



# **Birmingham City Council**

Open Book Accounting 2

Report

KPMG LLP

17 May 2013

*This report contains 70 Pages*

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## **Important Notice**

This Report has been prepared on the basis set out in our Engagement Letter addressed to Elizabeth Ross, Assistant Director – Operational Commissioning, Adult and Communities Directorate, Birmingham City Council (the ‘Client’) dated 17 January 2013 (the ‘Services Contract’). We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Services Contract. This Report is for the benefit of the Client only. This Report has not been designed to be of benefit to anyone except the Client. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Client, even though we may have been aware that others might read this Report. We have prepared this Report for the benefit of the Client alone. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Client) for any purpose or in any context. Any party other than the Client that obtains access to this Report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through the Client’s Publication Scheme or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Client. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Client alone, this Report has not been prepared for the benefit of any other local authority/ Regulatory Body nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example care home providers, those who work in the social care sector, or those who provide goods or services to those who operate in the social care sector.

# 1. Introduction

Birmingham City Council (BCC) commissioned KPMG, using an open, competitive procurement exercise, to undertake an independent analysis of the actual costs of operating bed-based care homes. This report has been written by KPMG based on evidence of the costs reported by those homes that responded to the Open Book Accounting 2 (OBA2) questionnaire. The principal objectives throughout the design of the process, the data gathering, the analysis and reporting have been:

- To independently and transparently undertake a process of data collection, working in partnership with the care homes and their representatives;
- To validate through follow-up enquiries the accuracy of data submitted by care providers in their questionnaire returns;
- To consider how all data can be treated sensitively, confidentially, and that individual homes should not be identified; and
- To produce an objective report of current, local bed-based care costs as stated by the care home sector.

The determination of fee levels is not within the scope of this exercise, and neither is the identification of ways in which either the providers or commissioners could create systemic efficiencies.

This exercise has at all times been conducted at 'arms length' from BCC, data has not been shared with the Council, and Council staff have had no involvement in data analysis or the creation of this report.

KPMG has worked closely with the Provider market in designing the questionnaire and validating responses. Again, we have maintained our independence and objectivity at all times and have taken reasonable steps to ensure the integrity of the data presented.

During 2013 the Council intends to move to micro-tendering bed-based placements. We believe that the information within this report should:

- Support both the commissioners and providers in gaining an understanding of the cost parameters within which a sustainable market can operate; and
- Provide a deep competitive insight to each individual provider in support of individual package pricing decisions.

## 2. Provider Survey Methodology and Participation

### 2.1 The 2013 Open Book Accounting 2 Provider Survey

KPMG designed the data gathering process with the objective of understanding the current actual local costs of operating a care home in and around Birmingham. We invited participation from all Older Adults (OA) and Younger Adults (YA) homes which had BCC placements, both in Birmingham and across the UK.

KPMG created two bespoke questionnaires, one for Older Adults and one for Younger Adults. This approach recognised differences in the way that the two groups of services are structured and defined. KPMG used evidence from a number of sources to identify key cost areas incurred in operating bed based care homes. These included:

- Knowledge from previous KPMG Local Authority 'Fair Price' projects which have included collecting care home cost data;
- Knowledge from KPMG's advisory, accountancy, audit, and tax work with care home operators;
- Knowledge from a specialist KPMG team that works on care home portfolio sales and acquisitions; and
- Input from accountants specialising in the care sector.

We piloted the draft questionnaire with 16 providers prior to finalisation. This involved working through each question with providers to check their understanding and perceived ability to respond. It also included an opportunity for providers to identify further areas of cost that had been omitted. All feedback was incorporated where possible into the questionnaire. We made minor amendments to the structure and scope of the questions to reflect particular local issues. We informed BCC of the final questionnaire we were proposing to use, which they accepted fully.

### 2.2 Questionnaire Distribution

During March 2013, KPMG forwarded the Provider Survey questionnaire, by e-mail (and post where email was not available), to all OA and YA bed based care homes where there was at least one BCC-funded resident at that time. We sent the questionnaire to 695 homes, made up of 385 OA and 310 YA homes. Homes were asked for a mixture of quantitative cost information and for qualitative contextual comments.

Home Type	In Birmingham	Outside Birmingham	Total
OA	120	265	385
YA	190	120	310

Care Homes were invited to email or post their responses back to KPMG. During the first week, a joint team of KPMG and BCC staff called all care homes in Birmingham to confirm that the Provider Survey had been received and subsequently re-sent a number of questionnaires to different email addresses. After this initial round of checking receipt of questionnaires, Council staff no longer had any involvement in the data gathering process.

## **2.3 Provision of Support during Response Period**

Providers were initially requested to complete the questionnaire within a four-week period. During the pilot phase, KPMG discussed this with providers and it was agreed to be adequate. However, because many owners, managers and finance staff were not available during half term week we extended the response period to five weeks. A small number of responses were received and added to the database during week six.

During the response period, a number of activities were undertaken to support providers including:

- Providing direct contact details for expert support from a KPMG representative;
- KPMG contacted all YA and OA homes in Birmingham<sup>1</sup> that had been sent a questionnaire. This was initially to check receipt, and on further occasions to offer support in completing the questionnaire;
- The West Midlands Care Association (WMCA) held a provider forum during week three, attended by many of their membership. KPMG presented the Provider Survey process and responded to specific questions raised;
- A FAQ sheet was created from initial feedback, answering questions and offering guidance on completing the questionnaire. This, along with all communications and project material, was added to BCC's 'Shaping the Market' website;
- Reminder and support emails were regularly sent by KPMG to emphasise the importance of responding to the questionnaire and re-iterating the support that was available;
- In week 4 the Council's bed-based care account managers also contacted their portfolio of homes to encourage participation; and
- The WMCA also supported their membership in completing the questionnaire, sending reminder emails and offering advice.

## **2.4 Data Validation**

Completed questionnaires were posted to KPMG or sent to a secure KPMG email address created for this purpose. BCC staff have not at any time had access to the 'raw' data provided. Detailed checks were undertaken on each return, and each data point validated, following a set process:

1. Initial review to identify gaps in the data, inconsistencies, or commonly recognised misinterpretation of questions. This included a detailed check of the response to every question, identifying incomplete responses and clear outliers.
2. Emails and calls with providers to discuss and validate their response or to amend the responses, where relevant, based on clarifications. If the questionnaire was updated directly by KPMG during the call or following email advice, a copy of the amended document was sent back to the care home when requested.
3. Technical review of each home's final response, looking for any data issues which may impact when imported into the database.

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<sup>1</sup> As the 'local' cost of care is of primary importance and relevance, KPMG did not call every care home outside Birmingham.

## **2.5 Making the Data Anonymous**

We asked for the home name and contact details. This was important for the purposes of clarifying the response directly with the person that had completed the form. Once all responses had been entered into the database, several activities were undertaken to ensure the data was made anonymous:

- All email and electronic files containing the responses were deleted, both from the KPMG email inbox, and from backup systems;
- All electronic responses were deleted from the folder where they had been stored during the validation process;
- All hard-copy files were destroyed securely; and
- The database was built to automatically delete the name of the home and the contact details following completion of the data validation.

It should be noted that the anonymised dataset has not been passed to BCC. This exercise has been undertaken independently and confidentially by KPMG, and at no time has any individual provider data been given to BCC or any other party. The information that is contained in this report is the only information that has been provided to any party external to KPMG.

All data collected has been analysed, and a number of average cost summaries have been produced for different groupings of homes. Details of these can be found later in this document.

### 3. Provider Survey Participation

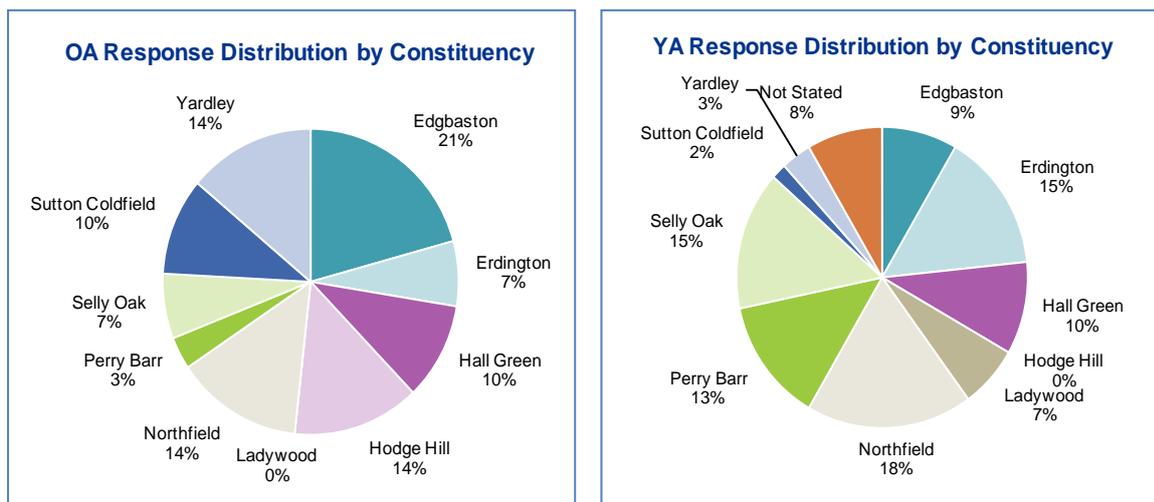
#### 3.1 Overview

Of the 310 homes based in Birmingham, responses were received on behalf of 90, giving an overall representation of 29% of homes. This response rate enables extrapolations to be made across the whole group with reasonable levels of confidence. Responses were also received for a further 18 homes outside Birmingham. The total number of homes represented by the responses received was 108.

	Total number of Homes	Total Bed Capacity	BCC Funded beds at time of response
YA Birmingham-Based	190	1859	1216
YA Response Sample Size	60	430	263
<b>YA Representative %</b>	<b>32%</b>	<b>23%</b>	<b>22%</b>
OA Birmingham-Based	120	4453	2275
OA Response Sample Size	30 <sup>2</sup>	1356	671
<b>OA Representative %</b>	<b>25%</b>	<b>30%</b>	<b>29%</b>

#### 3.2 Geographical Distribution

The OA responses are geographically dispersed across Birmingham constituencies, with representation from most localities, as per the chart below. No OA responses were received from homes in Ladywood. Nine OA questionnaires were also received from outside Birmingham.



YA responses have been received from all constituencies with the exception of Hodge Hill. Again, nine YA questionnaires were also received from outside Birmingham.

<sup>2</sup> One response contained an amalgamation of both homes data. Therefore at all other points in the analysis we will treat this as one large home and not two small homes as we are unable to split the data provided.

The table below shows the responses from OA homes as a proportion of total homes with BCC placements in each constituency. The lowest returns (proportionally) were received from Erdington, Ladywood, Perry Barr and Sutton Coldfield.

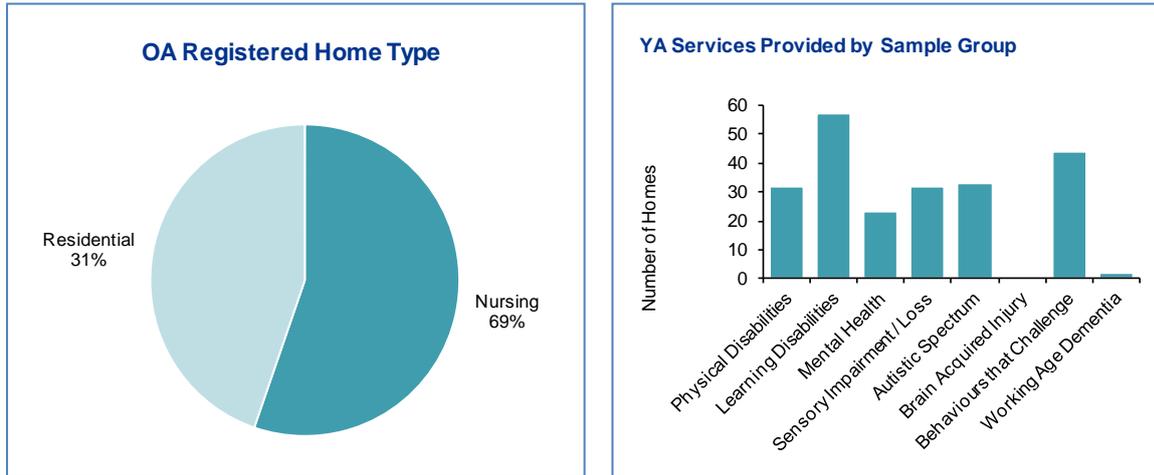
District	Total OA Homes	Survey OA Homes
Edgbaston	17	6
Erdington	15	2
Hall Green	10	3
Hodge Hill	8	4
Ladywood	6	0
Northfield	6	4
Perry Barr	7	1
Selly Oak	20	2
Sutton Coldfield	16	3
Yardley	15	4
<b>Grand total</b>	<b>120</b>	<b>29</b>

The table below shows the responses from YA homes as a proportion of the total homes with BCC placements in each constituency. The lowest returns (proportionally) were received from Hodge Hill, Sutton Coldfield and Yardley.

District	Total YA Homes	Survey YA Homes
Edgbaston	16	5
Erdington	22	9
Hall Green	24	6
Hodge Hill	8	0
Ladywood	17	4
Northfield	20	11
Perry Barr	28	8
Selly Oak	27	9
Sutton Coldfield	10	1
Yardley	18	2
Not Stated	0	5
<b>Grand Total</b>	<b>190</b>	<b>60</b>

### 3.3 Service Type

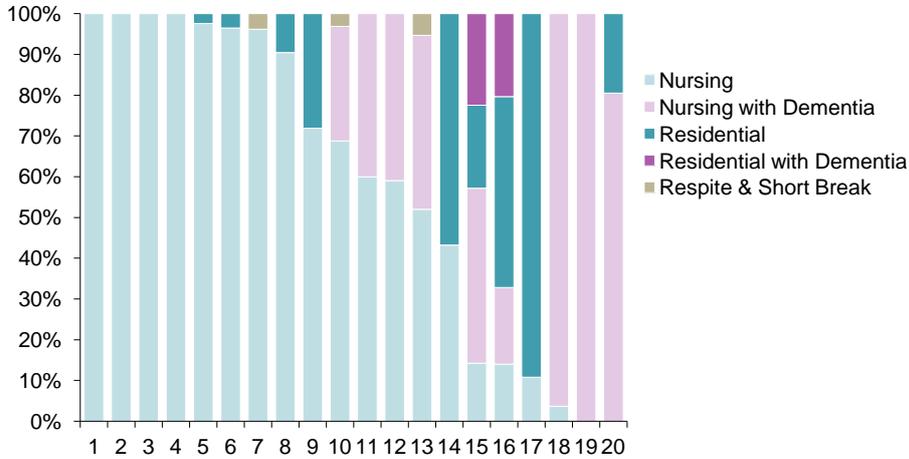
21 out of the 38 homes in the OA sample group are homes registered to provide nursing care. Many of these homes have a mixture of residential and nursing residents. It is important that in the analysis this is recognised as a characteristic of the sample group as the staffing costs will be higher in these homes, as will be the proportion of residents receiving continuing health care (CHC).



The YA data shown above is in response to the question ‘Please state ‘Yes’ for the categories that best describes the needs (as defined in the care plan) of residents in the home at the time of completing this survey (you may select multiple responses)’. It can be seen that a wide range of services are provided by the sample group, and there are enough examples of most to perform analysis at a service level.

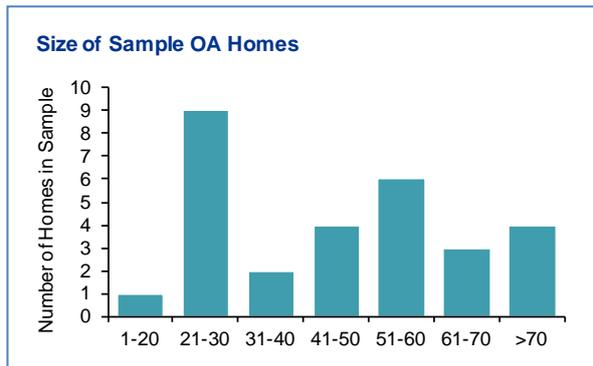
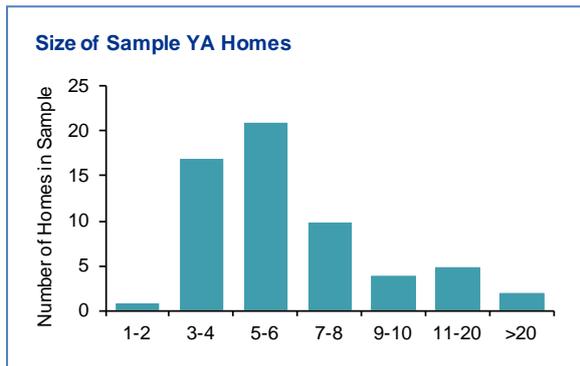
The responses from providers registered as providing nursing care showed that four providers had residents solely with nursing needs, a further three had a mix of Nursing and Nursing with Dementia residents, one provider had residents solely with Nursing with Dementia needs and the remaining 12 providers had a mixture of needs including Residential, Residential with Dementia and Respite and Short Break. Later in the document we explore the relationship between the acuity mix of residents and unit cost.

### Nursing Homes Resident Mix



### 3.4 Home Size

The sample includes a broad range of home sizes (by number of registered beds) as per the charts below:



The average home size, by bed number across the Birmingham based homes in the responses, and the total population, is shown below:

Service	Average size of respondent home (beds)	Average size of home used by BCC (beds)
YA	7.2	9.6
OA	46.8	37.1

It should be noted that the YA homes in the sample are slightly smaller than the average across Birmingham, and the OA homes in the sample are slightly larger than the average across Birmingham.

### **3.5 Quality Distribution**

Quality scores have been allocated to homes, where available, based on the Provider Self-Assessment Questionnaires that were completed in January 2013 for Birmingham City Council.

For the purpose of this analysis, this data is only used as a comparative indicator to illustrate how this may impact the cost of operating care homes. KPMG has not performed any validation or corroboration of the quality scores provided and acknowledges these are only indicative scores representing a small proportion of the providers within our analysis.

### **3.6 BCC Funded Beds**

KPMG has recorded and analysed the number of beds funded by the Council within each of the homes at the time the questionnaire. Again, this evidences a spread of responses ranging from homes where all beds are funded by the Council through to homes with self funders making up the majority of residents. As can be seen above, for OA homes, the sample group represents 22% of Council funded beds in Birmingham. For YA homes, the sample group represents 29% of Council funded beds in Birmingham.

## 4. OBA2 Findings – OA

### 4.1 Overview

The data provided by homes covered annual costs for 2012 and a snapshot of current occupancy and care hours from February 2013.

KPMG has calculated the average weekly cost of providing bed-based care across the entire sample group of 39 homes. The 'per resident' costs take into account the average occupancy rates of each individual home over 2012. Overall, average occupancy within the OA sample group across 2012 was 91.1%.

The following summary costs are calculated at a home level. We have averaged the total cost per week for each home that sent a complete comprehensive return. Two homes left some important cost elements blank and have therefore been excluded from this calculation to ensure the average has not been impacted by missing information.

Average Weekly Cost of Responding Homes (Mean)	Residential Per Bed	Residential Per Resident
	£381.64	£414.32
	Nursing Per Bed <sup>3</sup>	Nursing Per Resident
	£532.17	£597.37

It is important the weekly costs are seen in the context of occupancy. Therefore unless otherwise stated, all OA costs in the rest of this document are calculated on a 'per resident' basis – i.e. they take into account the effect of the actual average individual home occupancy during 2012.

The total weekly costs above represent the mean value of a wider range of total costs, shown in the table below:

Cost per Resident	Mean	Lower Quartile	Median	Upper Quartile
Residential	£414.32	£382.01	£402.33	£431.94
Nursing	£597.37	£512.58	£603.00	£646.21

Note – Mean is the arithmetic average, median is the value at the midpoint of the full range of values and the quartiles represent the values that are at the 25% (lower) and 75% (upper) points along the range of values.

The costs in the tables above do not include any element of return. Providers were asked to state a 'fair' level of return on operations (weekly costs) and on capital (their long term investment in the care home). This has been calculated based on provider returns. The % returns shown below are the average across the returns, excluding all '0's and nil responses.

<sup>3</sup> All Nursing data is related to cost. This does not take into account which element of cost is funded by the Council or the NHS FNC.

OA: Market View of a 'Fair' return						
Service	Operating Return %	Operating Return £	Capital Return %	Capital Return £	Total Return per week £	Combined Return %
Nursing	14.8%	£87.09	9.8%	£160.09	<b>£247.18</b>	11%
Residential care	18.7%	£77.52	11.1%	£135.69	<b>£213.21</b>	13%

The total return values in the table above are the sum of the following two calculations:

1. Capital Return: The % shown in the table has been applied to the average (mean) current home value as reported. This average was £3,899,000 for Nursing homes and £2,243,833 for Residential homes.
2. Operating Return: The % shown in the table has been applied to the average (mean) weekly cost as shown above.

For the purposes of comparison, the October 2012 Laing and Buisson Fair Price Toolkit<sup>4</sup> uses 7% Capital Return, and 12% Operating Return<sup>5</sup>. Applying these to the OBA2 data, would generate a total return of £184.97 for Nursing and £135.32 for Residential homes.

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<sup>4</sup> Fair Price for Care, 4<sup>th</sup> Edition  
<sup>5</sup> Before Corporate Overheads.

## 4.2 The Different Elements of Cost

The following tables show the weekly average cost per resident at a more detailed level. These averages are indicative as we know that some homes may have reported cost items in different places to others. This is particularly true where some homes pay a centralised 'group' overhead and others do not. As with all data in this report any unusual costs or outliers were checked for accuracy with the home that submitted the data and amendments made or costs moved to the appropriate line if agreed.

Average Cost Per Resident per week	Residential Care	Nursing Care
Total Care Staff Costs	£157.78	£278.99
Total Non-Care Staff Costs	£40.95	£76.48
N.I.	£12.76	£20.19
Pension	£1.33	£1.36
Agency Staff Costs	£5.00	£5.48
Total Manager Salary Costs	£18.52	£14.49
Total Deputy Salary	£12.17	£12.20
Total Non-staff costs	£100.81	£114.96
Total Central Overheads	£13.41	£18.38
Total Rent <sup>6</sup> costs	-	£27.54
Total Finance costs <sup>7</sup>	£51.59	£27.29

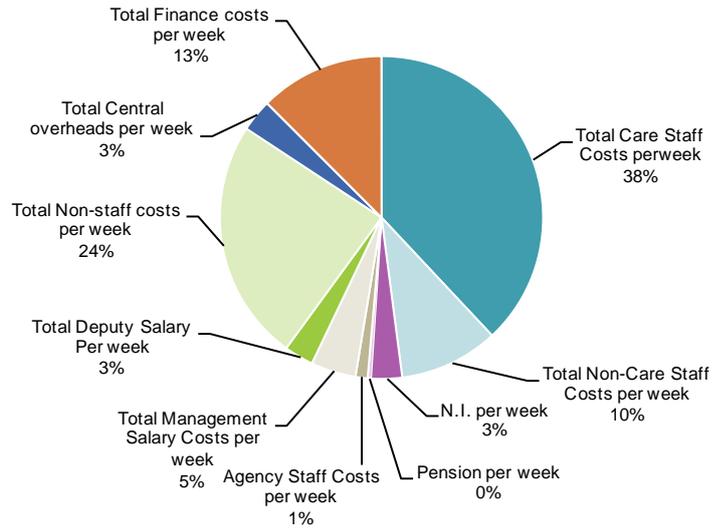
Within the table above, all costs are mutually exclusive.

<sup>6</sup> No rent costs were reported for residential care homes

<sup>7</sup> Finance costs include depreciation and loan interest

### 4.3 OA Residential Cost Structures

#### OA – Residential Care Weekly Costs per Resident



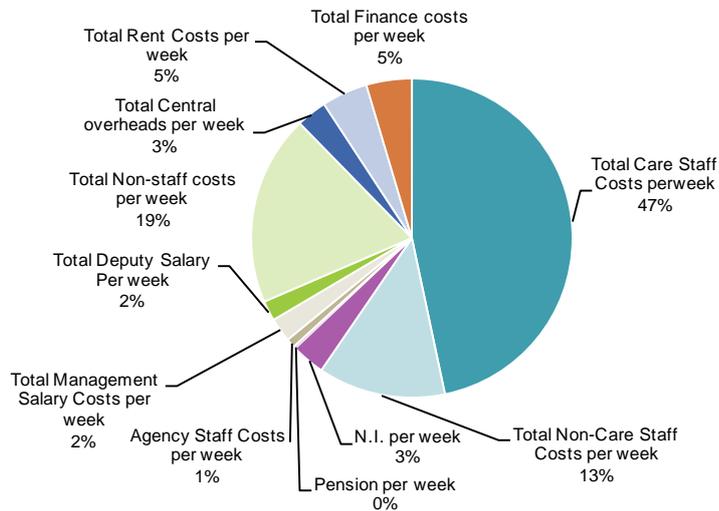
For Residential homes, 60% of costs are staffing related (including agency staff).

Finance costs stated by this sample group only included purchase related costs – i.e. none of the homes were rented. On average this cost accounts for 13% of the home cost structure. This may be related to the high value of the homes as stated above.

Non-staff costs include the day to day consumables such as food, and also any payment made to a central group function. These account for 27% of the homes' cost structure.

## 4.4 OA Nursing Cost Structures

### OA – Nursing Weekly Costs per Resident



As would be expected, a greater proportion of the nursing cost is in staffing, accounting for 68% of the total home costs (including agency staff).

Finance costs include either the cost of capital interest and depreciation, or the cost of renting the property and each account for 5% of total costs<sup>8</sup>.

Non-staff costs (e.g. food) per person per week are proportionately lower than in residential homes, but in actual terms are slightly higher. This is primarily because there are additional medical expenses within this line. More detail can be found in the 'non-staff costs' section.

<sup>8</sup> In calculating the average (mean) rent or finance costs, we have included '0' values. Therefore whilst no individual home in the dataset has both a rent and a finance cost, the combined total of 10% is applicable to every home.

## 4.5 Staffing Costs Overview

The average pay per hour for residential and nursing staff across all OA homes is shown below. We note that across the sample of homes there is little variation from the mean values shown below.

Care Staff Hourly Pay	Care Assistants No NVQ	Care Assistants NVQ 2	Care Assistants NVQ 3 or above	Senior Carers	Nurses (RGN and RMN)
<b>Overall Average</b>	<b>£6.31</b>	<b>£6.47</b>	<b>£6.65</b>	<b>£7.36</b>	<b>£12.31</b>
Nursing Homes	£6.28	£6.48	£6.65	£7.37	£12.31
Residential Homes	£6.34	£6.46	£6.66	£7.34	

For the purposes of comparison, the national minimum wage is currently £6.19 for staff aged 21 and over, rising to £6.31 on 1<sup>st</sup> October 2013. The Living Wage outside London is currently £7.45.

The average number of hours of care provided by staff during February 2013 is shown in the table below. In addition, on average across the OA sample group, a further 46% of the time of deputy managers is spent on the direct provision of care to residents.

OA Homes – average hours of care staff time per person per week	Elderly Residents	Elderly Residents with dementia	Nursing Residents	Nursing Residents with Dementia	CHC Residents
Residential Homes	19.3	23.9	0	0	0
Nursing Homes	30.4	34.2	31.2	28.5 <sup>9</sup>	33.0

The average pay per hour and the number of hours provided by non-care staff per resident per week across all OA homes are shown in the tables below.

Non Care Staff Hourly Pay	Administration/ Reception staff	Catering staff	Cleaning staff	Maintenance/ handyman staff	Other staff (e.g. Activity Co-ordinator)
<b>Overall Average</b>	<b>£8.20</b>	<b>£7.34</b>	<b>£6.35</b>	<b>£7.69</b>	<b>£6.77</b>
Nursing Homes	£8.15	£7.30	£6.37	£7.73	£6.86
Residential Homes	£8.33	£7.40	£6.33	£7.60	£6.52

OA Homes – average hours of non-care staff time per person per week	Elderly Residents	Elderly Residents with dementia	Nursing Residents	Nursing Residents with Dementia	CHC Residents
Residential Homes	6.1	7.7	0	0	0
Nursing Homes	8.8	9.3	9.2	9.5	9.9

<sup>9</sup> We would expect this number to be higher, and believe it is a sampling error due to the small number of homes that reported residents with this level of need.

## 4.6 Staffing on-Costs

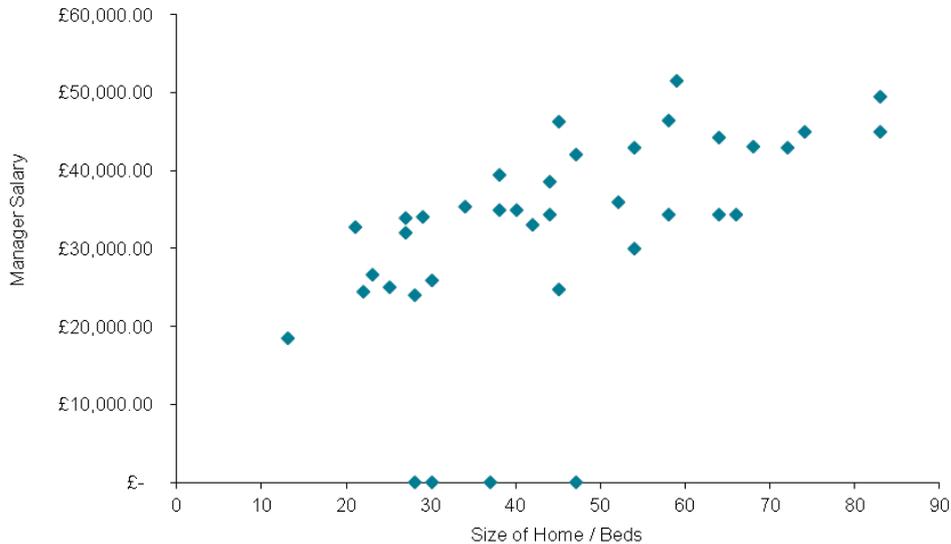
Pension and National Insurance contributions were reported by the sample group. As per the charts above these total just over 3% of the costs. As the questionnaire was designed to capture training, sickness and holiday costs within the payroll data we have not separated them out. However, the sample data shows that the vast majority of homes offer 28 days (5.6 weeks) holiday and also provide around 7 days training per year for care staff.

## 4.7 Management and Deputy Salaries

Most homes (34 out of 38) reported paying a manager salary, and 27 out of the 38 also paid a salary to a deputy manager. A small number of homes are managed by the owner and a formal salary has not been declared. The average salaries across the sample group are shown below.

	Average Manager Salary	Average Deputy Salary
Nursing Care	£34,578	£26,383
Residential Care	£29,115	£21,286

### OA Annual Management Salaries



A significant range in values has been reported with the highest salaries being around £50,000, and the lowest being less than £20,000. As can be seen from the graph above, there is a strong correlation between the salary and the size of the home.

## 4.8 Ranges of Staffing Costs

The table below shows for the sample group the staffing cost per resident per week. It shows not only the mean (arithmetic average) but also the range of costs in terms of the lower quartile (25<sup>th</sup> percentile), the median (50<sup>th</sup> percentile), and the upper quartile (75<sup>th</sup> percentile).

	Mean	Lower Quartile	Median	Upper Quartile
<b>Nursing Home staff costs Per Resident</b>	<b>£355.46</b>	<b>£282.32</b>	<b>£351.42</b>	<b>£411.91</b>
Care Staff Costs	£278.99	£232.44	£283.68	£317.23
Non-Care Staff Costs	£76.48	£49.88	£67.74	£94.68
<b>Residential Home Staff Costs per Resident</b>	<b>£198.72</b>	<b>£156.36</b>	<b>£180.80</b>	<b>£234.24</b>
Care Staff Costs	£157.78	£130.42	£146.60	£179.93
Non-Care Staff Costs	£40.95	£25.93	£34.19	£54.31

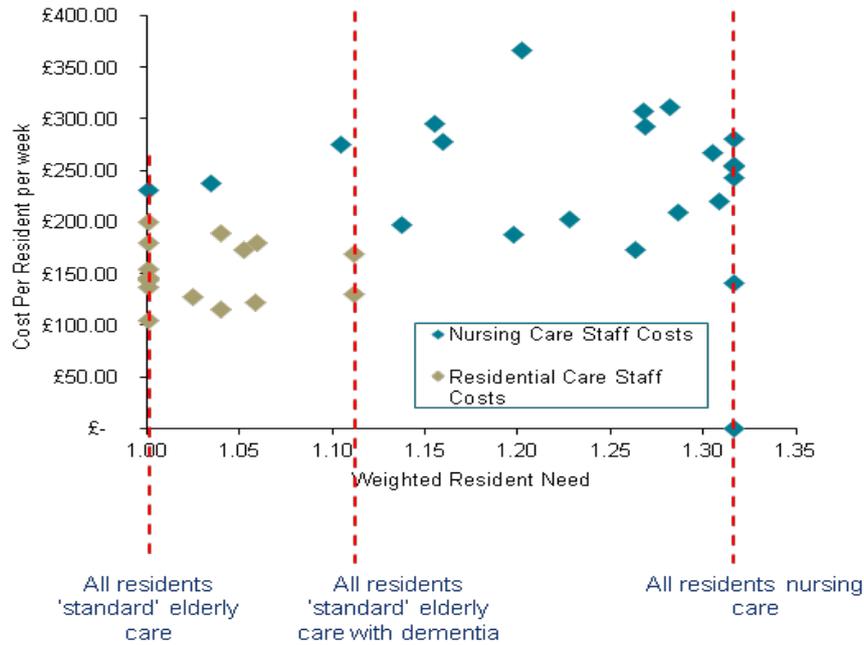
It is important to consider the various needs of the residents within each home, particularly taking into account the number of patients requiring residential or nursing care in dual registered homes and the number of residents with dementia in each home. The sample group provided this information, enabling us to create a 'weighted' view of each home. The table below shows how this has been calculated. We have applied a weighting to nursing residents, residential with dementia, and nursing with dementia, according to the average hours of care provided to each group.

	Res. Care Hours	Nursing Hours	Res. Care with dementia Hours	Nursing with dementia hours
Average Hours of Care provided across sample group	23.8	31.3	26.5	28.5
Calculated Comparative Weighting of resident groups	1.00	1.32	1.11	1.20 <sup>10</sup>

<sup>10</sup> As noted above, this number may be an anomaly caused by a small sample size, however for consistency we have used the data as reported. It does not impact on the overall cost data.

Using this 'weighted' resident need data, the care-staff costs of homes have been plotted on to the chart below:

**OA Care Staff Cost against Weighted Resident Need**



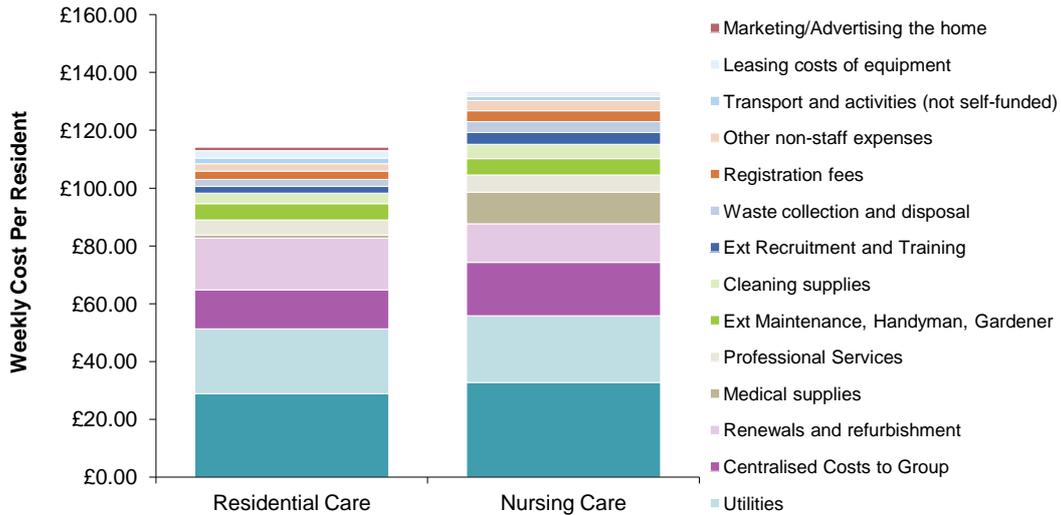
Whilst the chart above demonstrates a clear link between residents' needs and staffing costs, it also shows there are significant variations in unit costs after allowing for acuity mix. These variations may be explained by differences in wage/salary levels and/or the grade mix (seniority) of staff.

The home layout, often dictated by whether it was purpose built or not, is often cited as a reason for variations in staffing levels. In the sample data we have found no difference between the staffing costs of purpose built and non-purpose built homes.

### 4.9 Non-Staff Costs

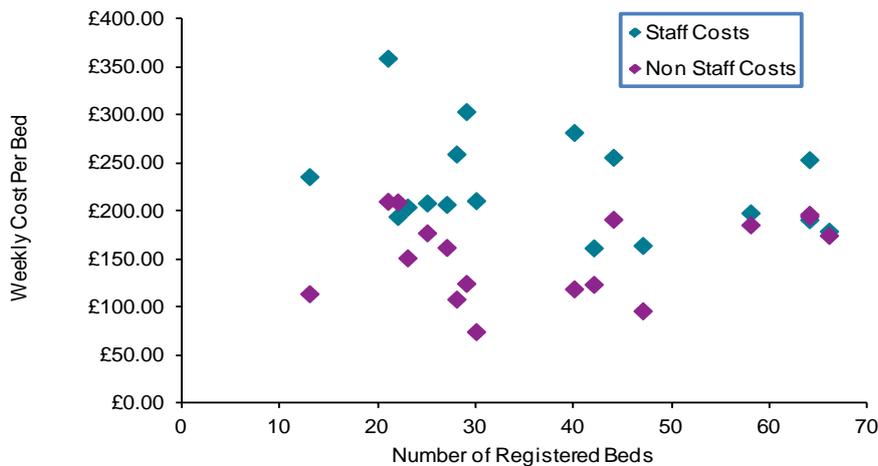
When non staff costs and group overheads are combined, the average costs per resident are £114.22 in residential care homes and £133.35 in nursing care homes. The make-up of these costs, in terms of the proportion of total cost accounting for by each item, is shown in the chart below:

OA Non-Staff and Central Overhead Costs, Average by Line Item



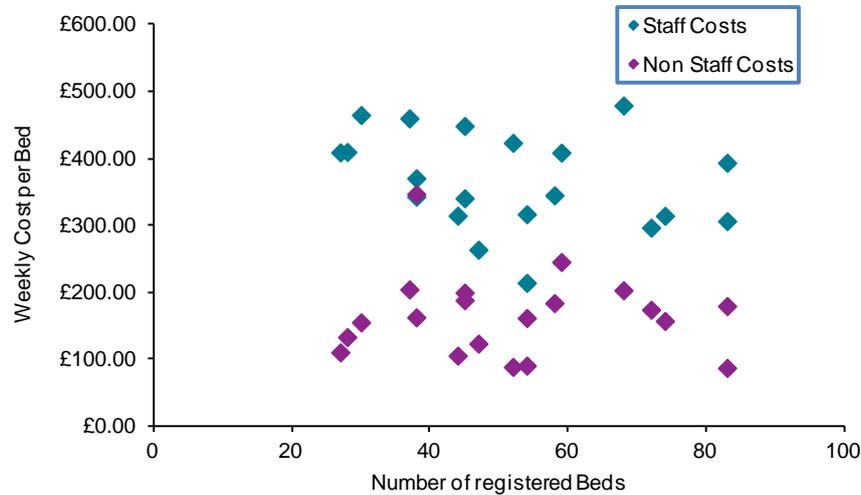
The largest non-staff costs are (in order) food and household costs, utilities, central overheads, renewals and refurbishment of furniture, and ‘office’ type professional services (legal, insurance etc). For most cost items nursing homes have slightly higher costs per resident, although the difference is more pronounced for group overheads and for medical supplies (as might be expected).

OA Residential Weekly Cost Per Bed against Home Size/Beds



The chart above shows for residential care homes the relationship between size (as measured by the number of beds) and the weekly staff and non-staff costs. This shows that in this sample group there is little or no correlation between size and cost. The chart below shows the same chart for nursing homes and, again, there is no detectable relationship between size and cost.

### OA Nursing Weekly Costs Per Bed against Home Size/Beds



## 4.10 Finance Costs

This element of the OA homes cost structures is the most variable. This cost is dependent on the home value, whether the home is rented or purchased and if purchased how and when this investment was funded. Across the sample group 27 homes were owned and 11 rented. None of the residential care homes were rented. Data reported is summarised below:

- For the rented homes, the annual mean rental cost per year is £173,000, which on average equates to £3,110 per room per year;
- For purchased residential care homes the average current value is £2.2 million, or £59k per bed;
- For purchased nursing homes the average current value is £3.9m, or £76k per bed;
- For purchased homes, the annual mean depreciation value reported is 2.5% of the home value, which, in this sample, is £73,000 per year;
- Whilst there was some variation in interest payments, the mean reported is 2.9% of the current home value; and
- When the depreciation and interest payments are combined, the average cost per room per year for purchased homes is £2,953, which is marginally cheaper than renting.

## 4.11 Returns

In all the cost data presented above there is no allowance for the 'return' to care homes. We asked respondents to state what they considered to be a 'fair' level of return for both investing into bed-based care services (return on capital) and operating bed-based care services (return on operations). Further, we enquired about operators' target occupancy level to achieve this level of return. The data provided is shown below:

	If you own the care home property what do you consider to be a fair level of return for your capital investment in buying and/or renovating the home? (% per year)	What do you consider to be a fair level of return for running the business? (% per year)	What is your target occupancy level? (%)
Residential Care	11%	19%	94%
Nursing	10%	15%	94%

To enable the calculation of a return on capital, we requested the home value in the questionnaire. Current home values as reported are summarised below, and the equivalent value per bed has been calculated.

	Weekly Cost Per Resident (exc. Finance costs) <sup>11</sup>	Capital Value of Home	Average room value	Average Home Size
OA Residential	£362.73	£2,243,833.00	£59,360.66	37.8
OA Nursing	£542.54	£3,899,000.00	£76,450.98	51

Returns expectations based on the sample information are shown below.

	Operating Return Expectation	Capital Return Expectation	Operating Return Value	Capital Return Value	Total Return value	As a % of weekly operating cost
OA Residential	19%	11%	£67.83	£126.71	£194.54	47%
OA Nursing	15%	10%	£80.30	£144.08	£224.38	38%

For comparison, in their most recent toolkit (October 2012), Laing and Buisson have defaulted the following values for OA provision.

Service	Operating Return (before corp. overheads)	Capital Return
Nursing	12.0%	7%
Residential care	12.0%	7%

<sup>11</sup> Operational returns exclude the rent, depreciation, and loan elements of the home's costs, as the return on this element of the home cost is covered within the capital return.

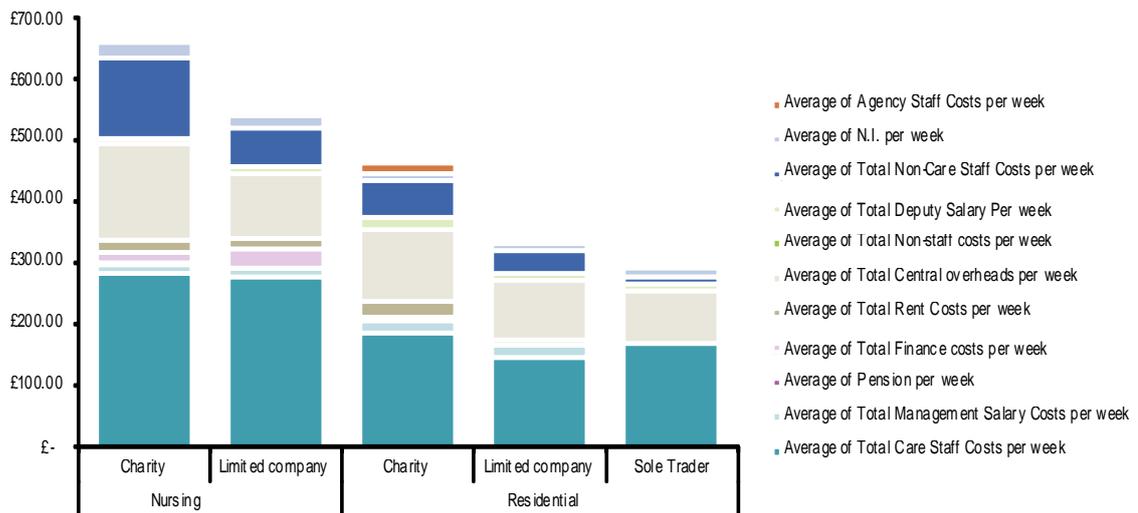
## 5. Other factors influencing OA care home costs

### 5.1 Legal Form

The questionnaire captured the legal form of each home. For the purpose of this analysis and to preserve anonymity, homes have been grouped into either 'independent' (limited companies and sole traders), or 'charity' (provident and charitable organisations). The average size of both charity and independent homes in the sample is 45.

The costs reported by each are shown in the graph below:

**OA Weekly Care Costs by Legal Entity**



Whilst this clearly shows a higher cost base in charities, this may be partly offset by the fact that charities do not expect a return/profit on activities and therefore all income is invested back into service provision.

The table below also shows a difference in the hourly pay between charities and independent operators. For all staff types, the charities pay higher rates with an average increase of 10% above independent companies in the sample.

OA Care Staff Hourly Pay	Care Assistants (No NVQ)	Care Assistants (NVQ 2)	Care Assistants (NVQ 3)	Senior Carers	Nurses (RGN and RMN)
<b>Overall Average</b>	<b>£6.31</b>	<b>£6.47</b>	<b>£6.65</b>	<b>£7.36</b>	<b>£12.31</b>
Charities	£6.45	£6.99	£7.01	£8.43	£12.46
Limited Companies	£6.29	£6.33	£6.59	£7.14	£12.27

OA Care Staff Hourly Pay	Admin/ Reception staff	Catering staff	Cleaning staff	Maintenance/ handyman staff	Other staff (e.g. Activity Co-ordinator)
<b>Overall Average</b>	<b>£8.20</b>	<b>£7.34</b>	<b>£6.35</b>	<b>£7.69</b>	<b>£6.77</b>
Charities	£9.27	£7.64	£6.53	£8.89	£7.82
Limited Companies	£8.00	£7.30	£6.31	£7.37	£6.59

## 5.2 Occupancy

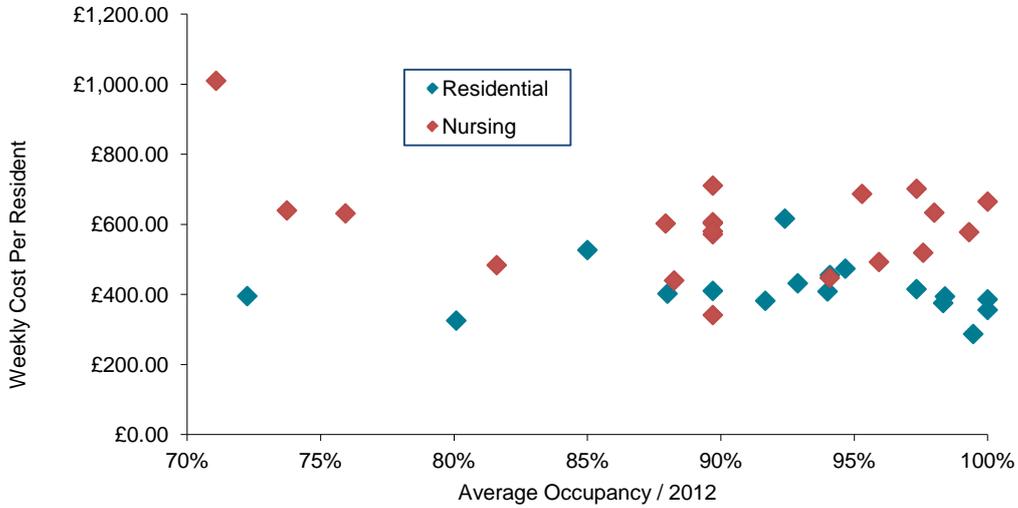
The sample group reported the following occupancy levels showing little change during 2012 for residential care homes and a gradual increase from 89% to 92% for nursing care homes.

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Residential Care	92%	92%	93%	93%	93%	91%	91%	93%	93%	93%	93%	93%	<b>92.4%</b>
Nursing Care	89%	87%	87%	87%	88%	89%	91%	92%	92%	91%	92%	92%	<b>89.7%</b>

The chart below shows the actual cost of homes against their average occupancy over 2012. As would be expected, it shows a correlation between the cost per resident and occupancy. For nursing homes the impact is a difference of approximately £100 per week between 70% and 100%. For residential care homes the difference is approximately £50 per week across the same range.

A separate calculation, taking into account the fixed and variable nature of costs, shows that for OA provision fixed costs account for 89% of total costs and variable costs (which are dependent largely on the number of residents e.g. food) for 11%. In the bed-based care sector, staff costs can often change on a 'stepped' basis and not a linear basis. Therefore at various occupancy thresholds the staff numbers will increase or decrease. The sample group have a high occupancy level, on average 92%, at which level we would expect the home to be fully staffed. We have also found that in the sample group there is no obvious relationship between the occupancy level of a home and the weekly cost per resident.

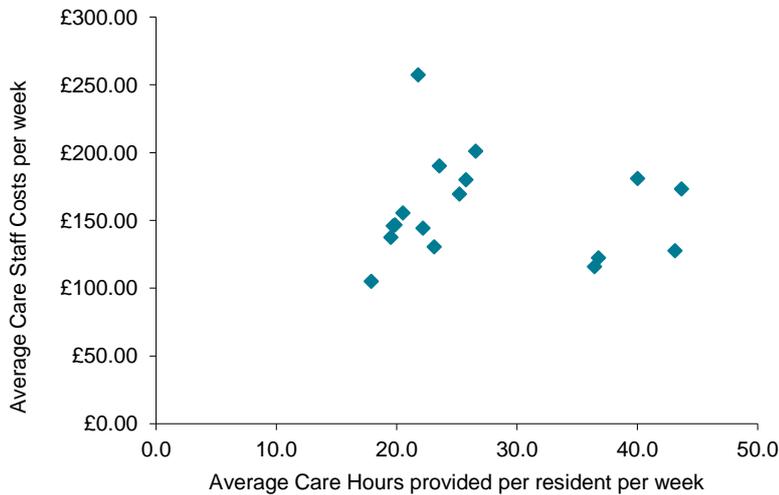
**OA Weekly Cost per Resident against Average Occupancy**



**5.3 Care Hours Provided (Resident Needs)**

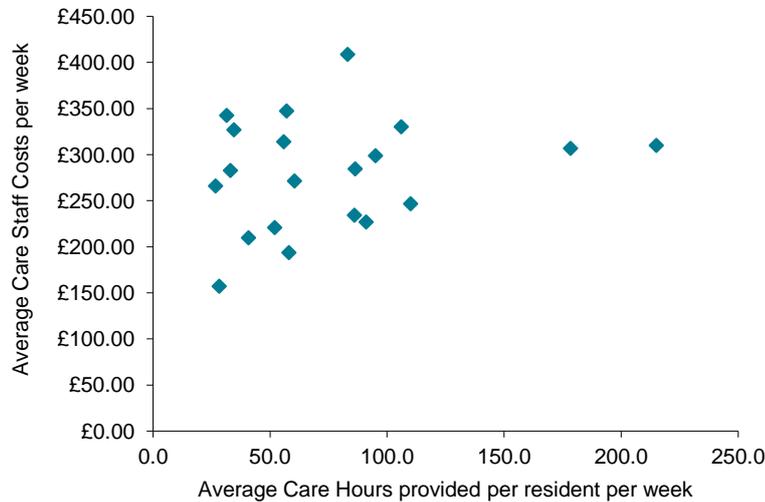
Analysis of staffing costs compared with the reported average hours of care provided per resident shows no significant correlation. Clearly, for OA bed-based provision the variation in staffing costs is explained by factors other than the number of hours of care provided to each resident.

**Average OA Residential Care Staff Costs per resident per week**



For nursing care provision the data does not show a definite correlation between the hours of care provided and the cost of care staff, but there is an emerging relationship which may be clearer if more data was collected.

**Average OA Nursing only Care Costs per resident per week**

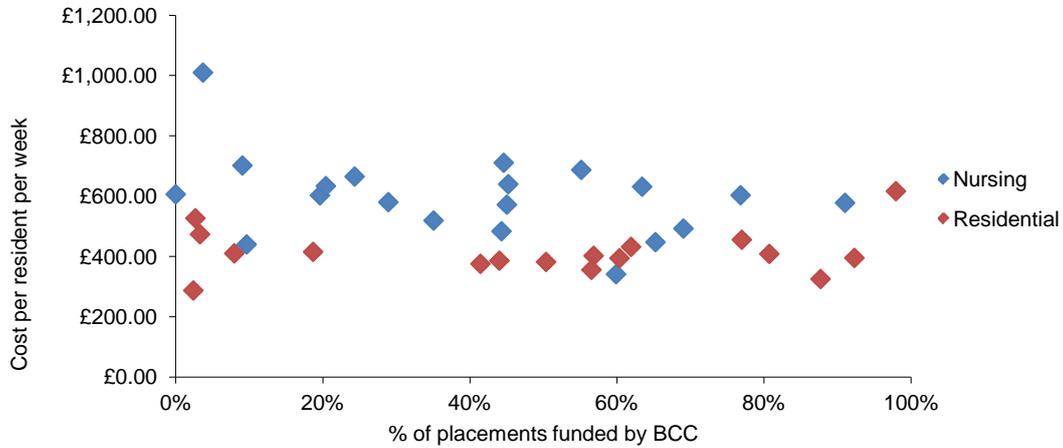


**5.4 Proportion of Residents that are BCC Funded**

There also seems to be little correlation between the cost of care for those homes occupied solely with BCC residents and those which have residents funded by other means (privately/other local authorities, etc). The average cost per resident per week does not seem to be influenced by the percentage of residents which receive BCC funding.

However, overall 75% of nursing and 88% of residential homes in the OA sample group charge top ups and this has not been taken into account in the chart below. It may be that those homes which depend heavily on BCC placements and have reported relatively low costs charge relatively higher top-ups.

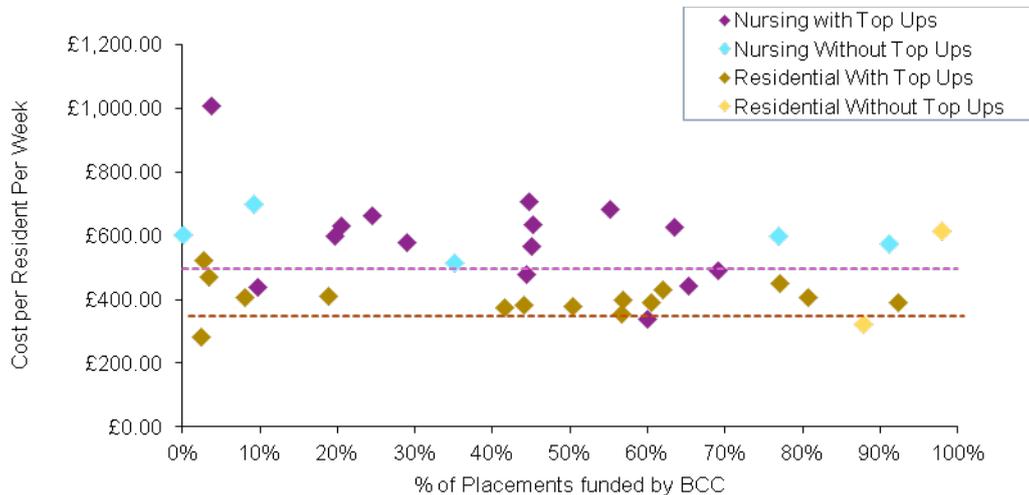
**Weekly Cost Per Resident against % of Placements in the Home Funded by BCC**



The chart below presents the same data as above, but this time shows which homes reported that they charged top-ups. Few homes in the sample do not charge top-ups.

Similarly, there seems to be little correlation between the percentage of BCC funded residents and those homes that charge top ups, although it should be noted that the majority of homes do charge these fees, with 75% of nursing and 88% of residential homes in the OA sample group charging top ups. The actual top up fee charged by providers may become significant here, but further analysis would be required as this was not asked in the questionnaire. During the pilot phase we agreed with providers that top ups should be out of scope.

**Weekly Cost per Resident Against % BBC Funded, With and Without Top Ups**



The current stated fee level for nursing care is £504.53 (including FNC), and for residential care is £367.18.<sup>12</sup> These are shown as lines on the graph above for comparative purposes.

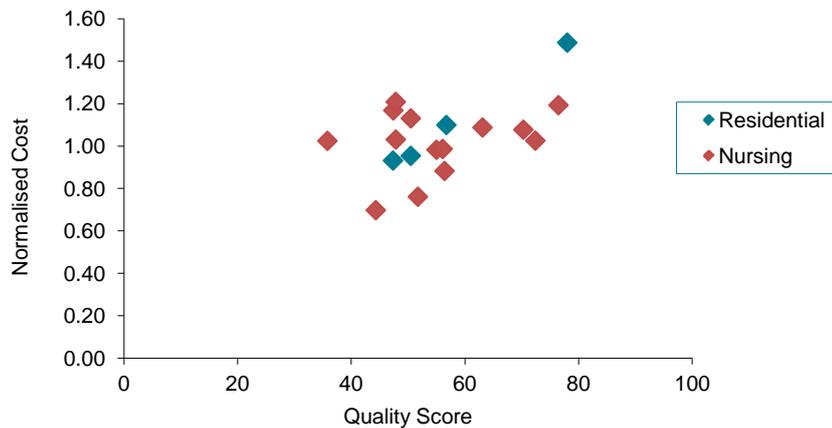
<sup>12</sup> These fee levels are for beds with en-suite facilities

## 5.5 Quality

The Council has provided us with indicative quality scores for those providers which participated in the recent self-assessment exercise. We have used these scores to explore the link between quality and the weekly cost of care per resident. By calculating each home's deviation from the mean cost for their category, both residential and nursing scores can be shown on one graph. For example, a home which has a cost of 75% of the mean would appear on the graph at 0.75. Quality scores have been calculated out of 100 points.

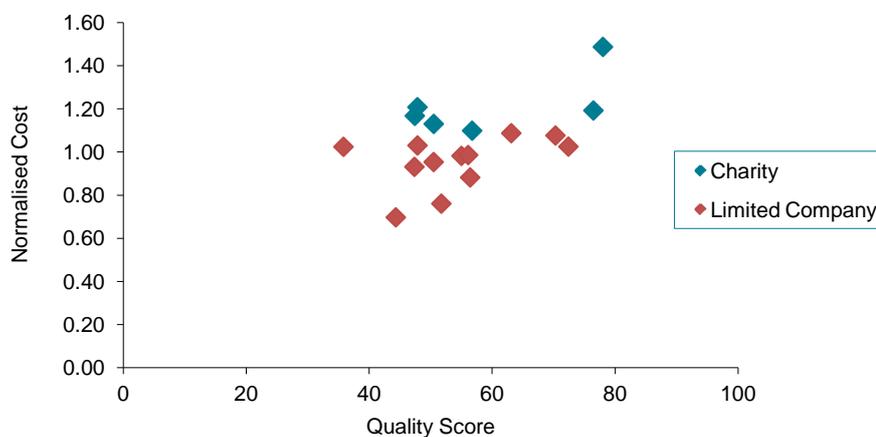
Very few of the residential care homes in the OBA2 sample had an indicative quality score available. The variation of data on the scatter graph below demonstrates that there may be a tentative link between the cost of service provision and the quality of the service provided, but our view is that more data is required before such a relationship can be confirmed.

### Normalised Cost against Quality Score by Service Type



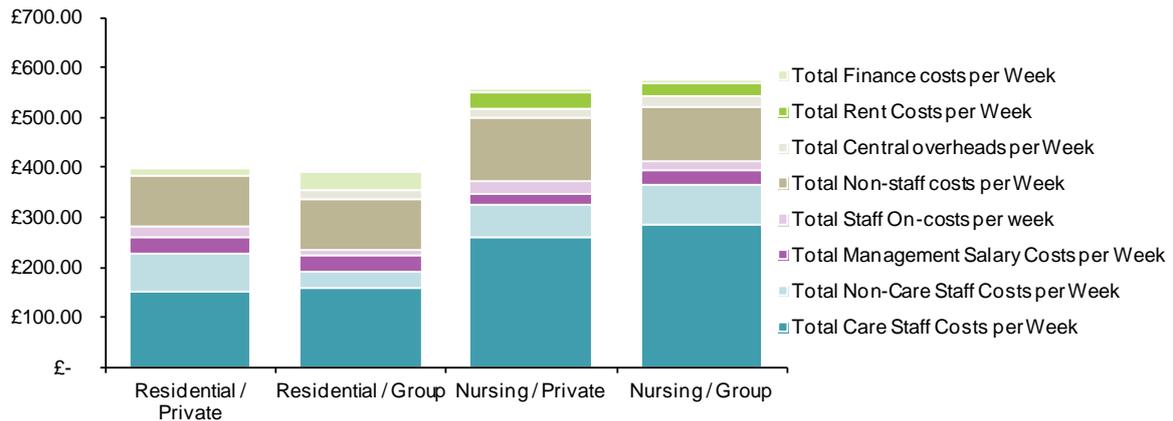
The chart below shows the quality/cost relationship by the legal status of the provider. This shows a link between the quality of provision and whether the provider is a charity or independent company and although charities are at the higher end of the cost scale again, within each status type, there is no obvious correlation between quality and cost.

### Normalised Cost against Quality Score by Provider Type



## 5.6 Membership of a Group

We asked homes to state whether they were part of a group of homes. The data shows that this has an impact on the distribution of costs amongst the different cost elements, but a very limited impact on the overall cost of operating a home. Where homes made an overhead payment to a group function, this was on average 3% of OA costs, covering group services, overheads and management.



## 5.7 Facilities within each Care Home

We also asked homes to provide detail as to whether or not rooms were en suite. 90% of residential homes had bedrooms that were en suite. A slightly lower number of bedrooms within nursing homes had the same facilities, at 81%, reflecting the different needs of these residents.

With regard to weekly cost analysis, the data does not show a correlation between the cost of the weekly care provision and whether or not rooms have en suite facilities.

## 6. OA Environmental Factors

As part of the questionnaire we asked providers to comment on the environmental factors they felt were impacting upon their business and the care they provided, as well as those they felt were going to impact in the near future.

Below is a summary of the responses provided against the questions asked.

### **6.1.1 What changes (statutory, regulatory etc) have significantly impacted your operating costs in recent years? (e.g. Agency Worker Regulations)**

- The vast majority of providers stated the increase in minimum wage as impacting on operating costs. In addition to this, an increase in holiday entitlement, pension and national insurance contributions are the key statutory changes highlighted.
- The main regulatory changes cited are increased training costs to meet minimum requirements, including CQC and commissioners expectations, in relation to having to manage higher acuity levels of residents in homes, without affecting the quality of care, despite a lack of appropriate funding. CQC's rising fees are also identified as having an impact.
- Changes to the Criminal Records Bureau scheme which requires more people to be checked.
- Changes to Agency working regulations, has impacted those providers which frequently use this resource.
- General increase in costs for food, transport and utilities are also cited.
- Increasing needs and dependencies of service users has led to increased staff levels, which, without any increases in funding, providers state is putting a pressure on their financial viability.

### **6.1.2 What changes (statutory, regulatory etc) do you foresee significantly impacting your operating costs in the next 1-2 years?**

Many providers cite similar impacts as those that have impacted over recent years – minimum wage, annual leave, pension costs, bank staff rights, utilities, food, registration schemes and increased cost of living.

The main statutory changes expected to impact are the introduction of the living wage and pension auto enrolment.

In addition to this, providers expect council funding cuts to significantly impact viability.

A concern for many providers is the increase in referrals for individuals with higher levels of dependency/acuity and those requiring end of life care. It is felt this will lead to an increased turnover in residents which in turn will lead to increased unit costs, for example for providing higher staff/resident ratios, replacing medical equipment and redecorating premises.

**6.1.3 Have you seen a change in your service users care requirements, or needs, in recent years? If so, what changes to the delivery of your service have you made (or plan to make) in order to respond to those changes?**

Virtually all providers felt that the needs of residents referred have increased significantly and they have been required to adapt to ensure provision remains appropriate.

**Service user requirements**

- Citizens on admission into care now have higher needs and are more frail and dependent with much more demanding/challenging behaviour.
- An increase in the prevalence of dementia along the spectrum of older person's care.
- Relatives' expectations are higher.
- Due to residents' needs, there are more risks and more paperwork to be put in place to ensure needs are met and monitored.

**Changes made**

- Offer more skilled training geared to meet the needs of the citizens in the care home.
- Employment of additional training resources.
- Higher staffing levels and equipment needs (e.g. hoists).
- A need to purchase more expensive specialist medical aids to support residents due to increased needs.
- Higher levels of security have been implemented to maintain safety for individuals with dementia.
- Additional spending on entertainment for residents

**6.1.4 What improvements have you made to your home over the last five years, including any significant capital investments, to improve the quality of service offered?**

Many homes have undertaken a programme of improvements to the fabric of the home for example:

- Bedroom refurbishment
- Profiling beds in every room
- Specialist mattresses
- Soft furnishings replaced
- En suite added – including walk in showers
- Parker baths and spa baths installed
- Hoists added for accessibility
- Lounge/Living areas refurbished
- New carpets throughout

- Flooring replaced
- New DVD room/library
- Activity room added
- Hair salon added
- Replaced and updated kitchen equipment
- Laundry equipment replaced
- Servery created
- Office space created and equipment replaced
- Lifts added
- Handrails added inside and out
- New boiler system including heating and hot water
- Solar panelling
- New nurse call monitors/Nurse alarm systems
- Decorating both inside and out
- Windows replaced
- Areas adapted for more wheelchair access – bathrooms, gardens
- Gardens landscaped, including raised flower beds

### **6.1.5 How do you ensure that services are achieving outcomes for residents?**

The most commonly cited approach to ensuring outcomes are being achieved is by employing quality assurance processes such as audits, surveys and meetings with key stakeholders, such as service users, relatives and care staff. Safeguarding implementation, spot-checks and complaints/compliments monitoring is also cited as part of assurance processes.

Care plans and monitoring processes against the CQC standards are also employed by providers.

In addition, specific resources are used by providers, both human and physical.

- Activity Co-ordinators who provide a full and varied programme, including outings and trips
- IT access, including lap tops.
- Providing advocacy services, where relatives are not local or if someone who has no other support.

### **6.1.6 Are you seeing your occupancy levels increasing, decreasing or staying the same? If they are changing, what in your view is causing this?**

The vast majority of providers have seen their occupancy levels stay the same and state that this is usually around the 90-100% level.

Other providers state they are seeing an increase in numbers, with only a few stating their levels fluctuate.

Only one provider stated their levels were decreasing and put this down to a number of deaths over the winter periods.

### **Reasons for increased/maintained levels of occupancy**

The main reasons cited for high occupancy levels are reputation, including strong recommendations from professionals and past/current users, and also the impact of the improvements made to the overall environment due to capital investment.

Other reasons given were:

- wide range of services offered to enhance quality of life and wellbeing;
- strategic marketing;
- efficient filling of vacancies; and
- specialist services, for example end of life care.

### **Other Observations**

- Maintaining occupancy is more challenging due to the requirements of the assessment process by the social work teams and the need to charge a 'top up' to families that are on limited incomes themselves
- The level of self funders has decreased and has been replaced by funded residents. No obvious reason for this except the possible financial situation generally
- The old adage that ethnic minority groups look after their older adults is no longer strictly true. Demographics amongst other things have had a part to play in this

### **6.1.7 What are your main challenges in the recruitment and retention of staff?**

The main challenge cited by the majority of providers is around being unable to offer a competitive wage which effects recruitment and also retention, with staff leaving once they have been trained and become qualified as they can earn higher salaries elsewhere (e.g. NHS).

Other challenges stated are:

- The lack of quality/experience in applicants;
- Long hour shifts stop people with families;
- Getting people who are willing and capable to train up and deal with the regulatory requirements – many find the job too demanding which wasn't their expectation;
- Challenging nature of the care now required – e.g. supporting residents with dementia – is affecting retention;
- Location of home can be a barrier; and
- Care is not a 'sexy' profession and the pay is poor compared to other industries – why go into care when you can get paid more stacking shelves?

Conversely, there were also a number of providers who reported no issues with recruitment or retention and have a staff base that have been with them for many years.

### **6.1.8 Working with Birmingham City Council-What are the main difficulties that you face in working with Birmingham City Council?**

Providers reported that the current level of fees do not reflect the true cost of care nor provide for the complex needs of today's residents. Late payments are also cited as causing a real difficulty for many providers.

Other difficulties raised are:

- Obtaining the appropriate paperwork
- Lack of continuity with social workers/council staff
- Arranging and carrying out reviews appropriately
- Overall consistency in approach
- The planned commissioning strategy
- Lack of consistency in communication
- Lack of response to emails and letters

Conversely, other providers have no difficulty with the council and cite a positive working relationship.

### **6.1.9 Working with Birmingham City Council-Is there anything that Birmingham City Council could do to improve the process around arranging placements?**

The main area to be looked at is the overall streamlining of processes and paperwork to ensure it supports and doesn't hinder the placement and monitoring of residents.

Within this, providers are keen for the paperwork to promptly trigger financial payments and provide better information about the resident when they arrive and more person centred/focussed care plans once in residence.

It is also stated there is a need to:

- Streamline invoicing
- Improve the time between referrals and funding being agreed
- Embrace the real cost for care
- Speed up placement reviews

### **6.1.10 What does personalisation and engagement mean for you and how will it affect your business?**

There were a variety of responses to this question, but some of the key themes were around providing person centred/tailored support to individuals to meet their needs and to empower them to make informed decisions about the care they receive, this being a basic right of the resident.

Also included:

- Care plans being developed to focus not only on resident's clinical and physical needs but also paying particular attention to their cultural and religious beliefs
- Detailed life histories being established and shared with staff
- Residents continually reviewed and their needs assessed
- Utilising established links within the community – community groups, schools, cultural/religious groups
- Offering a variety of meal options
- Securing feedback from residents/relatives and acting upon this

#### **6.1.11 Are there any particular ways in which you provide an enhanced lifestyle for your residents?**

The main response from providers was to ensure the care home resembled, and became, a home from home.

In addition to this, providers offered:

- Activity programmes (often arranged by an employed Activity Coordinator), including trips and outings both locally and to major events such as Wimbledon
- Reminiscence areas
- Rummage boxes
- A separate centre offering film shows
- IT accessibility
- Art classes
- Exercise classes
- Resident animals and visits by other animals
- In house Library, Chapel, Hairdressing Salon, Arts and Crafts room and multi-purpose Hall
- 3 small dining rooms and a larger one where residents are welcomed for their mid-day and evening meal with a menu offering 3 choices for every meal
- TV/telephone in every room

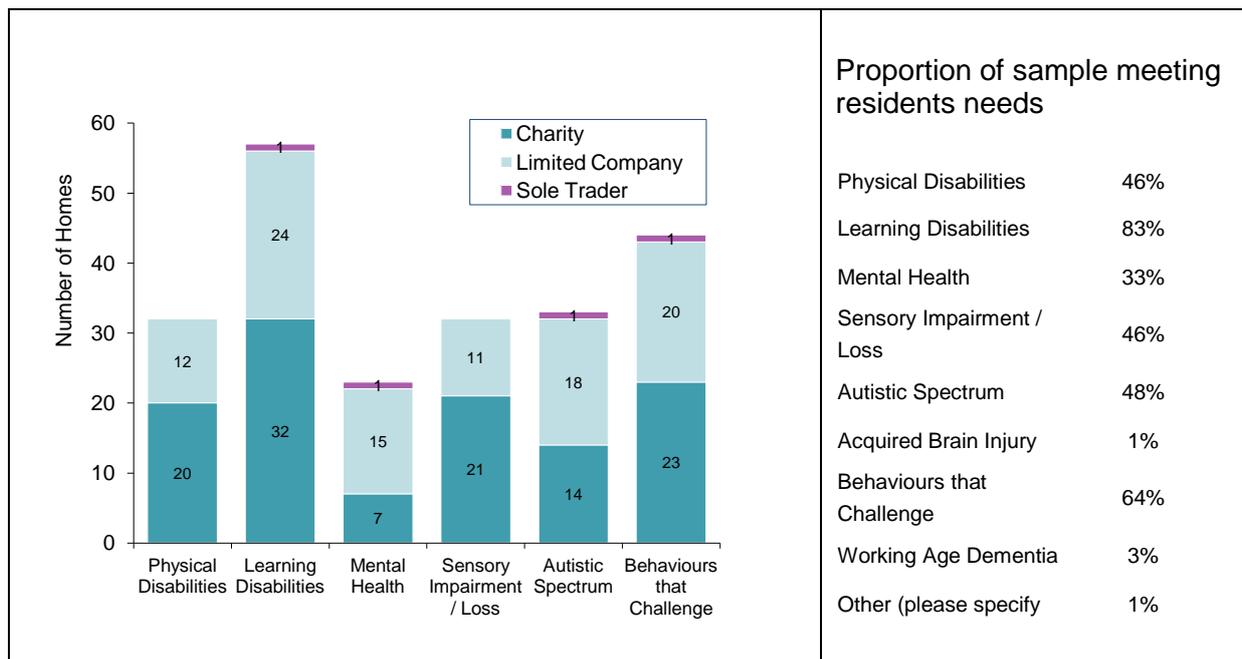
## 7. OBA2 Findings – YA

### 7.1 Overview

A wide range of services are provided by YA providers in and around Birmingham. Where possible, KPMG has identified and isolated the costs associated with specific services (e.g. where homes only provide MH / LD services). In most cases (53), the homes in the sample group had residents with multiple needs, across the full spectrum of Physical Disabilities, Learning Disabilities, Autism, Challenging Behaviours, etc. KPMG recognise that current procurement arrangements between Birmingham City Council and YA providers include the individual negotiation of placements, and so efforts have been made to group costs at a sensible level, to provide some detail and comparative analysis, without compromising the anonymity of particular service providers. Very few providers reported data for Working Age Dementia (20), or Acquired Brain Injury (1), and so whilst these services are included in cost breakdowns at a YA level, further detail of the costs of these services has not been included in this report.

The table below shows a breakdown of the services provided by care homes in the sample group. The numbers in the graph reflect that most providers have reported multiple services.

**YA Services Provided by Sample Group by Type of Provider**



As can be seen from the colours of the bars, the sample group has strong representation from both charities and Independent companies. For the purpose of this analysis, organisations which described themselves as “Industrial and Provident Societies” and “Charity and Company Limited by Guarantee”, have been classed as charities.

## 7.2 Cost Breakdown – YA Level

We have calculated the average weekly cost of providing bed-based care across the entire sample group of 69 homes. The ‘per resident’ costs take into account the average occupancy rates of each individual home over 2012. Overall, average occupancy within the YA sample group across 2012 was 92.5%.

The following summary costs are calculated at a home level. We have averaged the total cost per week for each home that sent a complete comprehensive return. Two homes left important cost elements blank and have therefore been excluded from this calculation to ensure the average has not been impacted by missing information.

It is important that the weekly costs are seen in the context of occupancy. Therefore the following breakdowns show both the total cost of operating a YA home if fully occupied (i.e. per bed), and the total cost at the average occupancy (i.e. per resident). The per resident costs are calculated for each home and take into account the effect of the actual average individual home occupancy during 2012.

Average Weekly Cost of Responding Homes (Mean)	Per Bed	Per Resident
Younger Adults Bed Based Care - All	£1,334.41	£1,457.33

As we would expect for this client group the total weekly costs above represent the mean value of a wider range of total costs, as shown in the table below:

Weekly Cost	Mean	Lower Quartile	Median	Upper Quartile
Younger Adults Per Bed	£1,334.41	£980.95	£1,246.12	£1,621.65
Younger Adults Per Resident	£1,457.33	£1,099.38	£1,397.42	£1,778.49

Note – Mean is the arithmetic average, median is the value at the midpoint of the full range of values and the quartiles represent the values that are at the 25% (lower) and 75% (upper) points along the range of values.

### 7.3 Cost Breakdown – Service Level

Most homes reported their service users having a variety of needs. Therefore the data can be grouped in many different ways. A number of homes only provided services to Learning Disabilities and Mental Health residents. These costs can be reported in isolation.

Average Weekly Cost of Responding Homes (Mean)	Per Bed	Per Resident
Younger Adults Bed Based Care - All	£1,334.41	£1,457.33
Learning Disabilities Only <sup>13</sup>	£1,162.40 <sup>14</sup>	£1,505.43
Mental Health Only <sup>15</sup>	£638.00	£791.03

### 7.4 The Different Elements of Cost

The following tables show the weekly average cost per resident at line level. These averages are indicative as we know that some homes may have reported cost items in different places to others. This is particularly true where some homes pay a centralised ‘group’ overhead and others do not. As with all data in this report any unusual costs or outliers were checked for accuracy with the home that submitted the data and amendments made or costs moved to the appropriate line if agreed.

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<sup>13</sup> Some homes in this group reported residents with Challenging Behaviour also

<sup>14</sup> This figure is skewed downward by one home in the category with very low occupancy in 2012

<sup>15</sup> Some homes in this group reported residents with Challenging Behaviour also

Average Cost Per Resident	All YA Bed Based Care	Learning Disabilities only	Mental Health only
Total Care Staff Costs per week	£734.74	£810.23	£341.62
Total Non-Care Staff Costs per week	£12.13	£8.53	£18.72
N.I. per week	£49.14	£48.67	£26.33
Pension per week	£6.35	£6.64	£4.51
Agency Staff Costs per week	£21.01	£35.98	£18.36
Total Manager Salary Costs per week	£95.58	£92.44	£64.41
Total Deputy Salary Per week	£54.81	£14.84	£31.24
Total Non-staff costs per week	£230.48	£197.47	£120.67
Total Central Overheads per week	£161.80	£203.22	£90.41
Total Rent/Finance costs per week	£72.35	£87.39	£74.78

Note - For the purposes of this table, we have combined Rent and Finance costs across all homes

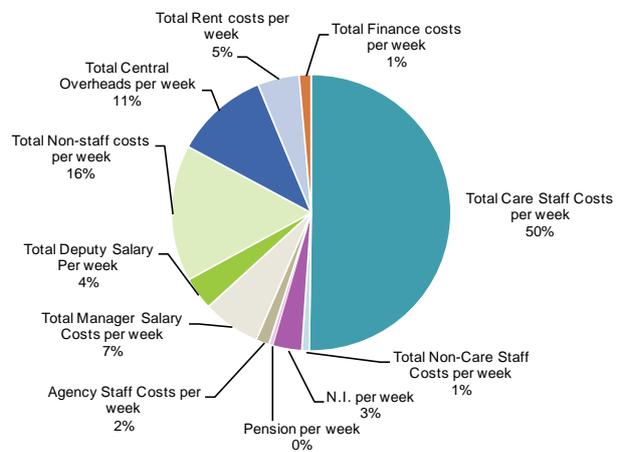
### YA Care Costs – Per Resident

For YA homes, on average across the sample group, staffing related costs account for 67% of the total operating cost. This compares with 60% in Older People's homes.

The cost per resident of non-care staff is very low. We queried this with a number of providers, and were informed that in many cases the carer supports the resident in activities such as cooking and cleaning to aid independence.

Finance costs stated by the sample group were mainly rental costs, which were on average much higher than the finance costs (finance and depreciation).

Non-staff costs include the day to day consumables such as food, and also any payment made to a central group function. These items collectively account for 27% of the homes' cost structure.



## 7.5 Staffing Costs Overview

The average pay per hour for YA homes is shown below. These are grouped by all homes that currently have residents in each category. This means that every home that has identified having a resident with a Physical Disability will be included in this category, and so on for each category.

YA Care Staff Hourly Pay	Support Worker or equivalent	Senior Support Worker or equivalent	Nurses (RGN and RMN)
<b>Overall Average</b>	<b>£7.33</b>	<b>£8.67</b>	<b>£13.84</b>
Physical Disabilities	£7.33	£8.66	£13.85
Learning Disabilities	£7.30	£8.69	£14.69
Mental Health	£7.19	£8.27	£13.84
Sensory Impairment	£7.35	£8.71	-
Autistic Spectrum	£7.07	£8.29	£14.69
Behaviours that Challenge	£7.25	£8.51	£13.84

The figures are all within a narrow range. Support Workers working within Autistic Spectrum are on average the lowest paid, while Nurses within the same field are amongst the highest paid. Support and Senior Support Workers within Sensory Impairment are on average the highest paid, however Nurses are not employed within this field, bringing overall staffing costs down.

The table below shows the average pay per hour for non-care staff per resident per week across all YA homes. Administration/Reception staff for Mental Health and Autistic Spectrum are significantly lower than average, although this could be affected by the employment of apprentices, as reported by some providers, who are paid at a lower rate.

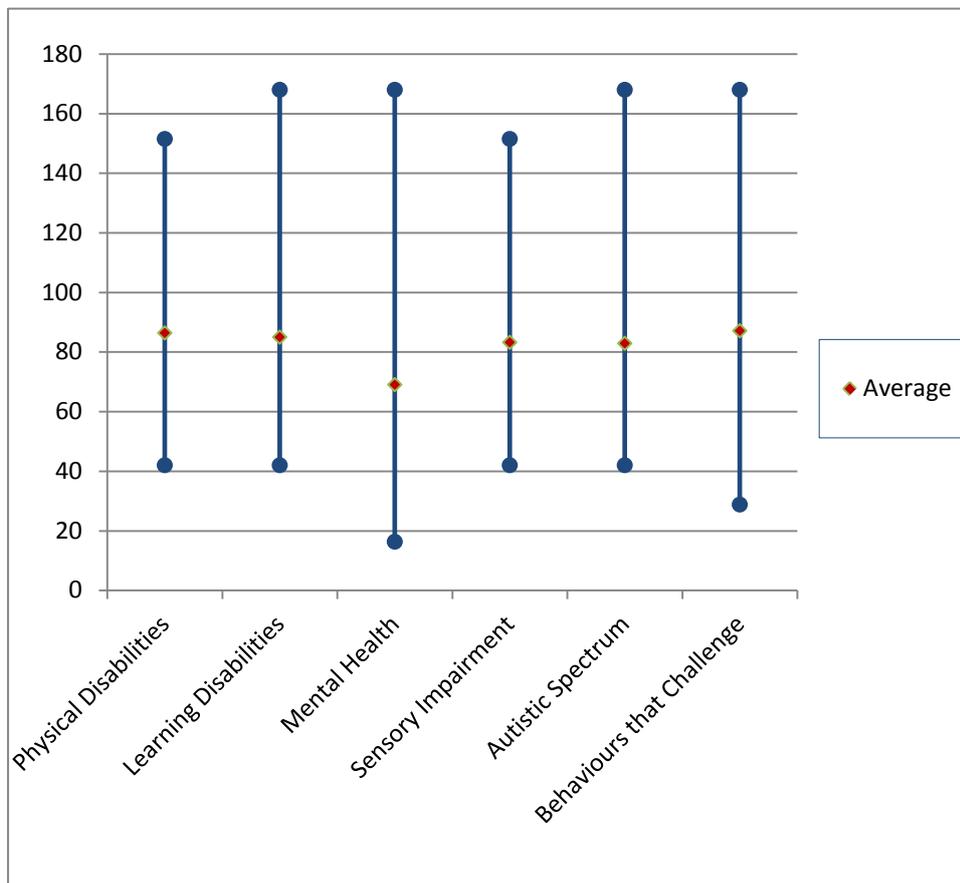
YA Care Staff Hourly Pay	Administration/ Reception staff	Catering staff	Cleaning staff	Maintenance/ handyman staff	Other staff (e.g. Activity Co-ordinator)
<b>Overall Average</b>	<b>£8.53</b>	<b>£7.48</b>	<b>£6.45</b>	<b>£7.88</b>	<b>£6.60</b>
Physical Disabilities	£8.86	£7.95	-	£8.33	£6.20
Learning Disabilities	£8.56	£8.38	£6.20	£7.88	£6.60
Mental Health	£7.55	£8.06	£6.49	£8.33	£6.20
Sensory Impairment	£8.65	-	-	£9.25	£6.60
Autistic Spectrum	£7.88	£7.50	£6.20	£7.88	£6.47
Behaviours that Challenge	£8.57	£8.06	£6.46	£7.88	£6.47

For the purposes of comparison, the national minimum wage is currently £6.19 per hour for staff aged 21 and over, rising to £6.31 on 1<sup>st</sup> October 2013. The Living Wage outside London is currently £7.45 per hour.

The average number of hours of care provided by these staff, per resident, is shown in the table below. In addition to this, Deputy Managers within YA spend on average 48% of their time providing direct care support. Mental Health provision has the lowest hours of care per resident per week at 69 hours, compared to the range of all the other categories that is between 82.9 hours (Autistic Spectrum) and 87.1 hours (Behaviours that Challenge).

Category of Care	Care Hours per Week	Non Care Hours per Week
<b>Overall Average</b>	<b>78.1</b>	<b>4.8</b>
Physical Disabilities	86.4	3.1
Learning Disabilities	85.0	5.0
Mental Health	69.0	3.5
Sensory Impairment	83.2	3.2
Autistic Spectrum	82.9	7.1
Behaviours that Challenge	87.1	6.3

Range of Hours of Care Provided per Resident by Category



The table above shows the range of hours of care provided and highlights the closeness of the averages, with the exception of Mental Health. It also shows the similarities at the highest and lowest ends of the scale, again showing some consistency in maximum/minimum hours provided with the exceptions of Mental Health, with a lower minimum, and Physical Disabilities and Sensory Impairment, both with lower maximums. For any resident category there can be a significant variation in need and acuity mix, which most likely accounts for the wide range of care hours provided.

## 7.6 Staffing on-Costs

As per the chart in section 1.5, Staffing on-costs are 3-4% of all costs. Actual costs for training, sickness, and holiday were reported as part of the overall monthly costs and are therefore included in the staff costs. Holiday allocation and the number of training days were reported with a very consistent average of 27 days holiday for all staff across all categories and average number of 7.5 training days for care staff, reducing to 3.8 for non-care staff across all categories. For care staff, a small number of providers reported 20 days plus intensive training over the 12 month period, and when these outliers are removed, the average number of training days drops to 6.9.

## 7.7 Management and Deputy Salaries

The vast majority of homes, 93%, reported paying a manager salary although only 61% of homes reported paying a deputy manager's salary. The average salaries across all of YA are shown in the table below. The average Manager's salaries did not seem to be affected by category; however the average Deputy salaries had wider variance, being significantly lower within Mental Health and Autistic Spectrum and slightly lower within Learning Disabilities.

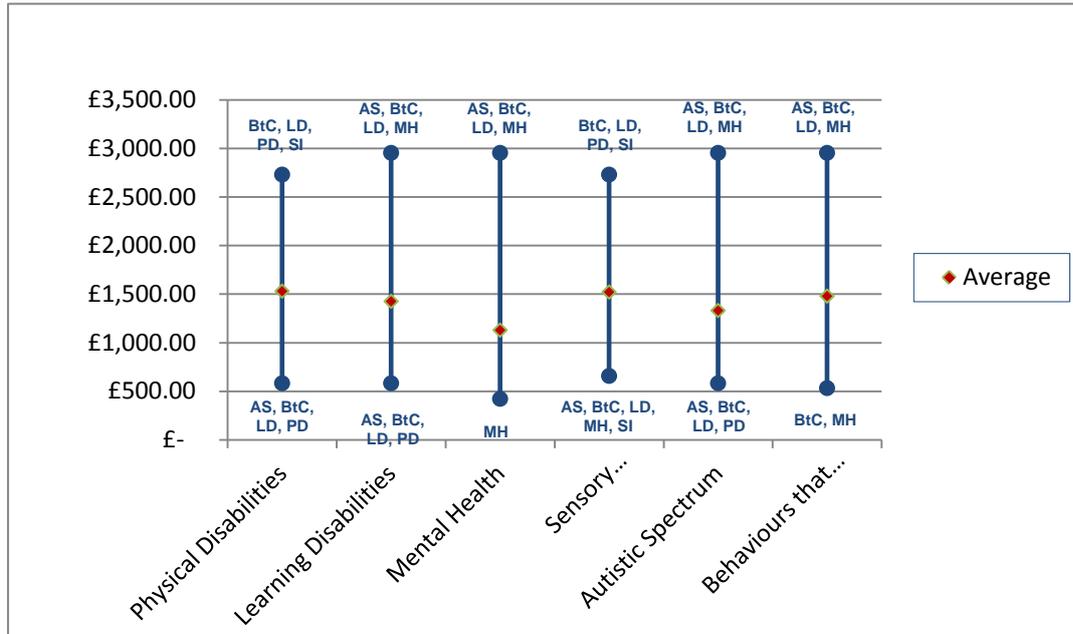
Category of Care	Average Management Cost	Average Deputy Management Cost
<b>YA Average</b>	<b>£28,488.93</b>	<b>£27,213.48</b>

There is no clear link in this data between the size of the home and management costs, although this is understandable given the limited variation in the size of YA homes.

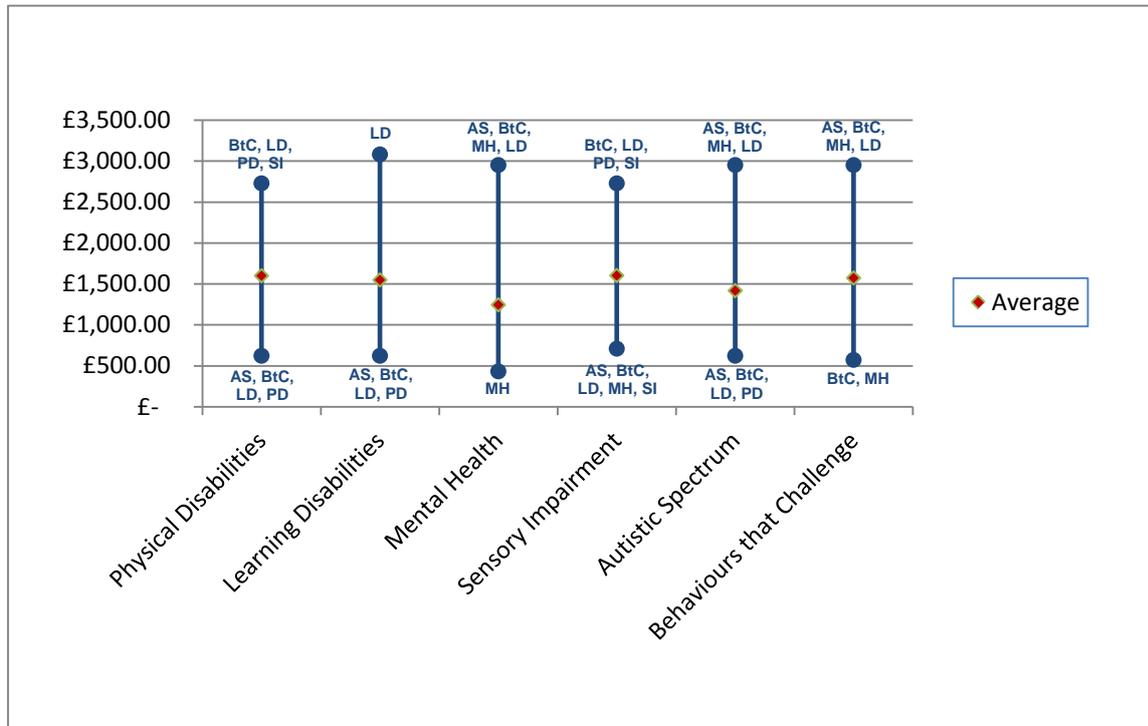
## 7.8 Ranges of Staffing Costs

The sample group shows a range of staffing costs across the Younger Adults homes, here reported at both a per bed per week and per resident per week level:

Range of Weekly Cost per Bed by Category



Range of Weekly Cost per Resident by Category

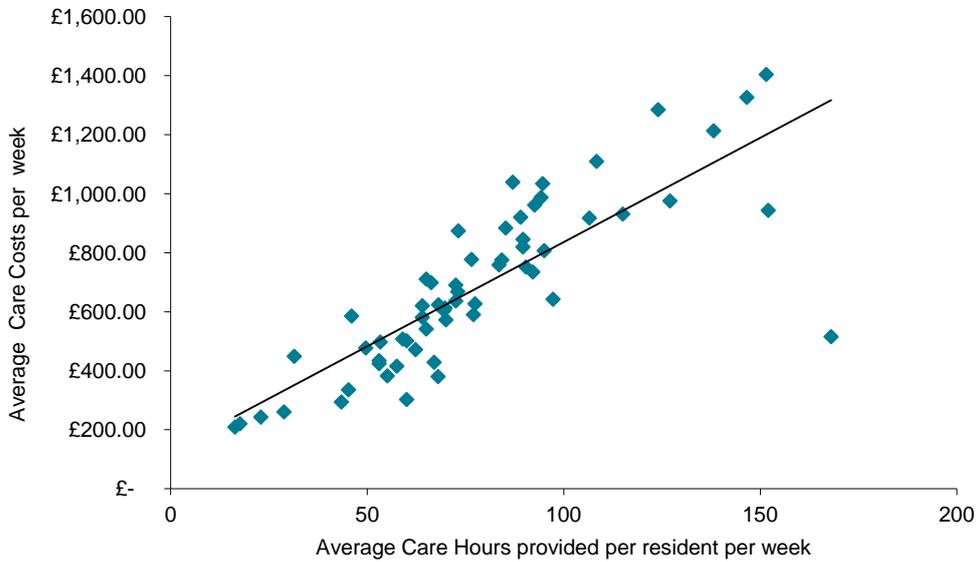


Key: AS – Autistic Spectrum  
 BtC – Behaviours that Challenge  
 LD – Learning Disabilities  
 MH – Mental Health  
 PD – Physical Disabilities  
 SI – Sensory Impairment

The wide variation in costs per resident per week clearly reflects the variation in residents’ needs/acuity mix. However, given the consistency of staff pay, these needs can be summarised in the form of hours of care provision. This enables comparisons to be made across all homes in the YA sample group.

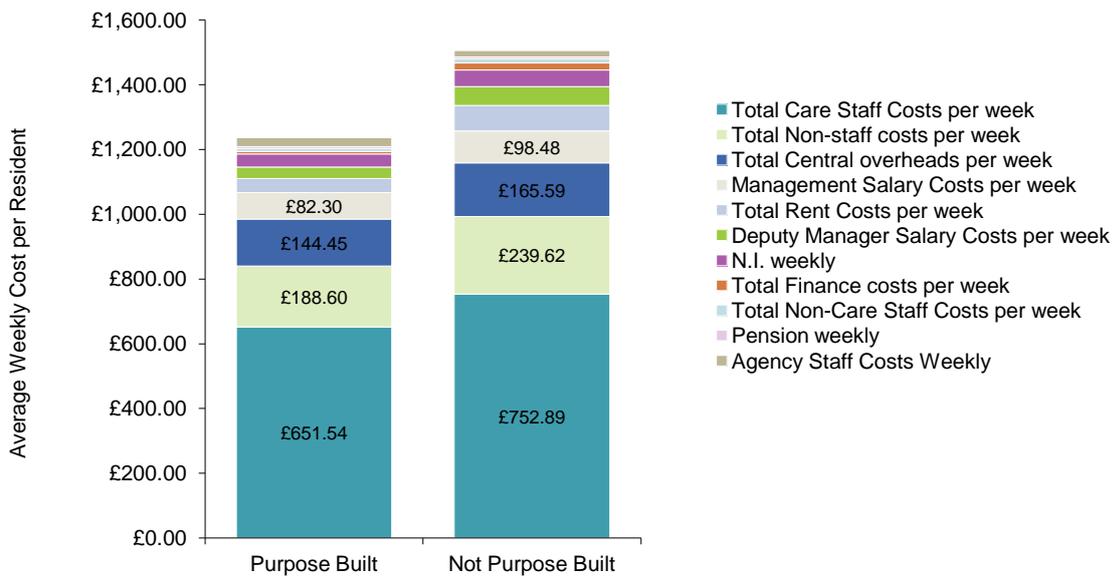
The graph below shows for each home the average hours of care provided per resident each week against the cost of that care. There is a significant variation in cost for similar hours/levels of care. Given that hourly pay rates are similar between homes, as reported above, one possible explanation for this variation is differences in staffing mix/grades, although we do not have the data to investigate this hypothesis.

**Average Younger Adults Care Costs per resident per week**



The home layout, often dictated by whether it was purpose built or not, is often cited as a reason for variations in staff efficiency. The graph below shows that on average, purpose built homes provide care at just over £1200 per week per resident, while non-purpose built homes provide care at just over £1,500 per week per resident.

**Average Weekly Cost per Resident by Home Build**

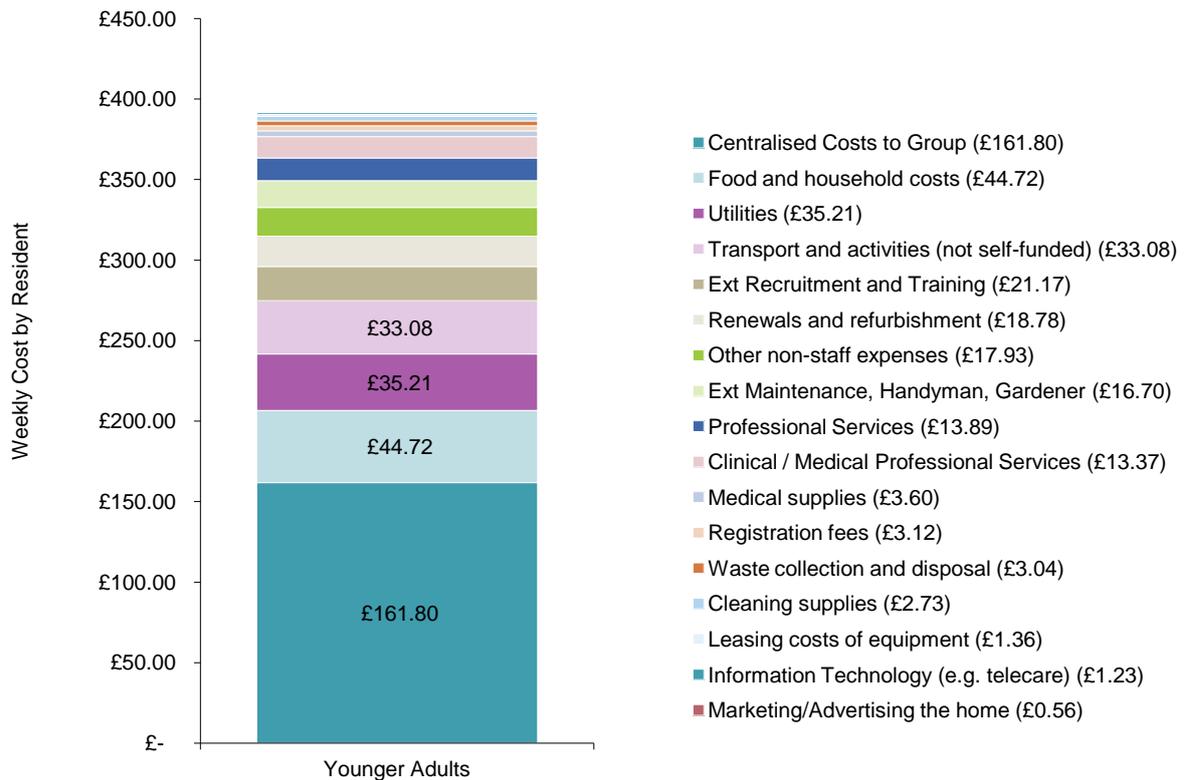


While the stacked graph shows that purpose built homes have a lower weekly cost, this would need further research and deeper analysis of resident category and required care support to be sure costs are being driven by build and not by resident need.

## 7.9 Non-Staff Costs

When non-staff costs and group overheads are combined, the average costs per resident are £392.29 per week across the YA sample group. The make-up of these costs is shown in the chart below, per resident per week:

YA Non Staff and Central Overhead Costs, Average by Line Item



When compared with Older Adults, there are significant differences in non-staff costs. The Centralised Costs to Group are much larger in YA homes, both in actual terms and as a proportion of total cost per week. This may be a factor of the particular characteristics of the sample group. For some homes, this cost consists of central contributions to support group level management, and centralised services. Further discussion would be required to ascertain if a contribution towards profit is already contained within these costs for independent companies, however it can be seen later in this report that charities make a centralised contribution which on average is almost double that of independent companies.

As would be expected for a younger cohort of residents food costs are higher in YA homes than OA, approximately one-third more expensive per person.

Again, as might be expected, the YA group have reported significantly higher transport costs. This relates to the nature of the service provision, and residents' participation in off-site social activities.

## **7.10 Finance Costs**

Providers were asked several questions about financing the business:

1. If you own the property, what are the annual depreciation charges on the home?
2. If you own the property, what are the annual interest charges incurred by the care home (i.e. the cost of borrowing the money used to fund investment into the care home)?
3. If you rent the property, what are the annual rent costs incurred by the care home?

For home owners, the depreciation and interest charges have been reported. For the purposes of summarising the data, these are added together and inform the mean "Average Cost of Owning". For companies that lease the property, the costs of renting are shown separately in the report. At a home level these are mutually exclusive responses.

The finance costs are therefore dependent on the home value, whether the home is rented or purchased and, if purchased, how and when this investment was funded. Across the sample group 19 homes were owned and 38 rented<sup>16</sup>. Data reported is summarised below:

- For the rented homes, the annual mean rental cost per year is £28,582, which on average equates to £4,025 per room per year, which is approximately 25% higher than OA rooms;
- For purchased homes the average care home book value of the sample is £356,780;
- For purchased homes, the annual mean depreciation value reported is 2% of the home book value, in this sample, £6,500 per year;
- Whilst there was some variation in interest payments, the mean reported is 8% of the current home value; and
- When the depreciation and interest payments are combined, the average cost per room per year for purchased homes is £5,097, which is more expensive than renting.

## **7.11 Returns**

The costs in the preceding tables in this report do not include any element of return. Providers were asked to state a 'fair' level of return on operations (weekly costs) and on capital (their long term investment in the care home). A weekly value has been calculated based on provider returns. The % returns shown below are the average across the returns. If a provider stated '0' (e.g. a charity), or did not respond to this question, they have been excluded from the average.

The first table below shows the reported capital value of homes, and the average value per room. Within the dataset there was a very significant range of values, as YA provision settings range from small domestic houses to large purpose built developments. The capital value in the table is the mean of all current home values as reported.

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<sup>16</sup> 2 homes declined to answer this question

	Weekly Cost Per Resident (excluding financing costs)	Capital Value of Home	Average room value	Average Home Size
YA All	£ 1,366.06	£ 356,780.00	£ 50,250.70	7.1

The second table shows the return expectations as reported by providers, and when these are summarised the overall 'fair' return requirement as a % of the weekly operating cost is 17%.

Operating Return Expectation	Capital Return Expectation	Operating Return Value	Capital Return Value	Total Return value	As a % of weekly operating cost
9.9%	11.5%	£ 134.80	£ 111.09	£ 245.89	17%

The total return values in the table above are the sum of the following two calculations:

3. Capital Return: The % shown in the table has been applied to the average (mean) current home value as reported. This average was £356,780.
4. Operating Return: The % shown in the table has been applied to the average (mean) weekly cost per resident as shown above.

Homes were also asked to state their target occupancy level, which on average was stated as 97%.

For the purposes of comparison, the Social Care Improvement Efficiency (SCIE) Network 2012 'Care Funding Calculator' uses a blended Return on Capital rate of 13% as its default, based on a 20% commercial investment requiring a 15-20% return, and 80% mortgage investment, requiring an 8% return. The SCIE model is designed for small LD homes.

## 8. Other factors influencing YA care home costs

### 8.1 Legal Form

The questionnaire captured the legal form of each home. For the purpose of this analysis and to preserve anonymity, homes have been grouped into either 'independent' (limited companies and sole traders), or 'charity' (provident and charitable organisations).

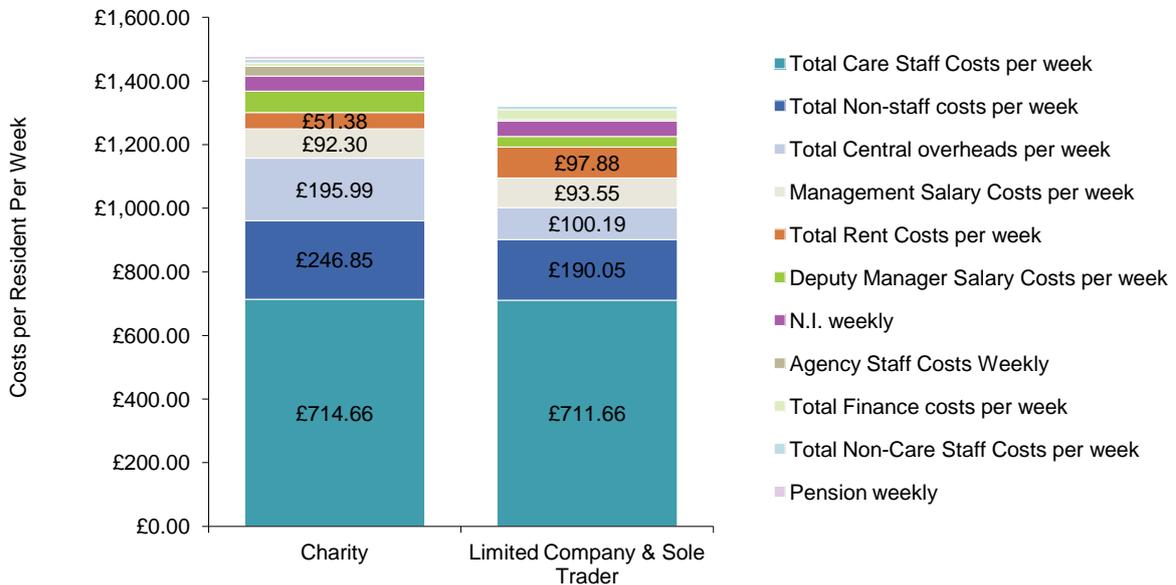
The mean costs per bed and per resident per week are shown below:

Cost per Bed	Mean	Lower Quartile	Median	Upper Quartile
<b>YA Average</b>	<b>£1,334.41</b>	<b>£980.95</b>	<b>£1,246.12</b>	<b>£1,621.65</b>
Charity	£1,410.70	£1,096.33	£1,367.37	£1,678.49
Limited Company & Sole Trader	£1,214.11	£877.81	£1,065.24	£1,362.36

Cost per Resident	Mean	Lower Quartile	Median	Upper Quartile
<b>YA Average</b>	<b>£1,457.53</b>	<b>£1,099.38</b>	<b>£1,397.42</b>	<b>£1,778.49</b>
Charity	£1,477.45	£1,180.85	£1,413.84	£1,790.00
Limited Company & Sole Trader	£1,425.59	£988.33	£1,236.82	£1,570.49

At an average total cost per home level, charities have 16% higher costs. The cost structures, averaged at a line level for charities and independent providers are shown in the graph below:

### Average YA Weekly Care Costs by Legal Entity



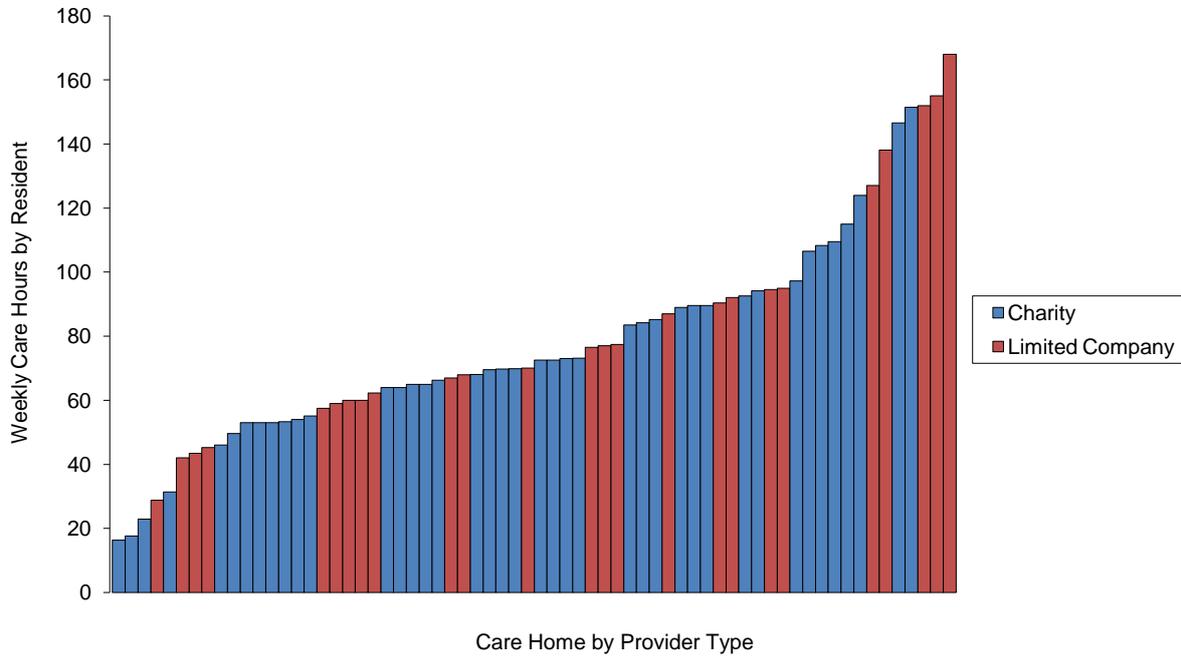
Within YA, as with OA, on average charities have a higher cost base compared to their limited company counterparts. The main differences are higher non-staff costs and centralised costs. The cost of care staff is extremely consistent between charities and independent companies.

The data also shows a difference in the hourly pay between charities and independent operators, as per the table below. The overall difference across all care staff is 14-15%.

YA Care Staff Hourly Pay	Support Worker or equivalent	Senior Support Worker or equivalent	Nurses (RGN and RMN)
<b>Overall Average</b>	<b>£7.33</b>	<b>£8.67</b>	<b>£13.84</b>
Charity	£7.74	£9.12	-
Limited Company & Sole Trader	£6.69	£7.97	£13.84

The chart below shows the average hours of care provided by charities and limited companies does not vary significantly between the two home types, with an even mix of homes throughout.

**Average Hours of Care by Resident by Provider Type**



For non-care staff, charities' average pay is higher for administrative/reception staff whilst on average limited companies pay higher rates for catering staff. Cleaning staff are paid are very similar average wage.

YA Care Staff Hourly Pay	Admin/ Reception staff	Catering staff	Cleaning staff	Maintenance/ handyman staff	Other staff (e.g. Activity Co-ordinator)
<b>Overall Average</b>	<b>£8.53</b>	<b>£7.48</b>	<b>£6.45</b>	<b>£7.88</b>	<b>£6.60</b>
Charity	£8.86	£6.61	£6.45	-	-
Limited Company & Sole Trader	£7.46	£8.06	£6.46	£7.88	£6.60

## 8.2 Occupancy and Care Hours Provided

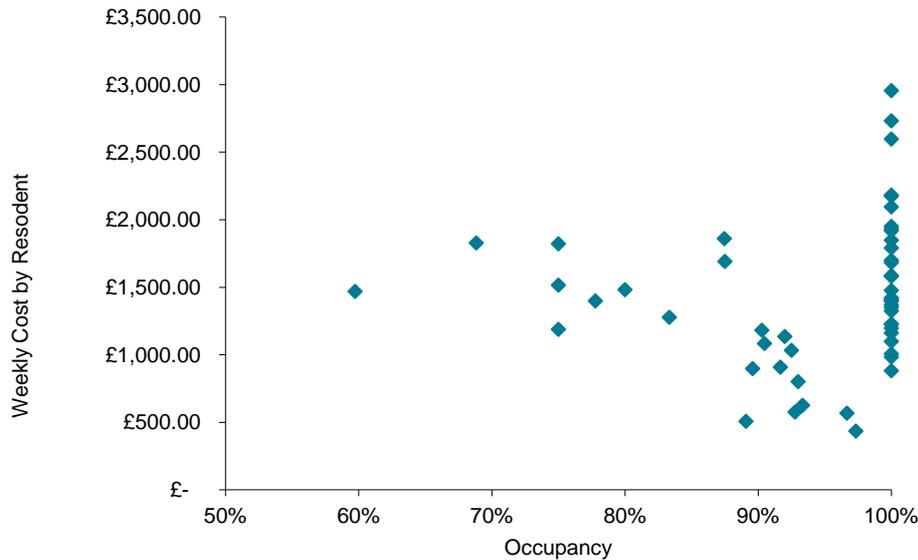
The sample group reported the following occupancy levels showing a gradual increase from 91% to 94% across the year.

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average
Younger Adults	91%	92%	92%	92%	92%	92%	93%	93%	93%	93%	93%	94%	<b>92.5%</b>

Out of the 53 homes which reported 12 months worth of occupancy levels, 30 (56.6%) of these reported 100% occupancy for the whole year.

The chart below shows the actual cost of homes against their average occupancy over 2012. For those homes where occupancy has been between 70% and 95% on average, there is a clear link between the occupancy and cost per week per resident. This difference is more marked in YA provision than in OA provision due to the smaller homes, and therefore the increased impact of one bed being empty.

### Occupancy against Weekly Cost per Resident

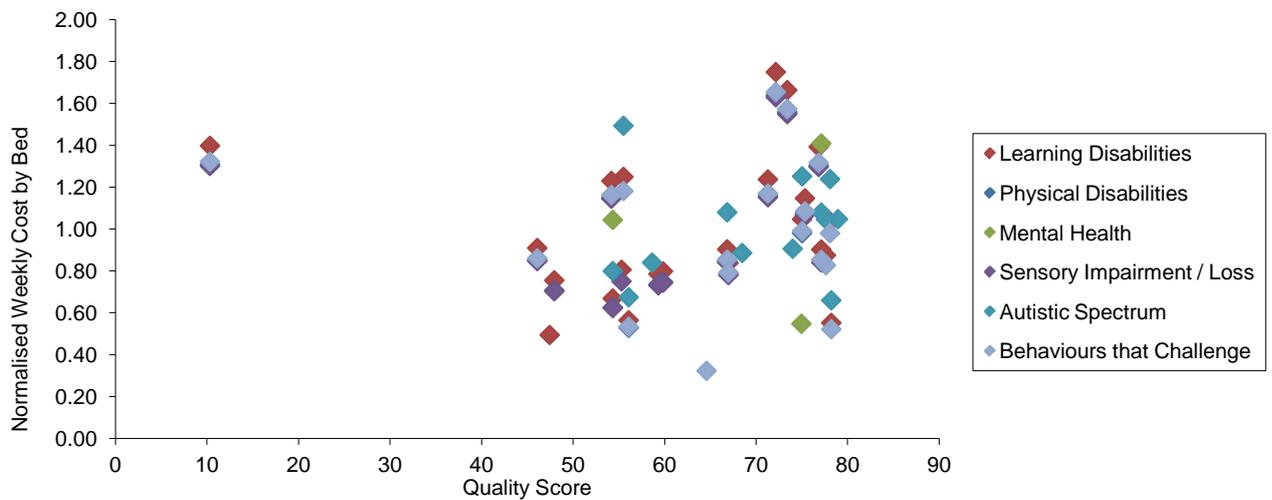


Note – one provider with unusually low occupancy throughout the year has been removed from this graph as an outlier within the dataset.

### 8.3 Quality

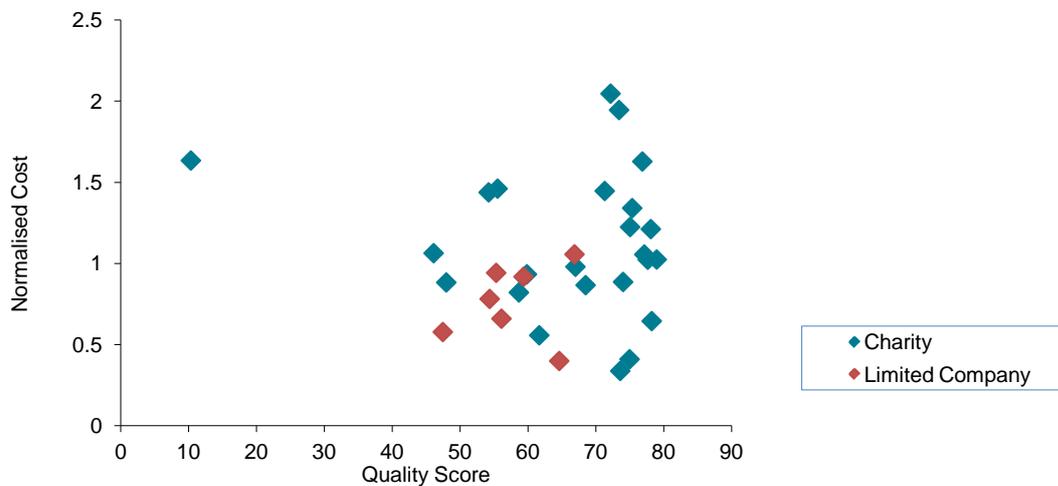
Indicative quality scores have been provided by BCC for those providers which participated in the recent self-assessment exercise. These scores are not intended to demonstrate a comprehensive quality review of the market. They are used here to explore the link between quality and the average weekly cost of care provision per resident. By calculating each home's deviation from the mean cost in its category (e.g. Mental Health), all homes can be shown on one graph. For example, a home which has a cost of 75% of the average would appear on the graph at 0.75. Quality scores have been calculated out of 100 points.

Quality Scores against Normalised Weekly Cost (normalised using deviation from mean)



When we consider the quality scores by provider legal entity, there appears to be a link between higher quality scores and provider type, with all quality scores over 70 being awarded to charities. At the same time, it should be noted that charities in this sample have reported higher operating costs than independent sector homes.

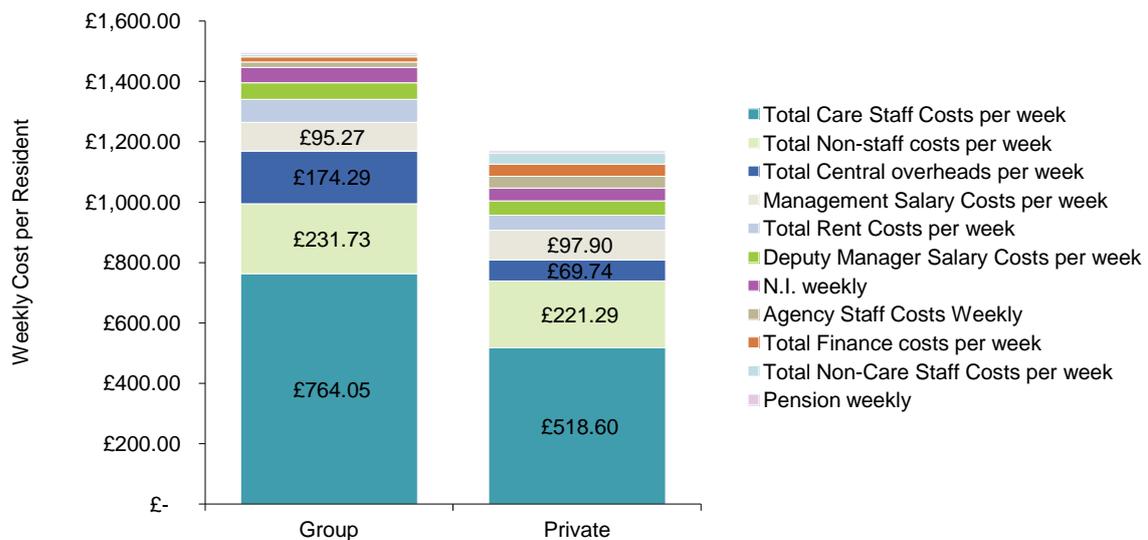
YA Quality Scores against Weekly Cost by Provider Type



## 8.4 Membership of a Group

Respondents were asked to detail whether they were part of a group of homes. The data shows that this has a marked impact on the total cost of operating a home, with the group homes reporting higher staff costs and higher centralised overheads. We would not expect that homes not in a group would be reporting centralised overheads, and the £69.74 reported below by private homes may require further investigation.

Weekly Cost per Resident By Provider Type - Group/Private



## 8.5 Facilities within each Care Home

Respondents were asked to provide detail as to whether or not rooms were en suite. 65% of homes had bedrooms with en suite facilities. Overall, 45% of all bedrooms were en suite.

This is a much lower number than Older Adults, and may be due partly to the non-purpose built types of residence commonly used to provide bed based care for Younger Adults.

With regard to weekly cost analysis, the data does not show a correlation between the cost of the weekly care provision and whether or not rooms have en suite facilities, although clearly there would be a cost and a limitation associated with converting additional rooms to en-suite

## 9. YA Environmental Factors

As part of the questionnaire we asked providers to comment on the environmental factors they felt were impacting upon their business and the care they provided, as well as those they felt were going to impact in the near future.

Below is a summary of the responses provided against the questions asked.

### 9.1.1 What changes (statutory, regulatory etc) have significantly impacted your operating costs in recent years? (e.g. Agency Worker Regulations)

The main impacts on operating costs that the majority of providers identified were the lack of any inflationary increase in fees for a number of years. This was felt to be compounded by an expectation to make efficiency savings in a climate where costs continue to rise, particularly around key areas such as staff wages (NMW), food and utilities.

Other increases identified as impacting upon operating costs were -

- Pension costs
- Training requirements
- Annual leave entitlement
- Statutory sick pay
- Expansion of maternity, paternity and adoption related pay
- Salary increases for senior staff to maintain a differential when minimum wages increase
- Fuel costs for transport
- Agency worker regulations
- Employment legislation
- VAT increases (majority of care homes are not VAT registered)
- National Insurance
- Rent costs
- Open Book Accounting processes with different LAs has a huge impact on cost and manpower

Many providers also identified the increasing costs involved with ensuring compliance with increasing demands from numerous regulatory bodies.

One provider had not noticed a significant increase in operating costs, which they put down to a stable staff group, and settled customer group, while others have dealt with the challenge by reducing usage of Agency Staff by improving their recruitment process or have become more reliable upon charitable income to subsidise operating deficits increase year on year.

### 9.1.2 What changes (statutory, regulatory etc) do you foresee significantly impacting your operating costs in the next 1-2 years?

Increases around pensions, training costs and staff salaries are the main areas identified by providers that the majority felt would impact upon their operating costs as well as continued cost rises in general running costs such as utilities and food.

If this is coupled with further LA cuts, providers feel this will put them under real financial strain with many feeling this will result in their offering a very basic service and feel that quality may suffer as

there will be no additional funding to cover increases and therefore no resources to meet required outcomes.

It is also felt that changes to benefits will impact what service users themselves can afford, adding further pressure on providers.

Other impacts identified are listed below -

- The Living Wage – the direct impact on providers not only for tier own staff but for those they contract with
- Costs of remaining CQC compliant and the penalties that could be received for not meeting these standards
- Increased insurance costs
- BCC framework structure could affect occupancy levels, thus leading to increased marketing costs
- Lack of suitable housing stock
- A need for increased staffing levels
- Increased management costs
- Service users are getting older and are having increased mobility and personal care needs

### **9.1.3 Have you seen a change in your service users' care requirements, or needs, in recent years? If so, what changes to the delivery of your service have you made (or plan to make) in order to respond to these changes?**

By far the biggest change in service users' cited by providers is that of an aging population and the changes that come with this – health issues ( including arthritis, incontinence), mobility needs and behavioural challenges. An aging population means less family visits as they themselves are also increasing in age and due to this the residents need further support as reduced visits/dealing with bereavement can lead to challenging behaviour.

Providers also noted that clients being referred are showing more complex needs which will require a higher level of input/care/support.

Some providers also noted client needs can change constantly but reassessments can take weeks/months to arrange, leaving the provider liable and the customer at risk as funds don't fully match client support needs.

A small number of providers noted no significant change in services user needs although this is monitored constantly.

#### **Actions taken**

- Increased staffing levels
- More use of volunteers
- Increased clinician/health professional support
- Updating staff training
- Specialist equipment purchased – such as walkers, bed levers
- More intensive support for residents given increasing levels of need
- Increased user activities
- Environmental changes to reflect residents' mobility needs

#### **9.1.4 What improvements have you made to your home over the last five years, including any significant capital investments, to improve the quality of service offered?**

Providers have compared a wide array of improvements over the last 5 years, covering all areas of the home. These include the following purchases and activities –

- Internal refurbishment – furniture, soft furnishings, decorating (internal and external). Internal decorating often done in consultation with residents re colours, textured etc.
- Hydro/whirlpool baths
- En suite bathrooms, wet rooms and walk in showers added
- Hoist enabled baths
- Sensory/activity rooms
- Recarpeting of communal areas
- IT upgrade
- Piano
- Flooring (including underfloor heating)
- Laundry equipment
- Reinforced doors
- New boiler
- Kitchens updated
- New Conservatory
- Significant roof upgrading
- Replacement windows
- Sensory garden
- Landscape gardening
- Bed capacity increased
- Construction of training flat to support the move to supported living
- Computerised care system
- Mobility allowance used to fund a minibus scheme

#### **9.1.5 How do you ensure that services are achieving outcomes for residents?**

The main process for ensuring services are achieving outcomes are through key stakeholder liaison – reviews and feedback is sought from the resident, their family, advocates and other key players such as staff, social workers, health professionals and regulatory bodies such as CQC, all of which is used to inform person-centred planning which is reviewed and updated regularly to reflect the changing needs and wishes of the resident.

Other processes that are implemented to ensure outcomes are achieved include -

- Service user meetings
- Delegated responsibilities to residents around the day to day running of the home and the decision made
- Complaints procedures
- Staff training in specialist areas
- Monitoring of staff performance
- Quality audits and questionnaires

### **9.1.6 Are you seeing your occupancy levels increasing, decreasing or staying the same? If they are changing, what in your view is causing this?**

The majority of providers report a stable resident base with occupancy remaining the same at high levels. It is however reported that when vacancies do arise, or the odd bed is not filled, that referrals are very slow and vacancies are often prolonged.

One provider commented this could be down to a preferred move from residential to supported living referrals. Providers would be keen to work with commissioners to provide the best model of service if this model is to be further embedded, although the market is nervous due to history of relationship.

Only a very small number of providers reported increased occupancy.

### **9.1.7 What are your main challenges in the recruitment and retention of staff?**

The majority of providers reported they had a steady, established staff base with little if any staff turnover and hence recruitment and retention were problematic.

When providers do recruit, the main challenge faced is the calibre of applicants – many are not right for care or have little understanding of the care needs of residents. Providers also find it difficult to recruit experienced, qualified staff.

Salary constraints are also problematic and cited by some as a big problem as they lose staff to other employers who can offer better salary/reward schemes. The best members of staff are those driven by a career in care, not driven by the reward.

Other challenges that providers are -

- Recruiting staff with the right level of technical skills (eg British Sign Language)
- Providing ongoing training
- Opportunities for progression is limited
- Cost neutral recruitment campaigns – eg using job centre – often unsuccessful as don't produce the right calibre of applicant and therefore become costly
- More advertising on the internet as papers no longer best route to recruitment. Agency fees want a 10% of the annual salary.

### **9.1.8 What are the main difficulties that you face in working with Birmingham City Council?**

There were many different difficulties cited by providers. The main difficulty stated by providers is around social worker representation – the lack of actual social workers as well as a lack of consistency in personnel, not knowing who to contact and the constraints the social workers themselves work under due to reduced funding.

The lack of referrals, and the referral process itself, is also cited by many as being difficult.

Other areas of difficulty are –

- Clarity around future funding process
- Disjointed approach between commissioning and operational teams, negatively impacting on invoicing and payments

- No commitment to commission innovative services
- Lack of funding for equipment, such as wheelchairs which often have to be self funded
- Lack of understanding around Autism and the associated needs
- Lack of respite care services
- Lack of support/advice for family members caring for citizens
- Supporting professionals being withdrawn due to funding
- Infrequency of care assessments, even if requested
- Requests made for commissioner/social worker visits are not being taken up – affecting referrals
- Regular cancellation of planned meetings, such as consultations around safeguarding and framework meetings
- Issues not being resolved in a reasonable timeframe
- Safeguarding referrals are often refereed back to the provider to investigate
- No allowance for vacancies – budget is reduced immediately which doesn't reflect the staffing commitments of the provider

### **9.1.9 Is there anything that Birmingham City Council could do to improve the process around arranging placements?**

The main suggestion to improve the process was around streamlining the referral approach and involving providers in the assessment process. It was felt a joint approach to needs assessment would result in setting clearly establishing the needs of the individuals and allow a fair price for any future placement to be established.

Currently, it is difficult for provider to give a price for care without detail as to the service users needs – one provider felt the planned move to micro-tendering will, hopefully, overcome this situation. Conversely, one provider stated the proposed framework would not work for people with complex mental health needs and urged this to be reconsidered.

Other areas identified to improve the process if arranging placements were -

- Decrease the lead in times for any placements
- Maintain consistency of social worker when assessments/ placements being arranged
- Ensure payment of fees starts as soon as the placement starts
- More proactive in dealing with homes that have vacancies
- Allow a broader spectrum of services to be promoted via funding authorities (not focus on cheapest top 3 services)
- Allow additional time when working alongside Deaf/specialist providers to ensure meaningful engagement and optimum understanding
- Improve knowledge of Autism and their needs when placing service users
- to people and their preferences / wishes prior to arranging placements
- Improved planning and implementation of communication and correspondence
- The star Ratings for Care homes will be an excellent bench mark to inform people who want to buy a service and the best care homes available to them

### **9.1.10 Do you have any other comments about working with Birmingham City Council?**

Generally the provider feedback was positive about current working relationships with the council -

- The current commissioning team seem to be adopting a much more responsive and collaborative approach. Their recent engagement events have been worth attending
- BCC seem to be making an effort to consult with care providers on a more regular basis.

Areas to of concern focussed around initiatives and funding -

- A need to communicate and involve providers when planning new policies
- Anxiety about the ratings system – this needs to be explained better
- Are solely cost driven and aren't bothered if providers 'go under'
- A lack of senior social worker practitioners attending events/forums

### **9.1.11 What does personalisation and engagement mean for you and how will it affect your business?**

Providers describe the key trait of personalisation is empowering the resident to make informed choices and decisions to achieve their goals and aspirations. Provider achieve this by involving residents in developing and reviewing their care plan and the services they receive, and ensuring that residents have as much choice and control in how they live their lives and how they make use of their personal resources. Based on this input, providers then develop and improve the services they provide to reflect the wishes of the service users.

Other comments included -

- Ensuring staff understand the individual needs of each person
- Provide stimulating and rewarding support
- Encourage and support more independent living
- Provide advocacy services and legal representation to support citizen in making the right choices for them

### **9.1.12 Are there any particular ways in which you provide an enhanced lifestyle for your residents?**

The most common response was to reiterate the person centred approach adopted by providers and how they offer a variety of opportunities to service users and how they encourage independent living.

Other specific ways in which lifestyle is enhanced include -

- Providing accessible gym and hydrotherapy
- The use of sensory aids to monitor such things as epilepsy
- Access to a Low Vision clinic and the day services at the Elizabeth Gun Centre
- Engaging in all aspects of daily living and encouraging independent living - including cooking, cleaning, shopping and sourcing local food (eggs from own hens, growing own fruit and vegetables, buying from approved local farms) and encouraging healthy living
- Supported integration with the local community and society
- Encouragement and support to attend college
- Skills development to support employment opportunities
- Regular trips and holidays

# Appendix 1: Summary of Calculation Methodology

## General calculation principles

The Provider Survey requested data on a range of cost areas, which were developed with provider input to comprehensively cover the costs of operating bed-based care in an OA and YA setting. Opportunities were provided within the questionnaire to detail 'other' costs that were not explicitly stated.

The questionnaire also contained a small number of qualitative, open-ended questions, to enable homes to provide a context and background to the cost data. (e.g. what is impacting costs currently and what inflationary pressures are expected).

Data from the Provider Survey responses can be grouped into a number of key cost and return areas as follows:

- Staff Costs (from an annual view of payslips);
- Management Costs (from manager and deputy salaries);
- Non-Staff Costs (e.g. food);
- Rent and Debt Finance Costs (as stated in responses); and
- Returns (split by operational and capital).

Homes were asked to complete as much of the Provider Survey as possible, however no questions were mandatory. The vast majority of returns were complete and comprehensive. Where gaps in the return were identified, KPMG have excluded the missing cost section for that home from particular line-level calculation (e.g. non-staff costs) but will have included at a line level the information that was provided (e.g. deputy manager salary). This maximises the amount of information that is used in the calculations. Where the overall average costs of operating care homes has been calculated, homes with gaps in their data have been excluded.

During the validation process a number of inconsistencies and 'outliers' were identified and checked with the homes that submitted the response. As a result some corrections were made, in agreement with the homes.

It should be noted that there is a wide range of costs in the YA bed-based care provision meaning that in many cases what appeared to be staffing 'outliers' tended to be services provided to people with very high levels of care need (1-to-1 or higher). The KPMG team contacted many providers to understand the stated staff costs and validated these against the level of provision for the residents.

## Treatment of Staffing Costs

Staffing information was captured in two areas in the questionnaire. KPMG requested an indication of the number of hours of care and non-care (kitchen etc) staff provided to an individual over one week. The responses to this were used to cross-check the payroll information and are also reported in this document. This data has not been used to directly inform the summary cost calculations.

Payroll data each month over one year was also requested, along with manager and deputy salaries. This information has been used to calculate a weekly staffing cost for operating and managing the bed-based care home. KPMG have calculated the total staffing cost of homes over 1 year, divided this by 52 weeks, and then factored in the average occupancy level<sup>17</sup> to achieve a weekly estimate.

Where no staffing costs at all are provided in the home's response, this has been identified and staffing costs for that home are excluded from calculations as a 'null' response.

In the small number of cases where a home had left a section of the questionnaire blank (e.g. had reported no payroll costs), this cost element was excluded from the calculation of line averages, and the home was excluded from the overall home-level average cost summaries.

## **Treatment of Non-Staff Costs**

It should be noted that many of the homes that responded, particularly in YA, stated payments to Group functions. Whilst the exact scope of services provided by each Group function changes from one operator to another, it was clear that these could include professional services, marketing, and other centrally procured services.

Therefore in cases where homes reported a group overhead and some non-staff costs, but also left some non-staff costs blank (e.g. marketing), KPMG have considered it prudent to include the '0's as actual costs reported for these homes.

For simplicity, all costs are considered direct costs of service provision, and are directly related to the number of residents in the home. Therefore all costs increase proportionately as occupancy decreases when calculating a cost per resident. This will have the effect of very slightly artificially increasing the per resident costs, as in reality the fixed costs (c.10-15% of total home costs) do not increase or decrease in response to occupancy.

## **Treatment of Finance and Rent Costs**

Providers were asked whether they own or rent the care home property. Annual debt finance costs, depreciation costs, and rental costs were returned. As would be expected, no home has reported having both finance and rental costs. For the purpose of a summary cost calculation, an average value including '0's has been calculated on each side, making it possible to then add both the rental and the finance costs together in the overall cost model. This produces the same overall cost as taking an average of both sets of costs.

## **Treatment of Returns (Capital and Operations)**

Return on Capital has been calculated by the application of the average expected 'fair' level of return to the average current home value as reported. The calculation excludes null responses for home values, and for return expectations.

Return on Operations has been calculated by the application of the average 'fair' level of return to the mean operational cost (i.e. all staff, non-staff, and finance costs). The calculation excludes null responses for return expectations. In excluding these values, the 0 return expectation of charities has therefore not been taken into account.

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<sup>17</sup> The market average has been used, either for OA homes or YA homes

It should be noted that a number of factors influence the expectation of returns, one of the key ones being that the level of return is commensurate to the perceived risk of investment in a sector. To continue to invest in bed-based care, operators are taking into account the risks associated with, for example:

- Consolidation and closure of operators within this market;
- Wide publicity and potential reputational damage of poor quality homes; and
- Local Authority statements regarding expectations of funding into bed-based care.

Therefore, whilst KPMG have published the expectation of the homes in the sample group in Birmingham in this report, this is an area that we would expect ongoing dialogue between commissioners and providers to ensure the ongoing investment into the appropriate care settings for the future.

## **Treatment of Occupancy**

Each care home reported an occupancy level, both as a snapshot and for each month during 2012. We have not assumed that care homes are 100% occupied and therefore for we have used the weekly cost per resident within all calculations, unless explicitly stated. The average occupancy level across 2012 in the sample group was:

<b>Average occupancy levels</b>	
Average Across OA	91%
Nursing	90%
Residential	92%
YA	93%

## Appendix 2: Further YA Analysis

In this Appendix we have provided further analysis for Younger Adults by grouping the homes to reflect the mix of services and resident needs reported.

It should be noted that for some of the contributions, the number of homes is low and therefore caution is needed when interpreting the differences in cost between the categories.

### Grouped YA Costs by Resident

It is possible to show the costs of homes which have reported providing care to residents with a mixture of needs.

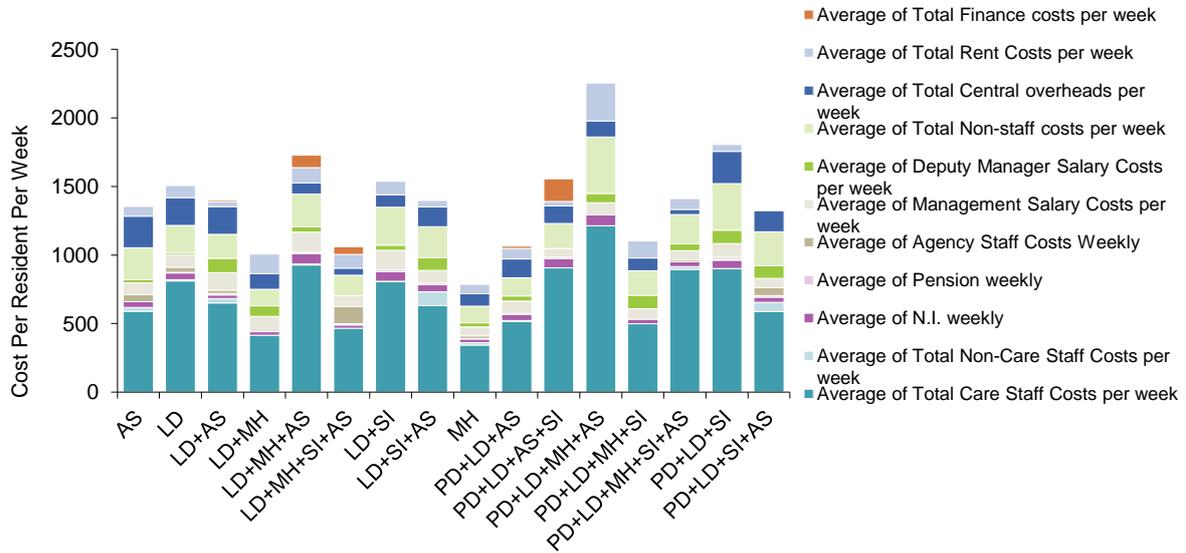
44 of the 69 homes in the sample reported providing services to residents with Behaviours that Challenge. To simplify the number of combinations shown below, this additional characteristic has been excluded.

Combination of Residents Needs	Weekly Cost Per Resident
PD+LD+MH+AS	£2,253.12
PD+LD+SI	£1,814.79
LD+MH+AS	£1,728.85
PD+LD+AS+SI	£1,555.07
LD+SI	£1,537.52
LD	£1,505.43
PD+LD+MH+SI+AS	£1,410.47
LD+AS	£1,402.16
LD+SI+AS	£1,397.42
AS	£1,358.04
PD+LD+SI+AS	£1,323.53
PD+LD+MH+SI	£1,100.86
PD+LD+AS	£1,063.79
LD+MH+SI+AS	£1,060.16
LD+MH	£1,005.46
MH	£791.03

Key: AS – Autistic Spectrum  
 LD – Learning Disabilities  
 MH – Mental Health  
 PD – Physical Disabilities  
 SI – Sensory Impairment

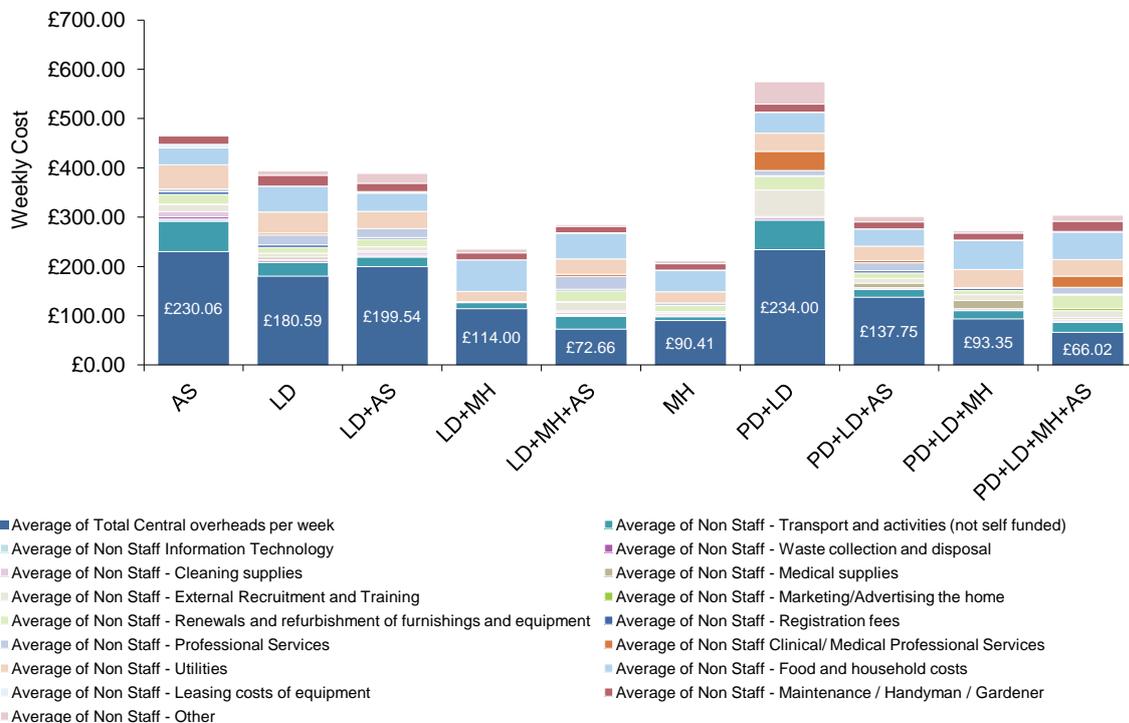
In the graph below, the cost structures have again been grouped by the range of resident needs in each home. This shows the most significant variation in cost is in the staffing costs line. There is only a small variation in other cost elements across the sample group. As we have noted, this picture of costs will change considerably dependent on the mix and needs of the individual residents in each home at any one time, and so conclusions about the relative cost of providing different bed-based care services cannot be made with confidence.

Comparison of Home Costs for different resident needs



To further analyse the YA data, we have grouped categories based on the main resident needs as defined by the providers, who reported the needs of all their residents at a given point in February. This grouping has produced the following non-staff costs.

Average Non Staff Costs Per Resident Per Week



## Appendix 3: Background Information

### 1. Property Values in Birmingham and West Midlands

A search of the OA care home properties for sale was conducted on 22 April to validate the current cost per bed. This small sample would suggest that the market price per bed is £53,000.

The OBA2 sample group reported values of £57,000 for residential, and £80,000 for nursing homes.

Home Description	Area	Number of beds	Asking Price	Per Bed
Purpose Built Residential Care Home (to be constructed)	Stourbridge	35	£1,900,000.00	£54,285.71
Care Home (residential, inc dementia and PD – not nursing)	West Midlands	16	£595,000.00	£37,187.50
Residential Care Home	West Midlands	35	£2,250,000.00	£64,285.71
Residential Care Home	Kingswinford	8	£639,950.00	£79,993.75
Residential with Dementia	Walsall	21	£785,000.00	£37,380.95
Care Home	West Midlands	22	£1,200,000.00	£54,545.45
Care Home (inc dementia)	West Midlands	13	£660,000.00	£50,769.23
Residential Care Home	Birmingham	15	£570,000.00	£38,000.00
Residential Care Home	West Midlands	8	£584,950.00	£73,118.75
Residential Care Home (inc dementia)	West Midlands	27	£1,200,000.00	£44,444.44
Residential Care Home	Birmingham	21	£1,125,000.00	£53,571.43
<b>Average</b>				<b>£53,329.72</b>

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