

Cost calculators: Children's Homes Provider perspectives.

Executive Summary

This brief paper summarises issues that Children's Homes providers currently perceive related to the potential introduction of cost calculator methodologies and models into the sector.

It has specifically been prepared following an introduction to the intent of the West Midlands region to introduce such a tool, as presented at the Commissioner:Provider Forum on 5th May 2011.

The sector is however aware that several other regional groups are planning to introduce cost calculators in parallel (e.g. the South West presented their intent at a workshop at the Derbyshire commissioning event last autumn, and Improvement and Efficiency South East also have a project active in this area).

The conclusions of this paper are that providers would invite commissioners and regional groups to enter into an open and transparent consultation with the provider organisations to discuss a range of issues related to the cost calculators.

Those issues fall into the following areas:

Transferability of tools from adult sectors

Contextualisation: Outcomes and Quality

Comparability and verification of data

Practical realities

It is also a call to those with budgetary responsibilities for this effort to analyse business plans and financial payback analyses for the projects that are rolling out the cost calculators, and to make those plans public.

Credentials.

The issues discussed below are largely drawn from my own personal perspective. However, through Revolution Consulting I have started to gather input from a number of providers in the sector to add further perspective.

My own views come from:

I am a Fellow of the Institute of Chartered Accountants in England and Wales (with almost 25 years commercial experience).

I have over 10 years' direct experience of the Children's Home sector having been Managing Director of the largest service provider, and chairman of the trade association until 2005 and having established a completely new service from scratch from 2007.

Through Revolution Consulting I have worked on projects with many Local Authorities, regional groups and providers gaining intimate insight into detailed financial dynamics on both sides. In other consultancy projects I have evaluated the benefits from the application of cost calculator tools in the Adult Learning Difficulties sector.

The Commissioning Support Programme published a paper that they commissioned from Revolution in 2009 looking into the relative financial strengths of services for children and the implications for commissioners. This is available on the CSP website, or directly from Revolution Consulting (contact@revolution-consulting.org)

Background

The Commissioning Support Programme report referred to above (and updated since) highlights dramatically different financial performance in the Children's Home sector compared to the other sectors (Residential Special Schools and Fostering). I have long advocated that commissioners at all levels get smarter in their understanding of what this means. In particular, it is impossible not to conclude that it is in fostering and residential schools where the larger profit margins are reported and where, logically, commissioners might better direct their activities.

I have recently commissioned a study of the sector from the point of view of looking at how many different databases/preferred provider lists/regional commissioning systems are in existence and which providers potentially have to engage with in order to do business in England and Wales. The shocking conclusion was that there are at least 8 regional databases/systems, 19 authorities use their own systems and don't use regional tools, and there are another 70 corporate procurement portals that authorities may use. Several providers do not believe that the investment required to gain entry to, and maintain position on, so many databases and portals is not justified in terms of the actual utilisation by individual authorities.

The potential for costs calculators to be implemented in a similarly piecemeal fashion across the country is a recipe for gross inefficiency.

As I write this version of this paper the Bank of England has just announced that it expects inflation to reach 5% in 2011. Most providers have been squeezed by inflation, VAT increases, Employer National Insurance increases, and yet been faced by demands for reduced fees. Community Care also reports that Children's Homes providers have noted a dramatic downturn in referrals since the Comprehensive Spending Review. It is therefore not difficult to envisage that some Children's Home providers will again be experiencing sustainability issues. The burden of a big modelling exercise that has at least some intention to reduce their prices/costs risks closure of homes, loss of capacity, reduced competition and capability in the sector.

Where the tool comes from

The cost calculator tools being discussed have their roots in application to the Adults residential sector, and to Adult Learning Difficulties settings in particular. Clearly some Directors in local authorities perceive that the tool has been responsible for real cost savings in that sector, and therefore that it may have application over in the Children's residential sectors.

As Revolution Consulting I have carried out evaluations of such Adult sector applications. The conclusions based on those evaluations are less persuasive. In most cases, an objective assessment of the financial evidence to any reasonable standard finds that the evidence of savings does not stand up well to close scrutiny. Many projects did not set out to measure the financial impact objectively at the outset and claims of savings are sometimes questionable.

In addition, the link between the cause of a claimed saving and the use of a costing tool is often unproven.

It was my personal impression that the simple act of addressing the market in a parallel fashion for each referral rather than a serial approach was as likely to have generated benefits without the use of the costing tool.

From Adults to Children

When considering the potential to apply the adult based tools to Children's services, further factors come to mind:

A. In simple terms, adult residential settings do have some stability about them in terms of a homogeneity of needs, homogeneity of care packages and resources, and stability of demand and occupancy that potentially allow the cost calculator to have some utility. My every instinct is that application to children's services is much more difficult, complex and volatile.

B. Children and young adults in the care system display a wide range of needs and challenges, often multiple and complex challenges in each placement. Costing models risk ignoring the skill and judgement of professionals and providers in matching young people to placements, and in providers who risk assess on an almost daily basis both the cohort at a site, and the strengths of the staff group, and then organise staffing to best manage the needs on each day based on the activities

of the cohort. In other words, done properly, you cannot hope to model staffing levels anywhere near accurately because of this variability. Adults homes tend to have more rigid and predictable staffing rotas.

C. There is not stable demand, supply or occupancy rates in the majority of Children's Homes. Financial outcomes, costs, fees etc. are far more sensitive to occupancy than to anything else. Homes are on average much smaller than in adults' services, a fact that magnifies the impact.

The case in point to illustrate this is a two bed unit. If the provider costs the placements when full, and then the next day a child leaves, then the costs DOUBLE per bed overnight. With that level of impact then facts such as whether the cost of care worker is +/- 5% becomes irrelevant.

Quality and Outcomes

The Cost Calculators do not measure outcomes or quality. This alone is their greatest failing.

The tools risk putting outstanding rated homes that achieve placement stability, engagement with education, and therapeutic input, alongside failing homes that simply contain young people. Without a tool to measure outcomes consistently across providers the cost information has no context and could be rendered worthless.

Several independent reports (e.g. Demos – In Loco Parentis) in the last year have strongly advocated that whole life costs are what is important in the assessment of value of services for children. Point in time snapshots of costs fail to achieve this.

Different accounting approaches

For any kind of credibility the tools have to be applied to all provision, including local authority provision, charity/voluntary sector provision and private sector provision.

The accounting rules and statutes governing the information required for reporting in each of those sectors are different for each sector. It was accepted by the presenters at the West Midlands event that the model therefore is unable to make fair comparisons on a similar basis.

My accountancy experience is that organisations in these sectors have very different overhead infrastructures, and that two organisations in the same sector may well utilise different overhead allocation methodologies. Hence comparability is further undermined even within each sub-sector.

Checking the figures

Various statutes require that financial information reported publically shall be subject to independent audit. Small organisations (including many providers) are exempt from audit requirements.

The cost calculator tools potentially provide a mountain of detailed costing data. Providers are concerned that the following issues have not yet been addressed:

1. The depth and complexity of data goes beyond what could be said to be reasonably required by contract terms. The cost of producing the data may therefore need to be passed on to the purchaser as a separate and additional charge for the information.
2. There would appear to be no mechanism to audit or verify that all providers have applied the same accounting approaches or indeed whether the figures provided are accurate.
3. Local authorities will need to invest in resources to handle the data provided. This is both a capacity issue and a capability issue. The volume of data is potentially vast, and will require new skills to interpret. Providers would be concerned to know that the people receiving the information were qualified and experienced in understanding financial accounting in all forms and sectors.
4. The data provided is potentially commercially sensitive and therefore confidential to each provider. Commissioners using cost calculators will need to address the issues related to this.

Practical realities

The simplistic assumption about return on investment described at the West Midlands event is fatally flawed. It takes no account of intangibles such as know-how, or where in the project life-cycle a home or organisation sits.

Staff are rarely variable costs. Levels of sickness, staff churn, overtime rates, staff rotas, payments for bank holidays, holiday cover, pension scheme membership rates and contribution levels, employer burden (e.g. NI rates) do not stay fixed and sometimes vary daily depending on events shift by shift.

Unpredictable costs can be significant – repairs, overtime, recruitment, training, staff churn, insurance rates, fuel prices, VAT rates, interest rates.

The model doesn't accommodate start-up/loss-leader pricing, or volume discounts, or early payment discounts, or preferred provider discounts, or block contract pricing. In short it is just not reflective of a dynamic pricing marketplace.

Recommendation

The sector needs to ask to see that a robust financial payback assessment of this project has been made. This should include a real costing of the time and resources required to implement several calculators across multiple regions. Benefits need to be carefully tested and valued, taking full regard of the points and issues raised above.

My every instinct is that in these stressed economic times the sector could invest these resources more wisely in finding efficiencies in other ways (and other sectors).

I believe the efforts and funding going into cost calculators would be more gainfully employed in looking for ways to address variable demand and occupancy patterns that providers experience. There is ample clear evidence that local authorities and providers create mutual efficiency through the smart use of techniques that lower volatility of demand and secure greater predictability on the supply side. It is difficult to comprehend how an onerous costing tool has any impact on the fundamental dynamics of supply and demand, or what it does to improved outcomes for the most vulnerable and challenging cohort in our society.

I believe the sector is always willing to see other perspectives, and I am sure that the sector would benefit from an open and detailed consultation nationally on this issue.

That is what this paper invites.