

# **TORBAY CARE HOMES MARKET THE PROVISION, PRESSURES AND COST BASE**

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On behalf of Torbay Quality Care Forum

Tim Godfrey  
September 2011



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**Purpose of the Report**

I was instructed by the Torbay Quality Care Forum, to prepare a report regarding the shape of the market and the fees payable across three categories of care in 2010/11. These were as follows:-

Nursing Care for the Elderly and residents with Dementia  
Personal Care for the Elderly  
Personal Care for residents with Dementia

The report will be issued to the Torbay Care Trust as part of the ongoing discussions as to the shaping of a viable local market.

I have made use of the "Calculating a Fair Price for Care: a toolkit for residential and nursing care costs", first published by the Joseph Rowntree Foundation in 2002 and updated and revised in 2004 and 2008.

This toolkit was designed to provide an efficient operator model for costs based on national benchmarking data collated by Laing and Buisson.

The Joseph Rowntree Foundation is an endowed charity that funds an unbiased, UK-wide research and development programme. In association with Laing and Buisson, the UK's foremost market analyst on the independent health care sector, their report is often cited in parliament as well as in various official documents. More recently this report has been used in fee negotiation with both North Somerset and Pembrokeshire Councils.

I have also made use of my firms "Care Sector Report for the South West 2010/11". This is an annual report and is based on a questionnaire sent out to over 700 care homes across the region. The respondents answers to a number of industry specific questions are summarised with relevant commentary.

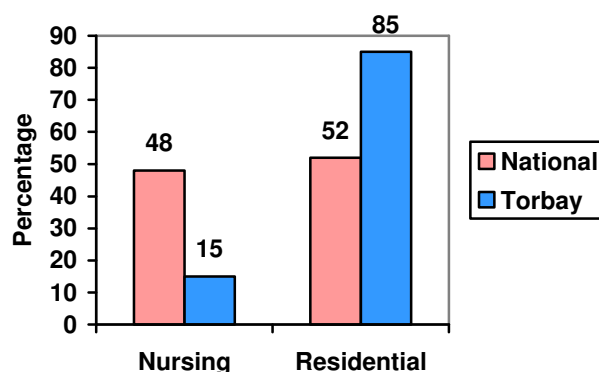
**Executive Summary**

This report incorporates the responses from 21 of the total number of care homes in Torbay. In my opinion this provides a representative sample of all three categories of care for the purpose of drawing the conclusions set out in this report.

The report indicates that whilst fees paid by the Torbay Care Trust have increased on an annual basis, this has been significantly below inflation, and as such cost pressures have resulted in the gap between fees and costs narrowing in real terms.

As detailed on page 3, there is a significantly lower number of nursing homes when compared with the overall number of residential homes in Torbay. The national average is 48% for nursing homes compared to 15% in Torbay. Given the rising costs there is a real danger that the number of nursing homes in Torbay will remain low unless fee levels reflect the underlying cost pressures.

**Percentage of care home categories in Torbay compared to National Average**



I believe the level of fees currently paid are acting as a disincentive both in terms of investment in the existing stock and new entrants into the market. This needs to be addressed sooner rather than later such that the provision of nursing care reflects the levels seen in other regions. This will in turn attract new entrants, drive up quality and avoid pressures elsewhere in the healthcare system

Continuing a policy that purely aims to keep fees to a minimum will lead to additional home closures, and the potential for a further deterioration in the quality of care.

Our recommendation would be that fees paid by Torbay Care Trust need to be in the following bandings:-

- £610 to £710 for nursing care
- £460 to £560 for residential care
- £500 to £600 for residential care including dementia

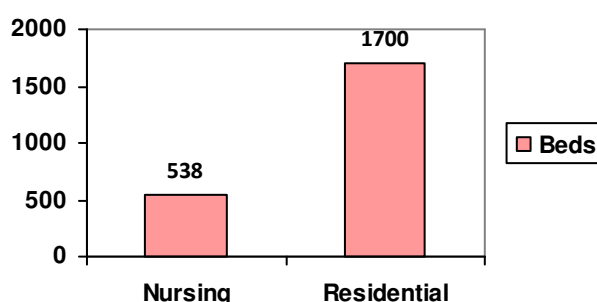
Please see page 13 for further information on these figures, however it should be noted that these figures do not take into account the implementation of NEST pensions, which are coming into effect over the next few years and will result in a 3% increase in staffing costs, or the average cost equivalent of £9 per resident per week. Please see page 12 for further details.

**Torbay Care Home Market - The current shape**

Of the 116 care homes currently listed in the Torbay area, 85% are residential homes, evenly split between residential and those covering additional services including dementia. The remaining 15% offer nursing care, with a third of these offering additional services including dementia.

Across the country the average is 48% for nursing and 52% residential. Torbay clearly needs to focus on driving up the number of available nursing beds to meet the increasing challenges of an aging population.

**Residential and Nursing Beds in Torbay**



If Torbay followed the national average then the number of nursing beds available would be significantly higher. Alternatively the discrepancy in the split between residential and nursing could be due to a potential oversupply of residential homes in Torbay.

There are very few national providers in Torbay, the majority of home owners play an active role in the day to day operational side of their care home and in the main derive their sole income from this source. I would estimate that somewhere between 90% - 95% are owner operated. This is compared to the national average, where the top 10 providers of care homes, including Bupa, Care UK etc account for approximately 25% of the market share.

Whilst Torbay has been a popular retirement location, it is an economically disadvantaged area and as such it has a higher than average number of funded residents compared to private residents. Self funders are now using the internet and other available sources to review care homes and as such are more informed when selecting the home of their choice.

According to the Laing and Buisson survey of baseline fee rates from April 2009, Torbay Care Trust is in the bottom three for the South West and also had the lowest fee increase throughout the South West (of those councils which responded) for the 2009/10 year. They were also in the lowest 25 for fee increases for the same period throughout the UK (based on all 211 local authorities - see Appendix 6).

Based on the Laing and Buisson UK Market Survey for 2010/11 the national average for privately funded residents was 40%. Whilst I do not have the data available, from my own experience, the number of privately funded residents in Torbay is significantly lower as a percentage.

**Demographics**

***The local picture***

| Characteristic*                                    | Torbay   | England average |
|--|----------|-----------------|
| Population size                                    | 134,000  | -               |
| Percentage of the population living in urban areas | 85%      | 73%             |
| Life expectancy at birth 2006/08, Male             | 78 years | 78 years        |
| Life expectancy at birth 2006/08, Female           | 82 years | 82 years        |
| Level of deprivation                               | high     | -               |

\* From Health Protection Agency Website

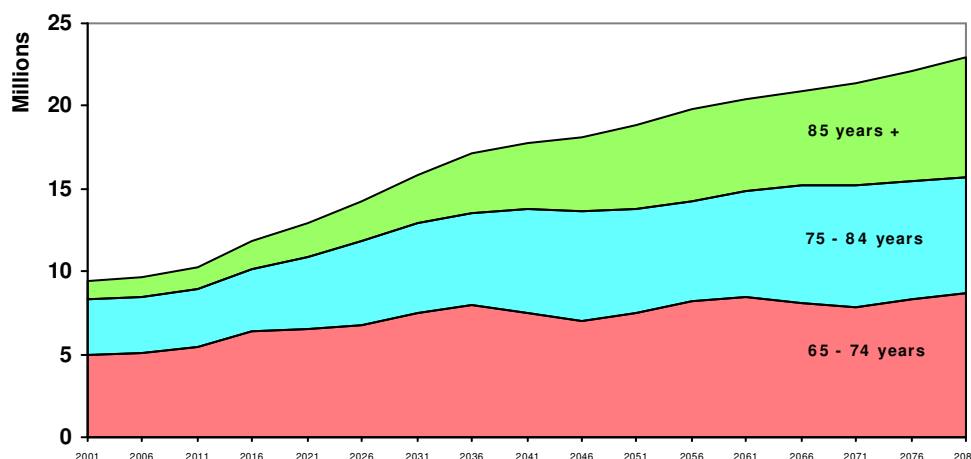
In the 10 years to 2008, Torbay's population grew by 7.3%, the 10<sup>th</sup> highest of the region's 16 counties and unitary authority areas (South West 7.4%, England 5.4%).

Torbay also has the 2<sup>nd</sup> highest % of older people among these 16 regions.

***The national picture***

It is a startling fact that the 85 yrs and over segment of the UK population is expected to multiply by more than 5 times from 1.4mn in 2010 to 7.2mn in 2081 while the 75 - 84 segment will jump from 3.5mn to 7mn over the same period.

**United Kingdom 65 years and older population 1981 - 2081**



Sources: 1981-2001, Census date; Following 2001, Government Actuary's Department 2008-based principal national projections.

The noticeable increase from 2010 onwards is a direct correlation with the baby boom era of post World War II (1946-1964). This generation will start to reach 65 from 2011 onwards.

As a result of the aging population and the current national care strategy, it is accepted that those entering the care sector will do so higher up the acuity scale. This will mean that there will be an increasing demand for nursing and nursing/dementia provision replacing the long term residential care model. Residential care will not disappear but will become more competitive due to residents having higher expectations and being more mobile.

**Declaration**

1. My overriding duty is to Torbay Quality Care Forum and I have complied and will continue to comply with that duty.
2. I have set out what I understand to be the questions in respect of which my opinion is required.
3. This report is without bias and is a statement of fact, favouring no individual party involved.
4. This report, to the best of my ability, is considered to be accurate and complete. I have mentioned all matters which I regard as relevant to the opinions that I have expressed. All matters on which I have expressed an opinion lie within my field of expertise.
5. In areas where I have no personal knowledge, I have indicated the source of the factual information.
6. Everything within this report has been included after forming my own independent view of the information to hand.
7. Where, in my view, there is scope for a variety of reasonable opinions, I have indicated the extent of that range in the report.
8. Whilst my firm acts for a number of the member homes, I know of no conflict of interest, other than any disclosed in the report, and any interest disclosed does not affect the content of the report.
9. I will advise Torbay Quality Care Forum if, between the date of my report and the meeting with Torbay Care Trust, there are any changes in circumstances which will affect my answer to the above point.
10. At the time of signing the report I consider it to be complete and accurate. I will notify Torbay Quality Care Forum if, for any reason, I subsequently consider that the report requires any corrections or further qualification.

The facts stated in the report are within my own knowledge and I have made clear that I believe them to be true. The opinions I have expressed are to my true and complete professional opinion.

Both myself and Bishop Fleming neither owes nor accepts any duty to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by their reliance on our report. If further copies of this report are needed, written consent is required before they will be issued.

Tim Godfrey  
**Bishop Fleming**  
Chartered Accountants  
50 The Terrace  
Torquay  
Devon TQ1 1DD  
Date: 29 September 2011

**Glossary of terms**

"Fair Price Model"      The calculation done using "Calculating a Fair Market Price for Care: A Toolkit for Residential and Nursing Homes" which was published by Joseph Rowntree Foundation in 2008 in association with Laing and Buisson. This document has been revised and updated from editions published by Joseph Rowntree Foundation in 2002 and 2004.

**Caveats**

1.      Inevitably, there will be costs, maintenance for example, where they are charged in one year, rather than spread over several years, however all effort has been made to ensure "lumpiness" does not affect these results.
2.      Invariably, there will be cases where proprietors and family members carry out essential work as part of the operation of the care home, including acting as the registered manager of the home, or as part of the care staff. In many of these cases, they will not be taking a full salary (if a salary is taken at all) for this work, as proprietors tend, for taxation purpose, to take dividends where reserves are available. Where I am aware of this occurring I have made the appropriate adjustment to the costs.
3.      Where care homes have "frozen" staff pay, I have adjusted the costs within this report to take into account a 3% pay increase, as a pay freeze would artificially depress the actual costs of care.
4.      As a matter of principle, the full capital costs of an individual care home cannot be determined purely from their accounts. Whilst some capital costs are accounted for in terms of interest, the input costs of the proprietor's equity is not accounted for. Whilst no attempt has been made to complete a full analysis of the capital structure of each home, the proprietor's investment may represent the bulk of the value.

The capital costs can make up a substantial proportion of total nursing home care costs (up to 27% according to the Fair Price Model) and if the full cost of own capital is not included then the costs of a home financed mainly by the proprietor will incorrectly appear to be substantially lower than a highly geared care home financed by loans and leases.

More importantly, each individual proprietor will have a differing view on the cost of capital tied up in the business, being other lost opportunities to invest, and therefore it is considered that a benchmark figure (from the Fair Price Model) would be more appropriate in this case.

For more information and rationale behind this see Appendix 3.



**Staff Input, Pay and Terms**

In all cases, payroll is the largest cost item for homes, absorbing up to 60% of the income. As such, a survey of all local providers was carried out in August 2011 to gather additional information on the breakdown of the payroll costs, including hourly pay rates, and the number of staff hours per resident per week for the different categories of staff.

The purpose of this survey is to obtain data to assist with a number of the issues addressed in this report including:-

1. The variation between local staff inputs and pay rates and those on the national benchmark used to populate the fair price model.
2. Care home efficiencies.

The responses and analysis are collated in Appendix 1. The results of the survey are set out below.

| <b>Staff hours (weighted average of respondees)</b>                   | <b>Survey of providers</b> | <b>National benchmarks</b> | <b>Movement from benchmark</b> |
|---|----------------------------|----------------------------|--------------------------------|
| Nurse staff hours per resident per week                               | 8.0                        | 7.5                        | 6% up                          |
| Carer staff hours per resident per week (nursing care)                | 22.0                       | 20.5                       | 7% up                          |
| Carer staff hours per resident per week (nursing care with dementia)  | 19.7                       | 20.5                       | 4% down                        |
| Carer staff hours per resident per week (personal care)               | 16.7                       | 18.5                       | 10% down                       |
| Carer staff hours per resident per week (personal care with dementia) | 22.6                       | 22.0                       | 3% up                          |
| Domestic and catering staff hours per resident per week               | 4.6                        | 4.5                        | 2% up                          |
| Chefs/cooks staff hours per resident per week                         | 2.1                        | 1.5                        | 40% up                         |

The results show that nursing, domestic, catering, chefs and cook hours are up. Overall carer hours are at the national benchmark.

There may be several reasons for these variants, in particular:

1. The diseconomy of having a smaller scale care home, for example a 40 bed home may need the same level of certain staffing types as a 50 bed, which results in higher staff hours per resident.
2. Higher level of service expected by private residents compared to funded residents.

The Care Quality Commission, the English regulator for the care home sector does not apply prescriptive staffing standards in terms of staff/resident ratios, and therefore the variants are not down to statutory regulations.

The providers' care homes used in this report are generally smaller when compared to the national benchmarks, averaging 28 beds (varying from 10 to 59) compared to the 60 beds from which the national benchmark is derived. This average excludes all homes which cater for other forms of care for adults below the age of 65. The implications of a smaller home are noted in point 1 above.

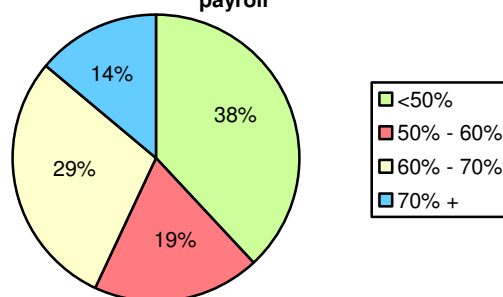
**Pay rates**

Pay rates for staff were reported as being similar to the average pay rates calculated from a survey carried out by Laing and Buisson in 2009/10 covering 1,000 care homes nationwide. I have also included a 3% pay rise in the table below to avoid artificially depressing the actual cost of care.

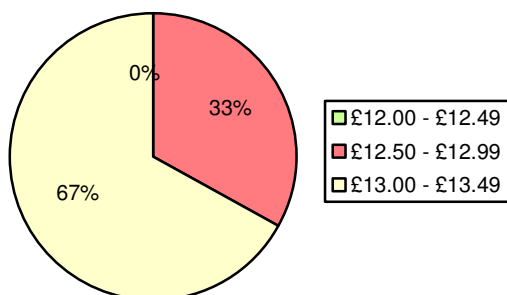
| <b>Staff pay rates (exc ER's NI)</b> | <b>Provider rates including 3% increase</b> | <b>Survey of providers 2010/11</b> | <b>Expected pay rates for 2010/11 (3%)</b> | <b>National benchmarks 2009/10</b> |
|--------------------------------------|---|------------------------------------|--|------------------------------------|
| Nurses                               | £12.36                                      | £12.00                             | £12.28                                     | £11.92                             |
| Carers (nursing care)                | £6.82                                       | £6.62                              | £6.63                                      | £6.44                              |
| Carers (nursing care with dementia)  | £6.82                                       | £6.62                              | £6.63                                      | £6.44                              |
| Carers (personal care)               | £6.77                                       | £6.57                              | £6.63                                      | £6.44                              |
| Carers (personal care with dementia) | £6.77                                       | £6.57                              | £6.63                                      | £6.44                              |
| Domestic and catering                | £6.56                                       | £6.37                              | £6.37                                      | £6.18                              |
| Chefs/cooks                          | £7.50                                       | £7.28                              | £8.14                                      | £7.90                              |

The above pay rates are standard rates, and do not include holiday pay.

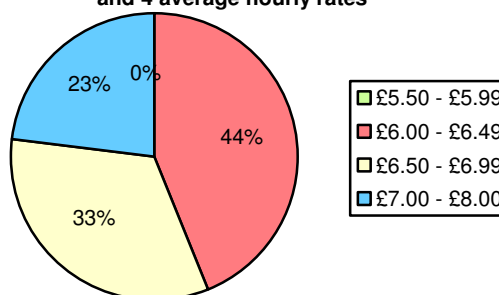
**Proportion of turnover represented by payroll**



**Qualified Nurse average hourly rates**



**Care and domestic staff/NVQ level 2,3 and 4 average hourly rates**



**Annual increases**

As part of this report I have looked into any annual increases expected in the cost of care, in order to identify any divergence between the price and the cost of providing the service.

Unfortunately the information I have at my disposal to look into the above is limited. I considered using accounting information going back to 2005/06 provided by the proprietors, however it is likely that any such information would be of limited use because:-

1. The accounting information would be incomplete, as noted in the caveats on page 4, in particular lacking full information on the capital costs relating to the homes.
2. The accounting information is for the care home as a whole, including private fee clients, and NHS funded "continuing care" which is likely to have had an impact on total costs dependant on the ratio between private and NHS. This is due to care homes with a higher proportion of private fees being able to spend more per resident, than those with a higher proportion of funded residents. In essence the private residents supplement the underlying cost of care for funded residents.
3. Adjustments made to the accounting information to take account of the above would be more unreliable with the passage of time, and there would be undue reliance on memory in the absence of complete records.
4. The care homes may have become more efficient and/or changes in ownership, meaning actual costs varying and causing discrepancies in any findings.

Alternatively I considered asking the proprietors' to specify additional costs incurred since 2005/06, however this would also be unreliable, as would require a consistent response, complete records and continued reliance on memory.

Therefore, the most appropriate method to provide usable results is to adapt the fair price model. The model is populated with data derived from information provided by the four largest care home groups with national portfolios in England, in addition to local cost drivers by Laing and Buisson.

This means that the model can be adapted to the relevant local area and times, by populating the underlying spreadsheet with local variables (staff hours and rates). One of the most important features is that it incorporates a formula for calculating capital costs which is independent of the capital cost structure of any particular home and which is as close to an objective, market based benchmark as it would be possible to get. This is fully described in the capital cost section which is reproduced as Appendix 3.

As staffing costs are the major cost involved within a care home, I had to decide on the best method of calculating the pay rates at this time. It is considered that information from proprietors could vary significantly between homes, national minimum wages are less directly relevant, and specially to higher paid nurses and management. For this reason, I have used Laing and Buisson's method and used the Average Earnings Index for Health and Social Work (AEIHSW), which prior to being superseded in January 2010 with the experimental Average Weekly Earnings (AWE), was considered a well established index for the sector and has been used for calculating care home fees elsewhere. The index for AEIHSW in 2009/10 was 155.9, and in 2005/06 it was 133.2. Although there is no AEIHSW for 2010/11, the AWE calculation is based on a quarterly national monetary value in the £'000's, and I have therefore decided to include a 3% pay rise to show the indicative cost of wages.

September 2011

**Annual increases (cont.)**

For non-staff inflation I will be using the Retail Price Index excluding mortgage costs (RPIX), since it is in the public domain and is reasonably considered to reflect non-staff changes. Although utilities, fuel and food costs have risen much more dramatically over the last few years, it is expected that the overall RPIX increase should compensate for this, as there will be items which have not increased by RPIX. See Appendix 4 for RP05 report.

The summary of the results are provided below:-

|   |   | £ per resident per week      |              |                     |
|---|---|------------------------------|--------------|---------------------|
|   |   | Nursing & Nursing (Dementia) | Personal     | Personal (Dementia) |
| <b>2005/06 baseline using national staffing benchmarks and local pay rates and land prices:</b> |   |                              |              |                     |
|   | Staffing costs  | £318                         | £205         | £232                |
|   | Repairs and maintenance   | £28                          | £28          | £28                 |
|   | Other non-staff current costs   | £68                          | £68          | £68                 |
|   | Capital costs (ceiling)   | £158                         | £155         | £155                |
| <b>Sub-Total</b>  |   | <b>£572</b>                  | <b>£456</b>  | <b>£483</b>         |
| <b>Plus Inflation to 2010/11:</b>   |   |                              |              |                     |
|   | Staffing costs - AEIHSW increase to 2009/10   | £55                          | £35          | £40                 |
|   | Staffing costs - 3% increase (on costs at 2005/06 plus AEIHSW increase to 2009/10) to 2010/11 | £11                          | £7           | £8                  |
|   | Repairs and maintenance   | £6                           | £6           | £6                  |
|   | Other non-staff current costs   | £15                          | £15          | £15                 |
|   | Capital costs (ceiling)   | £34                          | £33          | £33                 |
| <b>Sub-Total</b>  |   | <b>£121</b>                  | <b>£96</b>   | <b>£102</b>         |
| Plus working time regulations changes:-   |   |                              |              |                     |
| Increase in holidays from 20 to 28 days   | Staffing costs  | £10                          | £5           | £6                  |
| Nature of service - one extra hour per resident per week  | Staffing costs  | £7                           | £8           | £8                  |
| <b>Sub-Total</b>  |   | <b>£17</b>                   | <b>£13</b>   | <b>£14</b>          |
|   |   |                              |              |                     |
| <b>2010/11 using national staffing benchmarks, pay rates and adjusted for inflation</b>         | Option 1 on page 13   | <b>£710</b>                  | <b>£565</b>  | <b>£599</b>         |
| Plus local hours and pay benchmark instead of national benchmark:-                              |   |                              |              |                     |
|   | Staffing costs  | (£23)                        | (£35)        | (£22)               |
| <b>Sub-Total</b>  |   | <b>(£23)</b>                 | <b>(£35)</b> | <b>(£22)</b>        |
|   |   |                              |              |                     |
| <b>2010/11 using local staffing benchmarks, local pay rates and adjusted for inflation</b>      | Option 2 on page 13   | <b>£687</b>                  | <b>£530</b>  | <b>£577</b>         |

The fair price model calculation for 2005/06 is detailed as Appendix 2.

**Notes to Annual Increases**

1. Changes in legislation

The main change in legislation was the working time regulations change. This change increased the minimum holiday allowance from 20 days in 2005/06 to 28 days in 2009/10 (20 days PLUS bank holidays). Since it is almost universal practice for private sector care homes to pay the minimum holiday entitlement, this has had a direct impact on the staffing costs.

2. Mandatory issues

There are no mandatory issues that I am aware of that would give rise to a substantial change in care home costs during the period.

3. Insurance, Registrations and CRB Costs

a. Insurance is generally viewed by the sector as volatile, and can increase or decrease dramatically with no coherent trend over time. The overall cost amounts, on average, to £1.52 per resident, per week in 2010/11, compared to the allowance in the fair price model of £5.

Although this is indicating that, for the year in question, the fair price model is £3.48 higher than the cost in the accounts provided, it is considered that, due to the volatile nature of the insurance sector, an adjustment would not be appropriate.

b. Registration costs can vary wildly between years dependant on new registrations such as change in registered manager, additional rooms etc. The average cost of registration fees and CRB checks were calculated were £1.73 per resident, per week in 2010/11, compared to the allowance in the fair price model of £3.

Although this is indicating that for the year in question the fair price model is £1.27 higher than the cost in the accounts provided, it is considered that due to the variances that can occur year on year, an adjustment would not provide a true and fair view.

4. Wages costs relevant to the local area and care sector

There has been, over the last few years an upward pressure on pay rates for qualified nurses, especially those with training and experience in dementia care. This seems to stem from the problems in retaining and recruiting younger trained nurses in light of the changes in their professional training and job expectations. However there are no reliable quantitative data that I am aware of, on to how local pay rates have changed in the period in question.

**Notes to Annual Increases (cont.)**

5. NEST implementation

Although there is no current costs involved in the implementation of the National Employment Savings Trust Pension Scheme, this is a compulsory scheme coming into place between October 2012 and October 2016, and will result in additional costs of employment being a 3% employer's contribution. Although there is the option for staff to opt out of the scheme, it is expected that the vast majority will not opt out.

The voluntary start of the scheme is July 2012 and dependant on staffing pressures some providers may choose to implement the scheme early.

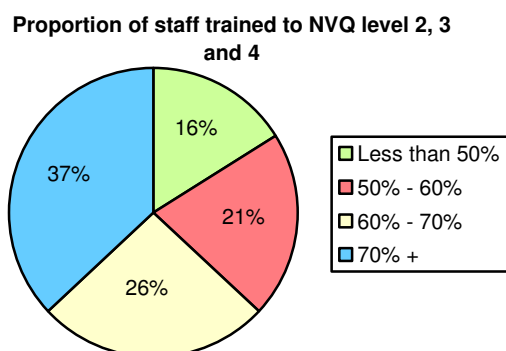
6. Other factors

There has been a requirement for a higher number of better trained staff due to the increasing dependency of residents during the period. The trend towards a higher level of dependency, along with shorter lengths of stay is well recognised within the care sector.

Staffing requirements have had a quantified impact on care home providers, as detailed in the "Calculating a Fair Market Price for Care", published in 2008 by the Joseph Rowntree Foundation. The number of hours that qualified nurses spend with residents per week has remained constant, however the number of non-nurse care hours has increased by 1 hour per resident per week.

Both of these changes have been incorporated into the calculations in Appendix 2.

Although the now abandoned National Minimum Standard required that 50% of carers should be qualified to NVQ Level 2, the changing needs of residents means that best practice dictates that responsible providers will maintain their investment in training. Respondents have an average of 66% of their carers trained to NVQ Level 2 or higher.



**Fair Price for Care**

Based on the analysis done on page 10, I consider that the price for 2010/11 should be 24% higher for all care, on average, than in 2005/06, in order to take into account all of the cost increases described previously.

In each case the price is stated as a "ceiling" price, being a price appropriate for care homes which meet all 2002 National Minimum Standards for physical environment and which were rated by the Care Quality Commission as 2 stars or above in 2010/11. The "floor" price is for a care home of adequate rating under the former CQC scheme of ratings.

The concept developed in the fair price model is that, for each individual home, a "capital cost adjustment factor" should be deducted from the "ceiling" price, pro-rata to the extent to which the home falls short of meeting appropriate standards. In the case of a home being on the borderline of acceptability, the maximum "capital cost adjustment factor" is arbitrarily set at 50% of the capital cost allowance for buildings and equipment meeting national minimum physical standards for new homes, extensions and 1st registrations since April 2002, including start up losses. See Appendix 3 for further description of this concept, as well as proposing a methodology for determining what capital cost adjustment factor is appropriate for each individual care home.

If the full costs were to be taken into account, and assuming deduction of maximum capital cost adjustment factor of £70, I believe that there would be two options for a fair price in 2010/11 which would be as follows:-

**1. Price based on fair price module, populated with national data on pay rates and national benchmarks on staff hours per resident, per week**

|                              | "Ceiling" price (page 10) | "Floor" price |
|------------------------------|---------------------------|---------------|
| Nursing & Nursing (Dementia) | £710                      | £640          |
| Personal Care                | £565                      | £495          |
| Personal Care (Dementia)     | £599                      | £529          |

**2. Price based on fair price module, populated with local data on pay rates and local benchmarks on staff hours per resident, per week**

|                              | "Ceiling" price (page 10) | "Floor" price |
|------------------------------|---------------------------|---------------|
| Nursing & Nursing (Dementia) | £687                      | £617          |
| Personal Care                | £530                      | £460          |
| Personal Care (Dementia)     | £577                      | £507          |

In cases where there is continuing care, this is provided within the activities of the home and is included within the overall costs of care. There is, however an additional administration cost associated with intermediate care and although this has not been identified by the providers, it will need to be taken into account, possibly by way of a booking charge being levied.

Therefore it is considered that no additional costs need to be included for these additional care types within this report.

**Efficiency of the pricing structure**

Option 1 is by definition a representation of the costs of a sufficiently efficient care home, being based on the benchmarks calculated from major care home groups whose portfolios are considered to consist of efficient, large scale homes.

Option 2 will contain elements of inefficiencies, as they are based on the current staffing inputs of the local care homes, which are on the whole, smaller than the major national groups. These larger national homes cater for a higher proportion of private payers who may have an increased service expectation compared to that which the local authority is prepared to pay for.



**Consequences of a lower price**

The general consequence of a lower price being offered is that capital investment will leave this sector, and there will be limited new capital injected to maintain or create new homes to cater for the ageing population. This is supported by the Laing and Buisson survey carried out in 2010 which shows the movement of care homes over the last twenty years (See Appendix 5), and is also supported by BUPA, who have warned that if budgets are not ring-fenced, and local authorities do not pass on the additional £2 billion allocated by the government to fund adult social care by 2014/15 there could be a shortfall of nearly 100,000 beds over the next decade. (Caring Times magazine, April 2011 edition).

Alternatively, care homes will prefer to cater for private payers, who pay a substantially higher fee, or those who can afford to pay a third party contribution, and this will in turn, reduce the choice and accessibility for NHS and council funded residents. This will, naturally, be dependant on having sufficient private payers, and in areas lacking in private fee payers it would be expected that other courses of action will need to be sought including offering only residential care, as the costs involved are less than that of nursing.

It is highly likely, that care homes with the highest levels of borrowings, and those with the higher ratio of funded, compared to private residents will be the greatest affected by a lower price being offered, and the financial strain caused may result in homes having to close.

It is also suggested in the Caring Times magazine, April 2011 edition that as many as 20% of care homes could be forced to close. In terms of Torbay, this could be as many as 24 homes closing throughout the Bay. Based on my local knowledge of the sector, I would expect that this is a reasonable estimate. At the time of writing 2.5% of the homes to which letters have been sent, have either closed or are in administration, including one in the last week, and 28% of the care homes who responded are either at a loss making or breakeven position.

This will inevitably put a further strain on the existing residents, as well as the NHS and local councils having a reduced choice available to them.

Care homes, in an effort to avoid closure, may have to adopt one or more of the following:

1. Seek privately funded residents rather than state supported
2. Require third party contributions from any state supported residents
3. Freeze pay rates for all staff
4. Reduce staffing levels to bare minimum (this will be difficult in this highly regulated sector but not impossible to do)
5. Delay maintenance work
6. Limit discretionary spending where possible.

The above options would have a detrimental affect on the residents and staff, however would still be preferable to the closure of homes.

**Brief Biography**

I am a partner in Bishop Fleming specialising in the health and social care sector and specifically care homes. My firm provides tax, audit and accounting services, but my role focuses on maintaining viability of care homes whilst proprietors seek to grow in, or exit the sector. I also advise those wishing to enter the sector and have presented at joint seminars across the south west region with Lloyds TSB Bank Plc, Pinders and Veale Wasbrough Vizards Solicitors.

Born and educated in Torbay, I became a partner in 1988 and live in Torquay with my wife and three children.

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