	397.46	-10.78%
Band 1 Nursing	429.26	505.27	17.71%
Band 2 Nursing	480.22	505.27	5.22%

In paying due regard to the cost of care, we have also had to balance our budget allocation to ensure that price increases are applied to areas of greatest disparity and inequality. This will help us to address the gap between current and actual guide prices.

We also recognise that we are not able to bridge the gap in this financial year alone and will endeavour to work with our finance colleagues to ensure that there is a 3 year plan in place to close the gap between our identified actual cost of care and our proposed guide price.

We are also not able to make sufficient provision in order to remove the geographical bandings. To this end we seek to signal our intention to do this by applying only one band for residential and we aim to remove the bands for all remaining categories of care for April 2016.

The following factors have been taken into account in order for us to consider the percentage increase to apply to each care band.

1. Consideration of the prices paid by our neighbouring authorities, especially the London Boroughs
2. Our strategy for residential care where we state our intention to depart from purchasing Ordinary residential care with a stronger focus on extra care housing and EMI residential provision
3. Supply and demand impacts and our ability to place in Band 2 areas and for this reason we decided it would not be appropriate to apply a decrease to our current guide price and would keep the price fixed in our around the current guide price
4. To signal our desire to remove the bandings for each category of care, we will remove the banding for ordinary residential.
5. In order to address the quality issues in the band 1 areas of ordinary residential care, we will pay an additional proportionate increase to help support providers address these quality issues. We will be measuring performance against our KPI's to ensure that quality measures are improving.
6. The work required for the Accommodation Strategy. KCC knows that the average size of a care home deregistering with CQC is 27 beds. In Kent, the average size of a care home is 35 beds (40 in the West and 32 in the East). The Strategy concludes that there needs to be a significant shift from residential care to extra care housing. KCC has had to consider whether it would want to allow a cost for capital when the aim would be to move away from some of the provision currently offered with a responsibility for the health and safety of individual residents should immediate improvements be required.

These factors lead to propose that our guide prices should be as follows:

PROPOSED GUIDE PRICE FOR CARE PROVISION				
BAND	CURRENT GUIDE PRICE	Actual Average Cost of Care	OCT 2014 GUIDE PRICE	DIFFERENCE
Band 1 and 2 Resi	336.93	352.18	352.18	4.53%
	351.49	352.18		0.20%
Band 1 EMI	404.44	397.46	408.48	1.00%
Band 2 EMI	440.30	397.46	440.30	0.00%
Band 1 Nursing	429.26	505.27	450.72	5.00%
Band 2 Nursing	480.22	505.27	487.42	1.50%

In the 2014-15 budget, adult residential services were allocated an additional £0.9m for price increases for current residents. In applying the increases proposed this represents an additional price pressure of £0.65 m. This is based on data from 1<sup>st</sup> May 2014 and applying an increase to each resident based on the guide price. It does not account for any waivers.

As the council is strongly committed to address the gap between our guide and actual price, monies have been allocated from elsewhere in order to make provision to support this proposal. **This represents a total annualised pressure of £1.55m**

It is important to note that by undergoing the tender process, we have not had to apply a price increase from 1 April 2014 – 30<sup>th</sup> September 2014, with new prices only coming into effect from 1<sup>st</sup> October. The contract is fixed for 18 months and we have also therefore avoided the application of an additional price increase for 2015/16.

The following table summarises this financial position and shows the impact of applying the increase across each band.

<b>IMPACT ON BUDGET BASED ON 1<sup>ST</sup> MAY WITH CLIENTS AT GUIDE PRICE ONLY</b>						
Band	CURRENT	Weeks	Clients	CURRENT TOTAL	NEW	NEW TOTAL
B1R	£ 336.93	52	838	£ 14,682,061.68	£ 352.18	£ 15,346,595.68
B2R	£ 351.49	52	446	£ 8,151,756.08	£ 352.18	£ 8,167,758.56
B1EMI	£ 404.44	52	646	£ 13,585,948.48	£ 408.48	£ 13,721,660.16
B2 EMI	£ 440.30	52	831	£ 19,026,243.60	£ 440.30	£ 19,026,243.60
			<b>TOTAL</b>	<b>£ 55,446,009.84</b>		<b>£ 56,262,258.00</b>
B1 Nursing	£ 429.26	52	330	£ 7,366,101.60	£ 450.72	£ 7,734,355.20
B2 Nursing	£ 480.22	52	991	£ 24,746,697.04	£ 487.42	£ 25,117,727.44
			<b>TOTAL</b>	<b>£ 32,112,798.64</b>		<b>£ 32,852,082.64</b>
			TOTAL FOR BOTH	<b>£ 87,558,808.48</b>		<b>£ 89,114,340.64</b>
					<b>TOTAL PRESSURE</b>	<b>£ 1,555,532.16</b>

## 15. Recommendation

The Cabinet Member for Adult Social Care and Public Health is asked to:

- 1) Agree, as Decision 14/00064, the recommendations contained in the report and appendix and confirm the new guide prices for residential care as follows:
  - Area 1 and 2 Residential (medium needs) £352.18
  - Area 1 EMI Residential (high needs) £408.48
  - Area 2 EMI Residential (high needs) £440.30
  
- 2) Agree, as Decision 14/00065, the recommendations contained in the report and appendix and confirm the new guide prices for nursing care as follows:
  - Area 1 Nursing £450.72
  - Area 2 Nursing £487.42
  
- 3) Delegate to the Corporate Director of Social Care, Health and Wellbeing, or other suitable nominated officer, responsibility to take all steps that are necessary to implement these decisions.

## 16. Background Documents

Appendix 1 Recommended KCC Guide Prices from 6 October 2014

Appendix 2 Equality Impact Assessment

## 17. Contact details

Clare Maynard, Procurement Category Manager – Care  
07540 668747

[clare.maynard@kent.gov.uk](mailto:clare.maynard@kent.gov.uk)

Christy Holden, Head of Strategic Commissioning – Accommodation Solutions  
07920 780623

[christy.holden@kent.gov.uk](mailto:christy.holden@kent.gov.uk)