

APPENDIX 1

Newcastle City Council

Fair Rates for Care Home Services

By

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1 Background

In December 2014 Newcastle City Council (the Council), appointed Valuing Care Financial Management Ltd (VCFM), to undertake a review of the cost of providing care home services to older people in Newcastle. The specific requirements of the review were set out by the Council in a letter of instruction to VCFM dated 20th February 2015.

The review required VCFM to undertake a survey of care homes operating with the City, providing them with the opportunity to demonstrate the actual costs of operating their care homes and providing services to Council funded residents. The intended purpose of the information collected in the survey was to identify the usual cost of providing services locally, which could then be used by the Council to inform the setting of its tariff for care home services.

VCFM are an independent organisation who have been reviewing the cost of care home services since 2006 and have established processes for collecting, analysing, verifying and storing cost data. VCFM have used this data to construct a range of cost models that calculate value for money (VFM) rates for care home services.

To support this review VCFM have used their cost model for care home services for older people and people with dementia, to calculate value for money rates for care home services in Newcastle. These rates have been adjusted to reflect the local cost of employing staff and local rental values.

The benchmarking of the local survey results against VCFM's value for money rates, normally provides an opportunity to corroborate the local survey results, against VCFM's national intelligence gained from previous cost surveys. This should in turn provide the Council with confidence to set rates for services which give due consideration to the usual costs of delivery both locally and nationally.

Over the last three years VCFM have advised and assisted multiple Councils and NHS groups in reviewing the cost of care home services (for older people and people with dementia), identifying the usual costs of providing services and making recommendations as to what represents a fair price. VCFM prides itself on its independence in the market and its objective approach to identifying usual costs.

2 Provider Engagement

In December 2014, the Council identified 49 care homes registered to provide care homes services for older people in Newcastle – all of these care homes were to be invited to participate in the cost of care review.

VCFM wrote to the registered manager for each of these services on the 30th December 2014, requesting their participation. The invitation explained the purpose of the survey, enclosed the survey template and provided guidance notes for its completion.

At the end of January 2015 and again in March 2015, the Council wrote to VCFM setting out the concerns of the local provider association, Care North East Newcastle (CNE Newcastle). The concerns included: VCFM's lack of requisite skills and expertise, survey methodology and professional governance.

To help reassure providers, the Council issued a formal letter of instruction to VCFM on the 20th February 2015. The instruction set out the detailed requirements that VCFM were expected to fulfil (please see Appendix A).

VCFM have responded to all of the questions raised by the Council, seeking to address the concerns of CNE Newcastle and trying to gain their co-operation. This included providing clear explanation of VCFM's methodology for identifying the usual cost of care home services from the survey results.

On the 1st May 2015 the Council wrote to VCFM confirming the determination of CNE Newcastle not to engage with VCFM, and requesting that VCFM use their cost model and national intelligence to calculate value for money rates for care home services in Newcastle, which may be used by the Council to consult with providers.

Despite the position of CNE Newcastle, a total of 4 care home providers completed and returned the survey template, although one of these providers subsequently withdrew their submission. Unfortunately the number of completed templates is insufficient to identify the usual costs of providing services, as the sample group lacks statistical significance. VCFM normally recommend the collection of at least 10 provider templates to generate a reliable survey result.

3 Introduction

Due to the lack of engagement from Newcastle’s care home providers, it is not possible to review the reported cost of delivering services in Newcastle. Consequently the original purpose of this report can only be partly fulfilled.

This report will now focus on setting out the basis of how VCFM calculate value for money rates for care home services, and to compare these rates against the approved fees paid by the Council.

As VCFM’s value for money rates reflect actual costs reported by care home providers which have been adjusted to reflect prices at 30th September 2014 (the mid-year point), VCFM have compared them against the Councils approved fees for 2014/15. This prevents the need to estimate inflation to 2015/2016 prices.

The following table summarises the Councils approved fees for general residential/nursing care and EMI residential/nursing care:

Table 1 – Council Approved Fees for 2014/15

Band	General Residential & Nursing	EMI Residential & Nursing
1	£492.32	£511.79
2	£471.76	£491.24
3	£447.95	£467.43
4	£425.23	£442.54

It is important to note that the Councils fee structure differentiates between general care and EMI/dementia care. It also operates a banding system which rewards providers in accordance with the environment grading and quality of services delivered.

The Council fees are consistent for residential and nursing services, and therefore do not include any provision to meet the cost of nursing care provided in care homes with nursing. The Council have no legal responsibility to fund the cost of nursing care, which should be covered by NHS Funded Nursing Care (paid at £110.89 per week in 2014/15).

The Councils fee structure therefore assumes that the cost of a place in a nursing home excluding nursing costs, is equal to the cost of a place in a residential service. This is

slightly at variance with VCFM who have historically differentiated between the cost of delivering residential and nursing services.

VCFM's cost model calculates value for money rates the following service types:

- Residential care for older people
- Residential care for people with dementia
- Nursing care for older people
- Nursing Care for people with dementia

In VCFM's experience these categories are those most commonly used by local authorities to set care home fees for older people and people with dementia. VCFM's cost model does not make any adjustment for the environmental grading or quality of services, although we acknowledge the reasoning for this price discrimination to be logical.

VCFM have calculated separate value for money rates for each of the service types listed above. This report details how each value for money rate has been calculated and provides clear explanation of where the figures have been obtained. As with all cost modelling exercises, there are areas of debate between cost models that will differ dependent on viewpoint and experience.

This report aims to bring together calculations based on VCFM's experience, national intelligence and cost model that can be used by the Council as one of the determining factors in setting fair rates for care home services in Newcastle.

4 Constructing VCFM's Value for Money Rate

The Council asked VCFM to use its cost model to construct value for money rates for care home services in Newcastle. VCFM's cost model is based on years of experience, methodical collection of service cost data and rigorous cost validation processes.

VCFM's database comparator now contains over 500 cost records for older people and dementia services, and represents a significant statistical sample. By using this large statistical sample, usual costs can be identified with much greater confidence than just working on a theoretical basis, or from a smaller sample group.

To identify usual cost of care (from the database) VCFM take the median amount for each cost element and service type, which are then aggregated to form the value for money rates. VCFM use the median average cost in preference to the mean average, which can

potentially be distorted by outliers arising from providers reporting particularly high or low costs.

A cost structure based on the 50th percentile (or median amounts), could be said to reflect a notional provider with usual costs across all cost groups. In contrast a cost structure based on the 25th percentile results could be said to reflect a notional provider operating efficiently across all cost groups.

In assessing a value for money cost structure that meets required service standards, it is important that identified costs are fair to allow for the long term sustainability of the services and to allow for a reasonable return for the care provider. However this requirement must be balanced with an expectation that costs are not disproportionately high for delivery of the required service standard and represent a cost effective purchase for the commissioner of the service.

VCFM believe the median amounts achieve the required balance between fairness and efficiency, and use this principle to construct value for money rates. The value for money cost allocations have then been adjusted to account for local cost factors, specifically to reflect local labour costs and rental values.

A summary of how VCFM construct their recommended rates is shown below:

- **Direct Staffing costs** which are reflective of usual staffing inputs and local rates of pay
- **Other Operating Costs** based on usual costs across VCFM's database comparator
- **Return on capital and operations** based on a combination of: local rents and profit levels which reflect operational costs (not just property valuations)

The following section of the report provides further explanation of how each of these cost groups have been calculated.

5 Direct Staffing Costs

The cost of direct staffing includes the cost of care and nursing staff who are responsible for directly caring and supporting the care home residents. It does not include the cost of service management and ancillary staff also working at the home.

The costs of direct staffing will typically represent between 40% and 50% of VCFM's value for money rate, and therefore is a key component in determining a fair price.

5.1 Staffing Allowance

VCFM's recommended rates for older people's services allow for a set number of care worker hours and nursing hours per resident each week. These are based on usual levels of staffing input across VCFM's database comparator. The provision for care work hours covers a mix of senior care assistants and care assistants.

The number of care worker hours per resident week can be calculated (for a service), by dividing the total number of care worker hours on rota each week, between the number of service users. It does not include cover for staff holidays, sickness or training, which are provided for separately under on-costs.

The following table sets out VCFM provision for care worker hours and nursing hours per resident week, provided under VCFM's cost model:

Table 2 – VCFM provision for Direct Staff Hours

Service Type	Allowance for care worker hours (per resident week)	Allowance for nursing hours (per resident week)
Residential Care - Older People	20.1	n/a
Res' Care - Older People with Dementia	21.4	n/a
Nursing Care - Older People	20.9	7.5
Nursing Care - Older People with Dementia	22.1	7.5

These allowances are based on usual / median performance within VCFM's database of provider costs. Additional confidence in these allowances may be taken from the minimum staffing levels published by the Residential Forum (March 2002), which identified staffing requirements of between 18.3hrs and 22.7hrs to meet a range of dependencies (from low to high). These allocations are also broadly consistent with provisions made by other cost models.

5.2 Rates of Pay

To determine a reasonable rate of pay for care workers and nursing staff (on which to base a VFM rate), VCFM have undertaken a review of the costs of employing care staff and nurses by care home providers operating in the City, making reference to a salary guidance website and recent local job advertisements, to identify blended (or average), rates of pay.

Based on this review of staffing costs, VCFM consider a blended rate of £7.00 basic pay per hour is sufficient to cover the costs of employing a mix of senior care assistants and care assistants, and that a rate of £13.00 basic pay per hour is sufficient to cover the costs of employing a registered nurse.

VCFM make further allowance of 15% (of basic pay) for combined cover of holidays (29 days), sickness (5 days) and staff training (5 days), and 9% to cover employers national insurance and pension contributions. This makes a total blended rate of £8.77 per care worker hour and £16.29 per nursing hour.

Table 3 – Estimated Cost per Direct Staff Hour

Cost per Hour / Type of Staff	Care Workers	Nurses
Basic Pay	£7.00	£13.00
Provision for cover (holidays, training & sickness)	£1.05	£1.94
Provision for Employers NI & Pension cont's	£0.72	£1.35
Total Cost per Direct Staff hour	£8.77	£16.29

6 Other Operating Costs

VCFM's cost allocation for other operating costs (covering service management, ancillary staff, head office and support services, premises, and supplies and services) all reflect the median costs from VCFM's database comparator.

Previous cost surveys have shown these allocations to be largely consistent across all service types, bar small additional provisions for staff training and recruitment and for medical supplies in care homes with nursing.

The following table summarises VCFM's allocations by cost group – a detailed breakdown of these allocations can be found at Appendix B. The inclusion of VCFM's cost allocations for care and nursing staff (explained in the previous section) allow us to calculate a total for all operating costs.

Table 4 – Summary of Total Operational Costs

Cost Group / Service Type	Residential Care Older People	Residential Care People with Dementia	Nursing Care Older People	Nursing Care People with Dementia
Care Staff	£176	£188	£183	£194
Nursing Staff	£0	£0	£122	£122
Service Management	£20	£20	£20	£20
Ancillary Staff	£57	£57	£57	£57
Head Office / Central Support	£28	£28	£31	£31
Premises	£40	£40	£40	£40
Supplies & Services	£52	£52	£56	£56
Total Operational Costs	£373	£385	£510	£520

Please note that VCFM’s provision for nursing staff (at £122 per week), is in excess of NHS Funded Nursing Care paid at £110.89 per week in 2014/15. As the Council has no statutory obligation to meet the health needs of care home residents, the Council should not be expected to make up any shortfall in NHS funding. We will therefore consider VCFM’s value for money rates inclusive and exclusive of provision for nursing costs later in this report.

Please also note that total operational costs exclude any provision for return on capital or return on operations (ROCO). For the avoidance of doubt this excludes: rent or mortgage costs, depreciation of buildings, profit/surplus and cost of capital.

These elements have been excluded to allow the identification of usual operating costs for each service type, irrespective of property ownership arrangements, capital structures and profit expectations (which may vary significantly between providers).

When calculating a fair price for care services VCFM consider ROCO separately, recommending reward to care home owners that reflects local rental values plus a return on operations.

7 Return on Capital & Operations (ROCO)

There are a number of different approaches to calculating a fair return for care home owners, most of which depend on an estimation of:

- The value of land and buildings or construction costs

- The level of expected return on investment or cost of capital

The subjective nature of estimating both of these elements, may lead to significant variation in the expectations of service providers as to what returns should be.

VCFM's preferred approach to determining a fair level of return is to separately calculate a return on capital and a return on operations. The rental element rewards care home owners for their investment in land and building based on evidenced market rents, whilst the profit rewards the care home owner for providing health and social care services, over and above a private landlord service.

7.1 Return on Capital

VCFM recommend Local Housing Allowance (LHA) rates for one bedroom accommodation, as a proxy for care home rents. LHA rates are used to calculate housing benefit for tenants renting from private landlords, and the rates vary dependent upon the Broad Rental Market Area (BRMA) where a person resides.

LHA rates are mathematically calculated by the local Rent Officer in accordance with Government protocol. The rates are usually based on the 30th percentile on the list of private rental values (being paid in the BRMA), although there are restrictions on how the rates are uplifted annually and maximum weekly rents.

Newcastle is covered by Tyneside BRMA so we have used the LHA rate for this area to construct the value for money rates presented in this report. The one bedroom rate (£91.15 per week at September 2014), should afford a person their own self-contained accommodation, including their own bedroom, kitchen, bathroom and toilet.

VCFM acknowledge there is a possible case for using the LHA rate for shared accommodation (£60.00 per week at September 2014), as a proxy for care home rents. Whilst care homes are in some ways akin to shared accommodation (with shared kitchen and living accommodation), VCFM believe the National Standards place additional costs on care homes to provide safe and suitable accommodation, over and above that required of private landlords.

When calculating VCFM’s value for money rates, provision for rent is expected to cover: annual expenditure on fixtures and fittings, building repairs and maintenance, and capital investment in property.

The following table shows the apportionment of rent based on the 1 bedroom rate used in VCFM’s value for money rates, with the shared accommodation rate shown alongside for comparative purposes. The weekly return from an occupied place is calculated as the balancing figure.

Table 5 – Financial Apportionment of Rent

Cost Group / Cost Element	Financial Apportionment of Rent (based on the 1 bedroom rate)	Financial Apportionment of Rent (based on the shared accommodation rate)
Other Premises - Fixtures & Fittings	£8	£8
Other Premises - Repairs & Maintenance	£14	£14
Weekly Return from Occupied Place	£69	£38
Total Rent	£91	£60

Assuming 90% occupancy levels which is fairly typical of the industry, a return of £69 per week from an occupied place will generate a net yield of £3,245 per place per annum. To put this return in context we need to consider it against the capital value of the investment made by care home owners in land and buildings.

It is difficult to estimate the current value of freehold care home properties in Newcastle due to the low volume of transactions each year. Values are also likely to vary depending on the location of the service, build quality, state of repair and potential for conversion to alternative use.

Based on freehold valuations of care homes across the UK, adjusted to reflect local property prices, VCFM estimate that freehold values in Newcastle will typically range between £40,000 and £60,000 per place. These valuations are reasonably consistent with the ‘cost per bed’ calculations made by GLP Healthcare Business Services in its report to the Council in March 2007. The following table is an extract of the GLP report:

Table 5a – Cost associated with differing grades for all Newcastle homes

Area / Value	Grade 1	Grade 2	Grade 3	Grade 4
Land	£12,000	£10,750	£9,500	£8,000
Buildings	£38,238	£32,388	£25,360	£18,966
Fixtures & Fittings	£4,230	£3,583	£2,809	£2,098
Cost Per Bed	£54,468	£46,721	£37,669	£29,064

Making some allowance for inflation on GLP's estimated cost per bed, there appears a strong relationship between freehold valuations and build costs.

The following table calculates the net yield per place, based on the one bedroom and shared accommodation rate, assuming 90% occupancy and across the estimated range of freehold valuations.

Table 6 – Summary of Net Yield

Cost Group / Cost Element	Return on Capital based on the 1 bedroom rate	Return on Capital based on the shared accommodation rate
Annual return from 90% occupied place	£3,245	£1,783
Net Yield on £40,000 Freehold Valuation	8.1%	4.5%
Net Yield on £50,000 Freehold Valuation	6.5%	3.6%
Net Yield on £60,000 Freehold Valuation	5.4%	3.0%

The table shows that the 1 bedroom rate will generate a net yield of 6.5% on the mid-point freehold valuation of £50,000 per place. VCFM believe this is a competitive rate of return on capital that should ensure a stable and sustainable market for care home places in Newcastle.

7.2 Return on Operations

Unlike all other elements of a care home fee, return on operations (or profit) is not expected to cover an associated cost, but to reward the care home owner for delivering the care service. What constitutes a fair level of return on operations is therefore subjective and an area where Councils may choose to apply some discretion.

VCFM have historically allowed 7% of total package costs for profit (calculated as a fixed percentage margin of the total fee). This is based on VCFM’s considerable experience negotiating care costs, and what profit is normally acceptable to the market. To facilitate comparison with other cost models, this equates to a mark-up of 9% on total operational costs (excluding the cost of nursing staff).

The table below summarises VCFM’s provision for ROCO, based on total operational costs including and excluding the cost of nursing staff. As VCFM’s provision for ROCO is partly dependent on total operating costs, provision for return on operations reduces if you remove the cost of nursing.

Table 7 – Provision for Return on Capital and Operations

Service Type (Including / Excluding Nursing Costs)	Return on Capital	Return on Operations	Total ROCO
Residential Care Older People	£69	£33	£102
Residential Care People with Dementia	£69	£34	£103
Nursing Care Older People	£69	£44	£113
Nursing Care People with Dementia	£69	£44	£114
Nursing Care Older People (Excl. Nursing)	£69	£34	£103
Nursing Care People with Dementia (Excl. Nursing)	£69	£35	£104

Whilst VCFM regard their methodology for calculating ROCO to be fair, transparent and easy to apply, we also acknowledge there are other equally valid approaches to the determination of these amounts.

The Council already operates a banding system which rewards service providers in accordance with the environmental grading of their care home and the quality of their service. There is a clear rationale for varying the return on capital in accordance with the environmental grading of a care home building. Similarly a strong case could be made for varying the return on operations to reflect the quality of a care homes operations.

8 VCFM's Value for Money Rates

Based on the information, rationale and assumptions set out in sections 5, 6 & 7 and having made reasonable adjustment for local factors, VCFM has calculated the following value for money rates for care home services in Newcastle. The table below summarises these rates including and excluding the cost of nursing staff:

Table 8 – VCFM's Value for Money Rates

Service Type (Including / Excluding Nursing Costs)	Total Operational Costs	Return on Capital & Operations	Value For Money Rate
Residential Care Older People	£373	£102	£476
Residential Care People with Dementia	£385	£103	£488
Nursing Care Older People	£510	£113	£622
Nursing Care People with Dementia	£520	£114	£634
Nursing Care Older People (Excl. Nursing)	£384	£103	£488
Nursing Care People with Dementia (Excl. Nursing)	£395	£104	£499

Based on the company's previous experience undertaking costs surveys for Councils across the country, VCFM is confident that the total provision for operational costs (within the VFM rates) is likely to be a good indication of the usual cost of providing services in Newcastle.

What previous reviews have also shown is that providers are frequently not making a fair level of return on their capital or operations from Council funded residents. Furthermore that this is often compensated for by the fees charged to self-funding service users.

A detailed breakdown of VCFM's value for money rates can be found in Appendix A.

9 Comparison of Value for Money Rates with Newcastle's Band 1 Rates

VCFM have used their cost model and database of service costs to construct value for money rates for older people's care home services in Newcastle. These rates have been adjusted to reflect the local cost of employing staff and local rents.

The Council's current fee structure for older people and dementia services uses a system of banding to reward providers in accordance with the environment grading of their care home. At 4th December 2014 a review by VCFM of the Councils contracts for older

peoples services, calculated that approximately 57% of placements were paid at the Band 1 fees, 29% at the Band 2 fees and only 13% at Band 3.

For the purpose of assessing the reasonableness of the Council's current fee structure, Table 8 below compares the most commonly used Band 1 fee against VCFM's value for money rates.

Table 9 – Comparison with Band 1 Fees

Service Type (Including / Excluding Nursing Costs)	VFM Rates	Newcastle Band 1 Fees	Variance
Residential Care Older People	£476	£492	£17
Residential Care People with Dementia	£488	£512	£24
Nursing Care Older People ##	£622	£603	-£19
Nursing Care People with Dementia ##	£634	£623	-£11
Nursing Care Older People (Excl. Nursing)	£488	£492	£5
Nursing Care People with Dementia (Excl. Nursing)	£499	£512	£13

Please note the Band 1 fees for nursing care services include NHS funded nursing care (paid at £110.89 per week in 2014/15)

The table shows that the Councils Band 1 fees for residential care services and nursing care services (excluding the direct cost of nursing), all exceed VCFM's value for money rates. This outcome is a relatively rare occurrence in VCFM's experience of undertaking cost reviews for local authorities, as Council fees are generally unfavourable for care providers.

The table also highlights the inadequacy of NHS Funded Nursing Care to cover the direct costs of delivering nursing care.

10 Shortfall in NHS Funded Nursing Care

The Council has a responsibility to meet the social care needs of the local population (who meet the Councils eligibility criteria), while the NHS has a responsibility to meet health care needs.

The Councils fees do not differentiate between care home services provided with or without nursing, or include provision to meet the cost of nursing care. The Council have no legal responsibility to fund the cost of nursing care, which should be covered by NHS Funded Nursing Care (paid at £110.89 per week in 2014/15).

In Sections 5 & 6 of this report VCFM estimated the cost of direct nursing inputs as £122 per care home place per week. This reflects the usual level of nursing staff input per resident, local rates of pay and provision for staff cover and employers on costs. It does not include any provision for management or overheads which may be reasonably attributed to the provision of nursing care, or any return which providers may expect to achieve.

The shortfall in NHS Funded Nursing Care to cover the usual cost of nursing care delivered in care homes is not the responsibility of the Council to make up. VCFM recommend the Council continue to set rates for care home services, which exclude the usual cost of direct nursing staff.

1.1 Estimated Returns achieved by Newcastle Care Homes

As suggested in section 9 of this report, the level of fees paid by the Council are likely to be affecting the level of return made by care home providers from Council funded placements. Table 10 compares the Councils Band 1 fees with VCFM's provision for total operational costs, to estimate the level of return on capital and operations being made by providers with usual operating costs in Newcastle

Table 10 – Estimated ROCO achieved on a Band 1 Rate

Service Type (Including / Excluding Nursing Costs)	VFM Rates provision for Operational Costs	Newcastle Band 1 Fees	Estimated ROCO
Residential Care Older People	£373	£492	£119
Residential Care People with Dementia	£385	£512	£127
Nursing Care Older People ##	£510	£603	£94
Nursing Care People with Dementia ##	£520	£623	£102
Nursing Care Older People (Excl. Nursing)	£384	£492	£108
Nursing Care People with Dementia (Excl. Nursing)	£395	£512	£117

The following table (Table 11) below compares the estimated return based on payment of a Band 1 fee, with VCFM's provision for ROCO to calculate the excess /under level of return:

Table 11 – Excess / Under Return

Service Type (Including / Excluding Nursing Costs)	VFM Rates provision for ROCO	Estimated ROCO on Band 1 Fee	Excess / Under Return
Residential Care Older People	£102	£119	£17
Residential Care People with Dementia	£103	£127	£24
Nursing Care Older People ##	£113	£94	-£19
Nursing Care People with Dementia ##	£114	£102	-£11
Nursing Care Older People (Excl. Nursing)	£103	£108	£5
Nursing Care People with Dementia (Excl. Nursing)	£104	£117	£13

The table shows the relatively healthy level of return being achieved by the Council’s care home providers on residential and nursing fees (excluding nursing costs). VCFM believe these levels of return should ensure a stable and sustainable market for care home places in Newcastle.

12 Price Discrimination based on Environmental Grading & Service Quality

Approximately 29% of the Council’s placements in care homes for older people are paid at the Band 2 rates which are £20.55 per week less than the Band 1 payment. A further 13% of the Councils placements are paid at the Band 3 rates which are £44.37 per week less than the Band 1 payment.

The logic of paying lower fees to providers who achieve a lower environmental grading and service quality, seems rational and should encourage continued investment in maintaining and improving care home environments and service quality.

Based on VCFM’s estimate of freehold valuations in Newcastle ranging between £40,000 and £60,000 per place, this would support a pricing structure which varies the provision for return on capital by +/-20%, which is equivalent to +/-£14 per week based on our recommended value for money rates.

Similarly VCFM believe there is a reasonable case for reducing the return on operations to providers who do not achieve the highest quality standards. A reduction of 50% in VCFM’s recommended return on operations equates to a decrease of approximately £17 per week.

Allowing for these variations to VCFM's combined provision for ROCO, the value for money rates appear to validate the Band 1 to 3 fees paid by the Council within reasonable margins of error.

13 Conclusion & Recommendations

This review required VCFM to undertake a survey of care homes operating with the City, providing them with the opportunity to demonstrate the actual costs of operating their care homes and providing services to Council funded residents.

Due to the lack of engagement from Newcastle's care home providers with this cost review, it has not been possible to identify the usual cost of delivering services in Newcastle.

In the absence of local data, the Council requested that VCFM use their cost model and national intelligence to calculate value for money rates for care home services in Newcastle, which may be used by the Council to consult with providers.

Based on VCFM's experience of undertaking costs surveys for Councils across the country, VCFM is confident that the total provision for operational costs (within the VFM rates) is likely to be a good indication of the usual cost of providing services in Newcastle.

VCFM has also provided a clear rationale for calculating a fair level of Return on Capital and Operations, which is reflective of local rents plus a percentage return on operations.

The comparison of the Councils Band 1 fees against VCFM's value for money rates, indicates the Council fees are marginally above what VCFM consider a value for money price, and that this is likely to be enhancing the level of return achieved by providers. In VCFM's experience reviewing the cost of delivering care home services (for older people and people with dementia), Council fees in excess of VCFM's value for money rates are not the norm.

While the value of the NHS Free Nursing Care payment is unlikely to be covering the usual costs of nursing staff, the Council has no legal responsibility to fund this element.

VCFM also regard the Council's rationale for paying reduced fees to care homes with a lower environmental grading to be sound, and support the continuation of this price discrimination. Similarly VCFM believe there is a reasonable case for reducing the return on operations to providers who do not achieve the highest quality standards.

Allowing for these variations to VCFM's combined provision for ROCO, the value for money rates appear to validate the Band 1 to 3 fees paid by the Council within reasonable margins of error.

Whilst VCFM always recommends its value for money rates as providing a fair and sound basis for the determination of care home fees based on the usual cost of providing services, VCFM recognise the Council is likely to have other considerations in the setting of future rates.

These considerations should include; the supply of places, the ability of the Council to procure services within its current fee structure, and affordability constraints the Council has to work within.

It is important to remember that all costs within this report have been stated at September 2014 prices. To ensure VCFM's value for money rates continue to reflect the actual costs of providing care home services, we recommend they are inflated annually on a consistent basis.