

Surrey Residential and Nursing Care for Older People

Cost Modelling Approach: Information for Surrey Providers and Commissioners

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Introduction

This is a 'transparency statement' for the cost of care exercise carried out by Surrey County Council (SCC) in 2021. Following excellent engagement with Surrey providers facilitated through the Residential and Nursing Care Working Group, Surrey County Council agreed to review the residential and nursing care placements made by Adult Social Care (ASC) in Surrey to better understand costs of care within the local market.

SCC commissioned an external company, Care Analytics, who have extensive knowledge and experience of this type of work to provide analysis of ASC placements for older people's residential and nursing care in Surrey. This independently led analysis made use of a range of data to determine the cost of care in Surrey though utilising a set of different cost models. To provide further detail on staffing costs, staffing ratios and room/facility standards, a pricing survey with providers to collect primary data on staffing costs, ratios and room/facility standards was carried out. 61% of the older adult care homes in Surrey responded to the survey (58% of the nursing homes and 64% of the residential homes). From this, cost models and price benchmarks for standard care categories configured to our local market have been developed.

This document covers this work and the subsequent outcomes.

Context

In the Market Sustainability and Fair Cost of Care Fund Policy Paper (December 2021), Government asked local authorities to consider how they ensure their care market can be sustained and fee rates set at appropriate levels. Local authorities are therefore requested by Government to carry out a cost of care exercise to determine these rates and identify how close they are to what would be deemed appropriate levels., By surveying local providers for 65+ residential and nursing care SCC wanted to look at the cost of care for different care settings. The cost of care exercise needs to accurately reflect local costs such as staff pay and travel time, and provide for an appropriate return on capital or return on operations. Local authorities will be expected to publish these exercises and outcomes.

The cost of care exercise will subsequently feed into a provisional market sustainability plan setting out local strategy for the next 3 years (2022 to 2025) – using the cost of care exercise as a key input, this provisional plan will demonstrate the pace at which local authorities intend to move towards a sustainable fee rate, in particular taking account of the impact of section 18(3) as well as other pressures identified. SCC ASC will also expect to see strategic planning for changes in types of provision in response to local need.

The following diagram and table illustrate the key concepts of Care Analytics cost models and how they are applied their expertise to the Surrey market. The different components of the diagram are not to scale.



1. Model Approach

- Separate cost models for (1) Residential Frail, (2) Residential Dementia, and (3) Nursing.
- The same cost model across the whole of Surrey as no material evidence of consistent geographical variations in care home costs.
- 'Lean' cost assumptions, though no assumption of optimality unless such costs are achieved by a large proportion of care homes.
- All residents have broadly similar levels of need in each care category, and staff costs are shared equally among all residents.
- All residents in each care category pay the same fee for the same service. There is no assumption of subsidy from other customers.
- Costs sufficient for standard care only. Whole home unit costs may be higher luxury homes or those supporting residents with higher needs.

2. Care Home Characteristics

- Cost structure for a medium to large (40+ beds) care home, owned and operated by the same corporate provider.
- Allowance for corporate costs sufficient for efficient groups with stable portfolios. There is no assumption of substantial unpaid owner input.
- Overall cost envelope sufficient for most smaller independent care homes, though their cost structure would be different.

3. Staffing

- Building configuration that allows reasonably efficient staffing, an
- average occupancy of 95% and breaks unpaid during shifts.
- Care worker hours per resident week: Residential Frail (21.75 hrs), Residential Dementia (27.25 hrs), Nursing (24.50 hrs).
- Nurse hours per resident week: 7.50 hrs.
- 2.10-2.40 hours per resident week for the combination of manager, deputy manager(s), unit and other manager(s) and administrator(s).
- Dedicated roles for kitchen and domestic staff (5.00-5.25 hrs), activity co-coordinators (0.75 hrs), and maintenance staff (0.75 hrs).
- Each role has an appropriate mix of senior and junior job grades, as well as an appropriate mix of part-time and full-time staff.
- Nurses, care workers, kitchen and domestic staff all backfilled for absences such as holidays and training (in addition to hours above).

4. Terms and Conditions

- Wages based on typical levels found in the market as of spring 2020, as evidenced by job adverts at the time and provider-supplied pay rates.
- Public holiday pay enhancements for all rostered staff.
- Statutory holiday and sickness for all backfilled staff.
- Employer national insurance and apprenticeship levy costs calculated using the workforce assumptions in each model.
- Employer pension contributions based on statutory levels.
- Small agency 'premium' for both care workers and nurses. This can also be used to pay for overtime enhancements or recruitment bonuses.

5. Non-staff Operating Costs

- Assumption of reasonable efficiency based on Care Analytics evidence base of data collected from working with providers, cost of care surveys, published accounts, and industry-published statistics.
- Historic costs have been uplifted each year using the most relevant Consumer Price Index (CPI) sub-index to account for inflation.
- Excludes non-standard costs such as GP services, private services like hairdressing, fine dining, and other luxury-or hotel-type provision.
- Corporate costs create scope for potential lack of economies of scale around consumables in small independent homes.

6. Operating Surplus

- Surplus does not equate to profit. It is also an allowance for exceptional business costs that will be incurred from time to time.
- 5% surplus applied to all care categories. This means there is a higher surplus in cash terms for the nursing care categories as costs are higher.

7. Rent

- Rent can be a literal 'cash' cost such as a lease or loan finance. It will otherwise be a return on the equity invested in the care home.
- Rent is based on the average BRMA reference rents across Surrey.
- Rent method is designed to proxy a reasonable opportunity cost to general purpose housing so pre-existing care homes stay in the market.

8. Sustainable Price

- Nursing costs included in full, so Funded Nursing Care (FNC) can be deducted from the total price for nursing placements.
- Combination of operating surplus, depreciation, and rent contribute to EBITDAR returns of between 22% and 30%.
- Many homes in Surrey will have higher costs than the 'lean' models. Such homes will earn lower profit margins at the respective benchmarks.
- Care homes with either wages or other terms and conditions well above typical levels found in the market, very high staffing levels or premium facilities may struggle to operate within the benchmarks.

9. Surrey County Council Guide Prices

From 1st April 2022, our guide prices will be:

Type of care	Residential Care	Residential Dementia Care	Nursing Care
Guide Price 2021/22	£663	£714	£765 (plus FNC)
Guide Price 2022/23	£697	£750	£804 (plus FNC)