

# Award of inflation on care home fees 2015/16

## Recommendation Report

### 1. Introduction

During March/Early April 2015 Devon County Council consulted on a proposed method of applying various inflationary measures to its model for calculating the usual cost of care which the Council uses to set annual fee rates. In addition, the Council consulted on a three year above inflation offer. This was based on undertaking a calculation each September, taking account of NMW and inflation, plus an additional 1.5%.

The consultation document and impact assessment, together with the Market Position Statement section on care homes is attached.

For 2015/16 the proposed method of adjustment would mean an average uplift of 1.7% + 1.5% i.e. 3.2% in total.

The proposals related to banded fees only. Non banded fees are negotiated individually and would therefore apply just the annual inflation (1.7% in 2015/16).

### 2. Provider response to the consultation

There were 8 responses received by the closing date and one that came in subsequently.

- One of these was positive
- One was seeking inflation uplifts lower than the offer we have made and one was within .05% of the offer
- One was an easily satisfied query
- One referred us to last year's submission, asserting that it still stood and the remainder of the response was not related to the consultation
- One was submitted on behalf of the Devon Quality Care Forum but was unclear which or how many providers this involves.
- The remainder were individual submissions which were of the view that the fee levels are insufficient.

### 3. Themes and response

Broadly speaking the themes are as follows:

1. That the number of hours in our bandings are insufficient to meet staffing requirements:

**Response:** The model was fully consulted upon last year and we were not consulting on it this year.

2. That complexity of care is not sufficiently recognised in negotiating individual fees and that too few are being agreed as enhanced or are attracting exceptional needs payments

**Response:**

We believe the model is reasonable, the hours issue was addressed last year and we have not seen any new evidence to suggest that it needs to be revisited. However, as a responsible commissioner, we continue to monitor the market and any impacts which may require a review of the model.

3. That some homes are disadvantaged, either because they are small and don't have the economies of scale/are disproportionately impacted by e.g. cost of repairs to lifts etc or because they take a higher ratio of DCC commissioned care

**Response:**

It is not possible to set fee levels that take account of every variation in business models. As we look at sufficiency we do need to carefully look at how the commissioning environment impacts on risk of provider failure but the comments made do not relate directly to the consultation question re the inflation uplift and three year offer.

4. That some areas of cost are higher than the inflation calculation

**Response:**

One response cites specific items of expenditure which it is claimed are not reflected in the proposed rates.

The proposed rates are derived from a financial model which takes into consideration a range of typical costs which a typical care home operation incurs. This is necessary to derive a single set of cost bands for the care which DCC purchases from the independent care home sector.

The proposal is to apply various inflation indicators to this range of costs in order to reflect changes in prices which have affected the cost of care as at April 2015.

Individual homes may see differing levels of inflation at an individual home level, but with only 1 response stating this, there is no evidence that higher inflation on specific costs is representative of the whole care home provider market.

5. That we are not taking account of NMW change in October in the in-year settlement

**Response:**

The purpose of awarding inflation is to reflect known price changes which affect the cost of care. The cost of care was assessed and consulted on

when 2014/15 rates were set. This proposal for 2015/16 rates reflects inflationary factors which have affected the cost of care as at April 2015, which include, amongst other factors, a 3% increase in the National Minimum Wage in October 2014.

Any subsequent increase in the NMW will be reflected in rates proposed for the following financial years, as described in the proposal. For example if the NMW increases in October 2015, that increase will be included in the inflation calculation for 2016/17 rates, set in April 2016.

The inflation proposal does not seek to take account of future changes which may or may not affect the cost of care. Specifically, changes to the NMW in October will be decided later in the year by a new government and may differ from the Low Pay Commission's current recommendation. We also understand that the majority of businesses revise their staff pay rates in April, in line with the fiscal year, and as we also understand care workers are generally paid above the NMW (a representative figure of £6.96 is used in the financial model), providers are not compelled to incur additional payroll expense from 1<sup>st</sup> October onwards. Therefore it is reasonable to reflect changes in the NMW in October in the fee rates for the following financial year.

6. That CQC is making higher demands on providers, especially in relation to staffing and that this is not factored into our fee levels

**Response:**

CQC says that it does not set staffing levels as each business varies. Its' comments relate to the safety and quality of care at the point of inspection in relation to levels of need at that time. It is not possible to directly equate this to hours in the model or to fee levels as it depends on a range of factors, including building layout, efficiency of deployment of staffing resources etc

7. That there is cross-subsidy by private fee payers

**Response:**

We reject this assertion.

#### **4. Overall conclusions**

The number of responses is obviously very small against the number of providers, although one submission represents an undisclosed number of providers through the Devon Care Quality Forum.

The themes that are summarised above are mostly related to the financial model used to calculate the cost of care. This was consulted upon last year. This year's consultation was relating to the proposed methods of applying inflation to the fee levels and the application of an additional increase year on year over the next three years. With regard to the specific

question posed in the consultation, therefore, there is virtually no response.

However, we value feedback and we will include those views as part of our wider approach to market sufficiency and to meeting our duties under the Care Act.

## **Recommendation**

The Decision Maker accepts the proposals for increasing the banded fee rates.

The statement to the market would be:

Dear Care Home Owner

### **Increase to Banded Rates 2015/2016**

Following a consultation exercise, Devon County Council is pleased to confirm that it will make an above inflation award to its banded fees for each of the next three years. In 2015/2016 this will be a total of 3.2% (1.7% core inflation uplift + an additional 1.5%).

Where a placement has been made at the banded rate, but with the addition of a market premium, the core inflation uplift of 1.7% + 1.5% will apply to both elements.

Third party top ups will be subject to the same increase.

Non-banded fees, which are negotiated individually, will be awarded the core inflationary uplift – which for 2015/16 is 1.7%

The new rates are as follows:

### **New Rates for 2015/16**

<b>Standard</b>	<b>Enhanced</b>	<b>Standard+ nursing</b>	<b>Enhanced + nursing</b>
£ per resident per week	£ per resident per week	£ per resident per week	£ per resident per week
<b>£442</b>	<b>£471</b>	<b>£586</b>	<b>£608</b>

### **Previous Rates for 2014/15**

<b>Standard</b>	<b>Enhanced</b>	<b>Standard+ nursing</b>	<b>Enhanced + nursing</b>
£ per resident per week	£ per resident per week	£ per resident per week	£ per resident per week
<b>£428</b>	<b>£456</b>	<b>£571</b>	<b>£593</b>

The inflation level for the following years will be calculated, based on statistical data, as at each September, with an additional 1.5% added to that figure. Should there be any extraordinary changes outside of that planned review the Council will consider whether any additional award should be made.

The payment for 2015/16, backdated to 6<sup>th</sup> April 2015, will be made on 14<sup>th</sup> May 2015.

The Council received a total of 8 responses during the consultation, and one was received after the deadline but this was also reviewed. Few of these directly commented on the consultation questions but wider points were made about the business environment. Whilst these comments were not specific to the consultation, the Council welcomes all feedback.

The Council has a duty under the Care Act to ensure the sufficiency and quality of supply and it will work actively with providers in the coming months to consider any action it might need to take to support that aim, taking account of the views expressed in the feedback to consultation from providers.

As part of this approach the Council will also be bringing forward proposals for supporting providers through capital investment. Details will be published in the Summer of 2015.

Taken together, the Council believes that it is demonstrating its intent to invest in care homes and to continuing to adjust to changing market conditions.

Your Sincerely

Tim Golby

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