

Review of fees paid to providers of care services by Cheshire East Council: report from Red Quadrant to care providers

February 2013

Version 0.4

©RedQuadrant 2013

Ben Taylor ben.taylor@redquadrant.com 079 3131 7230

Frank Curran frank.curran@redquadrant.com 075 1587 5381

Introduction

In June 2012 Cheshire East Council (CEC) competitively tendered to appoint a suitably qualified consultant to undertake an independent assessment of adult services business planning and policy proposals and a review of social care fees. This included an independent assessment of the prices paid by Cheshire East Council (CEC) to external providers for the delivery of care services to ensure that these were both appropriate and sustainable. The services specified for inclusion in the review were home care, direct payments, and residential and nursing care services.

Red Quadrant successfully bid for this work and we were appointed to examine the costs incurred by providers when supporting CEC funded service users and to compare these findings against the rates that CEC pay to determine whether CEC rates were reasonable. As part of this process we consulted with providers by means of a series of workshops: this consultation looked at both fee levels and CEC's overall level of expenditure: the outcome of the consultation exercise was reported back to providers in September 2012 and is attached as Appendix one in this report.

This report summarises our findings for care providers. The recommendations from this report will be used by CEC to inform the setting of fees for 2013/14.

Home Care Fees

Current position and approach taken

CEC pays two rates for individually commissioned homecare hours based on an urban/rural split.

In order to provide a relevant comparison of homecare fees against those used by CEC, all of the councils within CEC's CIPFA "family" were contacted. These Authorities are those considered closest to CEC by the Chartered Institute of Public Finance and Accountancy (CIPFA) based on economic, demographic and other factors. These fifteen authorities are (in descending order of 'near-ness'):

- | | |
|--|--------------------------------|
| 1. Cheshire West and Chester | 9. Central Bedfordshire |
| 2. Gloucestershire | 10. Shropshire |
| 3. Worcestershire | 11. Somerset |
| 4. Warwickshire | 12. North Yorkshire |
| 5. Bath & North East Somerset | 13. Leicestershire |
| 6. Wiltshire | 14. North Somerset |
| 7. Oxfordshire | 15. York |
| 8. Cambridgeshire | |

Of the fifteen other councils, a total of eleven councils responded (marked in bold above), which provided enough responses in order to gain a fair comparison. We also did an exercise building costs per typical hour of care, based on local salaries paid.

Key findings from this exercise were:

1. **Urban/rural split**

Currently, eight of the eleven councils have an urban/rural split, with one also having a semi-rural category. The councils which do not have such a split included York, which is primarily an urban authority, and Cheshire West and Chester, which is substantially more urban than CEC. The third Council was Cambridgeshire

In most cases the split is based on provider-supplied prices, usually through a tendering process who submitted their fees based on the rural location of its client base. Therefore there may be more than one fee in place for both the rural and urban category.

Therefore CEC is consistent with comparator Authorities in having differential rates. The fact that the nine other Authorities reached this conclusion through a tendering process strongly supports the assumption behind differential rates (i.e. that differential rates are justified because of differing urban/rural costs)

2. Fees

The headline finding from this exercise is that CEC has the lowest hourly rate in both rural and urban categories. The fees excluding Cheshire East range between £11.75 and £24.72, though the majority of the higher fees paid by other councils are within the £16-£17 range.

However this does not reflect the reality of what providers get paid as CEC does pay substantially more than other comparator authorities for time periods of less than an hour. Most Councils pay for time periods of less than an hour on, broadly speaking, a pro rata basis. However CEC (along with Central Bedfordshire) pays at a rate which is not a straight pro-rata of the hour. The effect of this is that for periods of care of up to 30 minutes CEC pays more than the average in urban areas; for the same time periods in rural areas it pays just below average (6%) to nearly 25% above the average

The effect of this discrepancy is that the 'blended'¹ rate paid by CEC is c£16 per hour for rural areas. This is broadly comparable to the average rural hourly rate of £16.41 amongst comparators.

3. Fee setting

All of the Councils were asked if they knew the basis of the fee calculation and, in particular the urban/rural split. In most cases the majority of fees were submitted by the providers through a tender processing, with the odd exception whereby the fees had simply being inflated over a number of years. Councils generally stated that the tender process fee was assessed on the basis of affordability to the Council, rather than a formulated 'bottom up costing' approach.

4. Payment time periods

Whilst the majority of the councils contract in 15 minute time blocks, two Councils do contract on actual minutes, and one on 20 minutes blocks.

5. "Bottom-up" calculation

We also looked at the cost of an average hour of care based on local market factors. We used as the basis a figure of £6.56 per hour to employ a care worker which we sourced from www.payscale.com – a website that provides local price comparisons. This figure is lower than the average figure we calculated from care jobs available in www.totaljobs.com but is higher than the minimum wage (£6.18 per hour from 01/10/12).

We then applied assumptions about costs of National Insurance, stakeholder pensions, management, profit margin, travel time, anti-social hours and petrol costs. Based on these assumptions we derived an urban hourly rate of £12.28 (cf £11.22 currently paid) and £13.81 in rural areas (cf £12.55 currently paid).

However although the hourly rates thus calculated are higher than CEC currently pay a somewhat different pattern began to emerge when looking at payments for 15 minute blocks. Our calculations for 15 minute blocks took account of the non-productive time in each scenario. The average urban rates paid produced by this calculation were lower than the 15 minute, 30 minute and 45 minute rates currently paid by CEC with the average difference being 8% However, they were higher in the

¹ ie the average rate paid per hour to providers based on all packages

rural calculation for all categories by an average of 9%. In other words *on the basis of this approach* CEC were paying a little bit more than was merited in urban areas and a little bit less than was merited in rural areas. Any such exercise is very sensitive to the assumptions used so perhaps all that can be said is that CEC payment levels are not hugely out-of-kilter with local wage levels for care workers.

Direct Payments

Only four councils were able to provide their directly hourly fee. Of those that did the range was between £8.56 and £12.78 per hour, with Cheshire West being the highest fee, followed by CEC.

We also used the bottom up calculation to review Direct Payments. We did this by using the same methodology and calculations but excluding management costs. This gave an hourly rate within 15p of the current rate although it gave somewhat lower 15 minute, 30 minute and 45 minute rates than currently charged.

Other Fees

Only three councils were able to provide fees for Night Sitting (Sleeping & Waking), with these ranging between £66-£89 for sleeping, and £91-£165 for waking. For two of these councils the fees varied by provider, with the remaining one having three set fees for urban/semi-rural/rural. Those that could not provide fees stated that the figures were generally negotiated at the time.

The response in relation to unsocial hours varied, with some incorporating them within the hourly rate and others have a separate rate, generally following negotiation. There also appeared to be some ad hoc negotiation for bank holidays.

For the bottom up calculation we calculated waking nights on the same basis as the urban hourly rate less the unproductive time. This gave a figure of £122.81 somewhat higher than the £85.06 rate currently paid by CEC

For the bottom up calculation we calculated the sleep-in rate by using NJC sleep-in payscales from 2010/11 and adding inflation, on-costs, management costs and time out allowance to give a figure of £58.84 somewhat lower than the £66.90 currently paid by CEC.

Residential and Nursing Home Fees

CEC pays set rates for residential and nursing home fees for older people with uplifts for clients with dementia and/or other mental health problems. Fees for residential and nursing home provision for other client groups are negotiated on an individual basis

We compared CEC out-turn figures with the CIPFA comparator group using figures from the PSSEX1 returns for 2010/11² (the most recent set of figures available at the time of the exercise). We also undertook a bottom up calculation building up care costs based on our understanding of the cost-drivers.

1. CIPFA comparator figures

Based on the PSSEX1 return net expenditure per week for residential care for older people in CEC was £379, 12% above the comparator group average. Net expenditure for residential and nursing care was £347, 6% above the comparator group average of £326. Unfortunately there are some errors in the dataset for nursing care for older people so a similar comparison is not possible

It could be argued that this comparison is thus based on out-of-date figures; however this would only hold true if all other authorities had increased all their fees by inflation in both 2011/12 and 2012/13 which we consider to be a highly unlikely scenario. Even if this were the case the comparator average would not have increased by more than 5%: thus in each of the comparisons above CEC fee levels would still be above average

These comparisons are based on 2010/11 data which was the most recent data set available. They also reflect actual costs incurred by authorities so vary a little from typical gross/net weekly charges paid by authorities (the figures thus include some additional package costs)

2. Bottom up calculation

In order to provide a detailed calculation for residential and nursing home fees, an evidence based approach was used. Models from relevant organisations were used to form the basis of the calculation. These were then adjusted to take into account factors relevant to Cheshire East.

Factors considered included:

- **Average bed base:** The model works on the assumption of 42 residential beds and 36 nursing beds per home as per the information available for homes used within the Cheshire East area. Obviously this does not take account of the higher unit cost of fixed costs on smaller homes: however the impact of this is quite modest – we calculate that there is a difference of £20-£25 in unit costs per week from a 20 bed home to a 50 bed home
- **Occupancy:** Expected occupancy levels are assumed to be 95% for the purposes of this calculation. The calculation also assumes that all bed-spaces are occupied by CEC clients

² PSSEX1 data is gathered by central government to determine comparative costs of social care services. For further information see [here](#)

- **Levels of staff in nursing homes:** Though CQC regulates the Nursing Home industry they do not provide any prescriptive formulas regarding staffing levels. The Royal College of Nursing (RCN) does offer guidance to the staffing numbers and skill mix required for a Nursing Home. This has been used as a basis for the modelling, having been adjusted to allow for the 'gold standard' element which is rarely applied in practice.
- **Levels of staff in residential care homes:** We used the model recommended by Laing & Buisson as the basis for the residential care staffing levels as there were no recommended models from the RCN.
- **Salary costs:** costs have been based on NHS Agenda for Change average pay scales which are comparable to those on payscale.com.
- **Absence from work:** A 'timeout' allowance has been applied to all care staff and domestics and catering staff, as these posts will require backfilling during absences, but not to managers and administrative staff.
- **Agency premium:** As agency staff may be required in exceptional circumstances an agency premium has been applied to nursing.
- **Other staffing:** Each nursing home is assumed to have a Manager, though the pay scale varies between residential and nursing. Both pay scales used are based on average salaries for the Cheshire area from payscale.com. Clerical support has been added in to support the Manager. The salary for this is based on minimum wage, as are the salaries for domestics and catering staff. The hours attributed to these are based on the hours as per the Regulation and Quality Improvement Authority (RQIA). Total costs are comparable to the Laing & Buisson model.
- **Non-pay costs:** The Laing & Buisson model offers a comprehensive allocation of non-pay costs. These figures have been inflated by CPI to bring them in line with 2012 costs. In our view many of these costs are very generous. However we have not amended these except for utilities and other non-staff current expenses which both have been reduced by 50%.
- **Capital costs:** The Laing & Buisson model has been used as a basis to calculate the land and property returns on capital. A 12% return on investment was applied in the original model in 2008. However for Cheshire East this has been adjusted 3% for 2012 due to the current economic climate. The land value fee has been adjusted in line with the 2012 Valuations Office report. The start-up losses element of the calculation has been removed, with a 50% capital adjustment applied to the total cost. All other factors remain the same as the 2008 model.

The outcome of this exercise is shown in the table below:

	Bottom up costs	Current fees	% difference
Residential care	£370.99	£376.73	-1.5%
Residential care (MH)	£420.97	£467.10	-9.9%
Nursing care	£436.96	£433.07	+0.9%
Nursing care (MH)	£459.62	£467.10	-1.6%

The costs thus calculated are lower than fees currently paid by CEC, with the exception of Nursing Care which has a marginal increase of 0.9%. Across the four fee categories the bottom-up costs are less than current fees by an average of 3%. Although any exercise such as this is highly subject to the assumptions used and we would argue that the bottom-up costs calculation overstates the real position for the following reasons:

1. The calculation assumes that the care home is exclusively occupied by residents paid for by CEC. Indeed the model allows for a 3% return on capital (ROC) with exclusively CEC residents.
2. No account is taken of “top-ups” for hotel costs in the model.
3. The proposed move to paying fees net from 2014/15 will give home managers better control over debt and cash-flow

Summary and Conclusions

Home Care

The evidence from this exercise is that overall CEC pays a little less than comparator authorities but is not substantially out-of-kilter with what is reasonable. Hourly rates are lower than comparators and a little below what could be expected based on local wage data (although this latter figure is very susceptible to the assumptions used for calculating various categories of expenditure). However the 15, 30 and 45 minute payment rates are higher than comparators and higher for urban services than the bottom-up figures would indicate was justified. The case for an urban/rural split also appears to be evidenced by this exercise.

Though the fees for CEC appear generally lower than the other councils, the council is one of the few that has not set their fees from a recent tender exercise. Therefore any tender exercise may result in an increase in fees. There is however the possibility that this could be offset by reductions in the fees paid for 15-45 minute blocks, though this is dependent upon activity predictions. Also, based on the feedback from York and Cheshire West, changing the payment methodology to a minute-minute basis may also reduce the effect of increasing the hourly rate.

We consider that based on these points the current rates are reasonable for 2012/13 and will continue to be for 2013/14 *provided that the current set of arrangements are maintained*. However, any change to these arrangements (e.g. moving to paying on a per-minute basis or reducing the 15-minute rate) could not be justified unless the entire pricing structure was reviewed. We recommend that CEC be prepared to listen to requests for uplifts from individual providers and to agree these where the request is shown to be justified following an open book exercise in conjunction with Red Quadrant.

Direct Payments

Direct Payment rates appear to be slightly higher than is justifiable through the bottom up exercise and available comparator data particularly of periods of less than an hour. However we consider that the current rates should be maintained but need to be reviewed in 2013/14 as part of the new pricing structure for home care

Other Fees

There is a case for reducing sleep-in rates whilst increasing waking night rates. However we would query whether this would justify the effort that would be entailed.

Residential and Nursing Home Fees

The CIPFA data indicates that CEC's fees are, in general, above average. The bottom-up exercise supports this assumption, indicating that on average the current fees more than cover the reasonable costs of most providers, with an average 3% difference between reasonable provider costs (derived through a bottom-up calculation of costs) and current fees being paid by CEC.

On balance we consider that the current level of fees are reasonable. These fees will continue to be reasonable for 2013/14. We recommend that fees are paid net from 2014/15 thus giving providers better control over debt and cash-flow and that CEC be prepared to listen to requests for uplifts

from individual providers and to agree these where the request is shown to be justified following an open book exercise in conjunction with Red Quadrant.

Appendix one:
Feedback on fee framework consultation events
(first circulated September 2012)

In the week of 13th August Red Quadrant undertook a number of consultation events with providers of care services to Cheshire East Council (CEC). CEC's Adult Social Care budget is overspent and there is an urgent need to reduce expenditure. The purpose of the fee framework consultation events was to seek views from providers on the issues that CEC needed to consider when doing this. Turn-out was good at all three events indicating the high level of interest in this area and we would like to thank everyone for their time and their contributions

If you require further information on this project or if you have views that you wish to be taken into account please contact Frank Curran at frank.curran@redquadrant.com

Older people Residential Care/Nursing Home providers' consultation event (13th August)

This event was attended by 22 providers. The presentation outlined the main characteristics of the local market for residential/nursing care. In summary unit prices are broadly comparable to other authorities but CEC purchases far higher number of bed-spaces than other authorities (see previously circulated powerpoint for details)

There was a wide-ranging discussion about this area and how costs could be reduced. Key points made included

- Some providers felt that more bed-spaces were funded through CHC in other authorities and thus there was possibly scope to work more with Health on ensuring that costs were allocated properly. CEC staff felt that this was worth exploring but would not solve the problem as the concern is not about which part of the public sector funds the cost but rather about looking at ways to safely reduce costs.
- Providers reported that homes business models are based on differential rates with self-funders subsidising LA funded placements. Providers reported that people disposing of assets is becoming more prevalent.
- RQ asked why there were a large number of admissions to nursing homes from hospitals? Suggested reasons included:
 - People go into hospital and relatives and people themselves realise they are struggling: however this does not explain why other authorities have lower admission rates (RQ)
 - On discharge, hospitals are saying over 80% of the time that people need nursing home rather than residential care. Homes do check when people enter home whether they need nursing care by PCT.
- RQ asked how re-ablement could be developed. Suggestions included;
 - Homes should be involved in the discharge process.
 - People should go 'home' and be reassessed from there.
 - Homes need to have the staff and equipment in the short term.
 - Could CEC put temp staff in to prevent long term package?
 - People can be reassessed but not a lot of evidence that this is happening. Joining up re-ablement & reviews would help here
- RQ asked if re-ablement should be required prior to permanent placement? Providers commented:

- This would be a lot more work as would be larger number of short-term packages although many customers would want this.
- Could have incentive payment for successful re-ablement.
- Could develop separate re-ablement centres but would mean moving people.
- Providers reported that people now being referred are in a more dependent state than previously. Residents coming in to homes older & frailer than previously (including self-funders). Average length of stay has gone down considerably. Three year average figures quoted by RQ appear too high.
- Providers asked why they could not take deferred payments from service users as the current arrangements mean that LA takes the risk and they are paid at LA rates. CEC agreed to look into this
- Providers asked why can't clients pay top ups as homes without top ups are struggling and in many cases residents have money to pay? Legislative reasons why this cannot be done (CEC and RQ).
- Suggestion from RQ that fees are paid net to providers thus saving CEC the cost of officers to collect and bad debts. Providers could collect in 'real time' rather than in arrears thus improving cash flow and using payment systems already set up for self-funders. Cautious welcome from providers for this
- RQ asked if fees should be linked to quality assessments? Providers generally felt this was too difficult to do properly for variety of reasons
- Scope to expand use of homes to provide day care, re-ablement and clinical services
- RQ asked whether CEC should introduce Framework Agreements? Main concern raised was the issue of smaller providers coping with tendering process

Domiciliary Care Providers consultation event (15th August)

The event was attended by more than 20 providers. The presentation outlined the main characteristics of the local market for domiciliary care. In summary domiciliary care is used less than in comparator authorities, hourly rates are about average but average number of hours commissioned is well above average (see previously circulated powerpoint presentation for details)

There was a wide-ranging discussion about this area and how costs could be reduced. Key points made included:

- RQ reported that average weekly hours per package is 40% above average: suggested that CEC has a higher ageing population with more complex needs (although CEC pointed out that the comparator authorities were chosen for their similarity to CEC).
- Providers felt that the cost of 6 weeks free re-ablement that is provided by CEC is high, particularly with CEC paying higher wages (although RQ pointed out that any out-sourcing would involve TUPE and thus there would not be major cost savings immediately). After 6 week period, providers are unable to sustain level of care due to costs. Period of time for re-ablement & frequency of visits not always necessary. Could provision of this service be done using fewer resources?
- Efficiency gain could be made by providers offering re-ablement as part of integrated package. This would help improve system of requests for care being made at the very end of the re-ablement period. This would give more continuity for customers with less disruption.
- Some providers felt that some customers have better packages which are not necessarily needed as these packages are based on old assessments that have not been reviewed
- Providers felt that there was little consistency in the way in which reviews are undertaken. Need to request reviews from SMART teams for any increase/decrease in care. Providers have no

incentive to request reduced hours for customers: can incentives be introduced for social care assessors to keep hours down?

- Providers felt that there were a high number of people in nursing care that with correct support could be in the community with domiciliary care. This would require more input from community-based health services.
- RQ asked if there are enough providers to provide domiciliary care? Providers felt that geography of borough itself was not an issue but it was not financially viable for smaller providers to offer service in rural areas. If number of providers is limited, would affect quality & limitation of choice for customers. If smaller providers were to boost capacity, overall costs would increase due to higher overheads. It was pointed out that Direct Payments mean that customer make own choice regardless of number of providers.

Consultation event with Mental Health and Learning/Physical Disability providers (16th August)

The event was attended by c12 providers. The presentation outlined the main characteristics of the local market for supported living and other services for these groups. In summary expenditure is less than in comparator authorities, but average package costs are well above average (see powerpoint for details)

There was a wide-ranging discussion about this area and how costs could be reduced. Key points made included:

- RQ asked why the average cost per package has increased? Answers included
 - demand has increased,
 - more complex cases are coming forward
 - packages are more generous in CEC than comparable areas. This could be a legacy issue as been very high provision in the past due to number of facilities that were available across the borough. Closures of homes, wards etc could have had an impact on overall costs.
 - Day care centres have closed and customers now using leisure centres. This has had an impact on increased staffing costs as more support is required for carrying out activities, transport etc.
 - A lot of customers have historically been cared for by relatives. As relatives grow older more care is required.
- One provider reported that control of increasing costs already been addressed by Liverpool who have introduced a Contract where hourly rates are set depending on complexity of needs. Following one to one meetings, CWAC negotiated up to 10% reduction in fees with individual providers. Both approaches are possible options for CEC.
- Providers pointed out that minimum wage has increased twice over last few years but Providers have had no increase in fees. Good staff are retained by higher wages. If lower wages are offered this results in high turnover which affects quality of service.
- Providers outlined difficulties in admin procedures. When any changes to care packages are requested process extremely slow. Therefore providers are reluctant to advise of changes as situation could change & maybe necessary to get funds reinstated which can be very timely. Providers have a lack of confidence in CEC admin processes.
- Providers suggested that combining services could reduce costs e.g. offer services to customers using less support e.g. 4 people use 2 support workers instead of each individual having a support worker.
- RQ asked whether/how price, quality and outcomes should be linked? Some authorities have introduced a 'big brother' system monitoring waking hours etc followed by an assessment as to

whether current care provision is correct. Rates are currently set in traditional way but could be a lot more efficient.

- If framework agreement is introduced providers would like to see quality & cost addressed separately.
- Provision of training by CEC for providers. Joint approach from providers could increase buying power.

Implementation of fee setting Framework

We have recommended to CEC a differential approach to fee setting in the future for each of the three groups:

- For residential/nursing homes there is little evidence that average fees are either too low or too high (although individual homes may have cost pressures). We consider that the main issue is reducing usage of homes over the medium term, through care pathway redesign and much stronger focus on re-ablement within homes. Thus we are recommending standstill position on fees and a move in the medium-long term to establishing Framework Agreements (FAs) for this group. Moving to paying fees net for this group would create some savings and these could be used to fund innovation in this area
- For domiciliary care services the key issue appears to be over-generous packages. There is a need to re-examine reviews and assessment processes to resolve this. In 2013-14 we suggest moving to a smaller number of providers paid partly on outcomes through competitive tendering process provided the geographic issues can be resolved; redesign of the care pathway needs to happen alongside this as it is critical for success in this area
- For LD/MH/PD services there needs to be a short-term focused piece of work with all providers and care managers seeking to identify immediate savings with a focus on reducing number of hours (where safe and appropriate to do so). Hourly rates will also need to be examined although the evidence is that these are mostly reasonable. In 2013-14 we recommend establishing FAs for LD and MH supported living and residential care services with selection based on a mix of price and quality factors and these then being used to re-tender current services and tender new services. The implementation of this approach would need to take account of issues in relation to landlords