

# THE COSTS OF REGULATING CARE HOMES FOR ADULTS

PSSRU

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## INTRODUCTION

This paper summarises the results of a Department of Health funded study of health and local authority inspection units in England carried out by the Personal Social Services Research Unit. The research was commissioned in response to recommendations made by the Burgner review of regulation and inspection of social services. The recommendation was that the cost of regulation should be independently reviewed with a view to relating fee levels more closely to the actual costs of regulation (Burgner, 1996, p.8). This view has been supported by the recent White Paper, *Modernising Social Services*, which highlighted the importance of effective regulation of services provided for vulnerable people. An effective regulatory service such as that planned through independent regional authorities needs to be properly funded and this can not be achieved without an understanding of the costs of the regulatory process.

The primary aim of the study was to identify the costs to health and local authorities in England of regulation of residential and nursing homes for adults in a way that provides a basis for setting cost-related fees at a national level.

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## METHODOLOGY

The regulatory function is to ensure that homes and proprietors are fit for the purpose at registration and remain fit. In order to identify the costs of the achieving this objective, it was necessary to identify measurable activities, resources required to deliver these activities and, ideally, outputs of these activities.

Five classifications of regulatory activities were identified: inspection, registration (new and re-registration), dealing with complaints, enforcement, and policy and practice development. The study needed to adopt an approach to costing the resource inputs to these activities which would be comprehensive, would reflect variations in resource use and be consistent across activities and units.

Given the complexity and variety of unit activities associated with expenditure, a bottom-up approach was adopted. This estimates the unit cost of resources and links these to the level of resources required for any given activity. The main concern with this approach is to ensure that all relevant resources have been identified and costed.

The main data collection was a questionnaire survey of all inspection units in England during the summer of 1998. Information was collected about unit level staffing, activity and expenditure; inspector characteristics and a sample day's time use; and a sample of recently undertaken inspections and registrations. In addition to the main survey, detailed information was collected about the resources required for rare but costly enforcement actions.

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## RESULTS

In total 109 local authority units, 89 health authority units and 13 joint units were surveyed. At least some information was sent by 77 (71 per cent) local authority units, 65 (73 per cent) health authority units and 11 (85 per cent) of joint units. Units were asked to distribute questionnaires to all inspectors (including managers and heads) that had any responsibility for adult care homes. Responses were received from 392 local authority inspectors, 182 health authority inspectors and 91 joint unit inspectors. It is not straightforward to estimate the response rates for inspectors but the indications were that these represented at least two thirds of relevant staff.

### *Characteristics of units*

Differences in the extent of their responsibilities have resulted in local authority and health authority units tending to have rather different organisational arrangements. Joint units are dominated by their local authority responsibilities and tend to be similar to local authority units.

Eighty-nine per cent of local authority units were located in social services departments with the head of the unit reporting directly or indirectly to the Director of Social Services. The remaining units were housed in a variety of other local authority departments. The same pattern was found in joint units. The arrangements in health authorities were so varied there

was no clear way to classify them. Few of either local or health authority units had ring-fenced budgets, although six of the nine joint units were financially ring-fenced. Approximately three quarters of both local and health authority units were organised as cost centres, with the remainder being part of other departments or other larger cost centres.

Local authority units were considerably larger than health authority units with 11.6 members of inspection and managerial staff on average compared with 2.6 in health authority units. Joint units were similar to local authority units with an average of 11.1 members of staff. This difference in size resulted in different managerial structures. Health authority heads were more likely to carry a regular inspection caseload and take the lead on registrations than local authority heads. In very few health authority units were there any managers other than the unit head, whereas there were in over 40 per cent of local authority units.

Local authority units were responsible for on average 200 homes for adults (including homes with fewer than four residents), ranging from 15 homes to over 1,200. Joint units were responsible for rather more homes, on average 261 homes. The smaller health authority units were responsible for 73 homes on average, 52 of which were nursing homes. The majority of homes were for elderly people: 82 per cent in health authority units and 57 per cent in local authority units. Approximately one third of homes regulated by local authority units were homes for fewer than four residents.

On average, inspectors at each of the three types of unit had been in post for similar lengths of time, between four and five years. They tended to have different backgrounds, however. Local authority inspectors were more likely to have social work qualifications and to have managed or worked in care homes in the past, and health authority inspectors were much more likely to have nursing qualifications.

Inspectors provided details of time spent on individual activities during a sample day worked. The proportions of time spent on each classification of regulatory activity are shown for local authority and health authority inspectors in figure 1.

For the most part, units were fulfilling their statutory responsibilities and inspecting homes twice per year. A quarter of all inspections carried out by local authority units involved a lay assessor. Health authority units conducted more inspections than local authority units, averaging well over two inspections per home. Health authority units were dealing with a larger number of complaints per home than local authority units, but in terms of overall time use, both types of units were spending approximately 10 per cent of time overall on complaints.

### Costs of regulatory activities

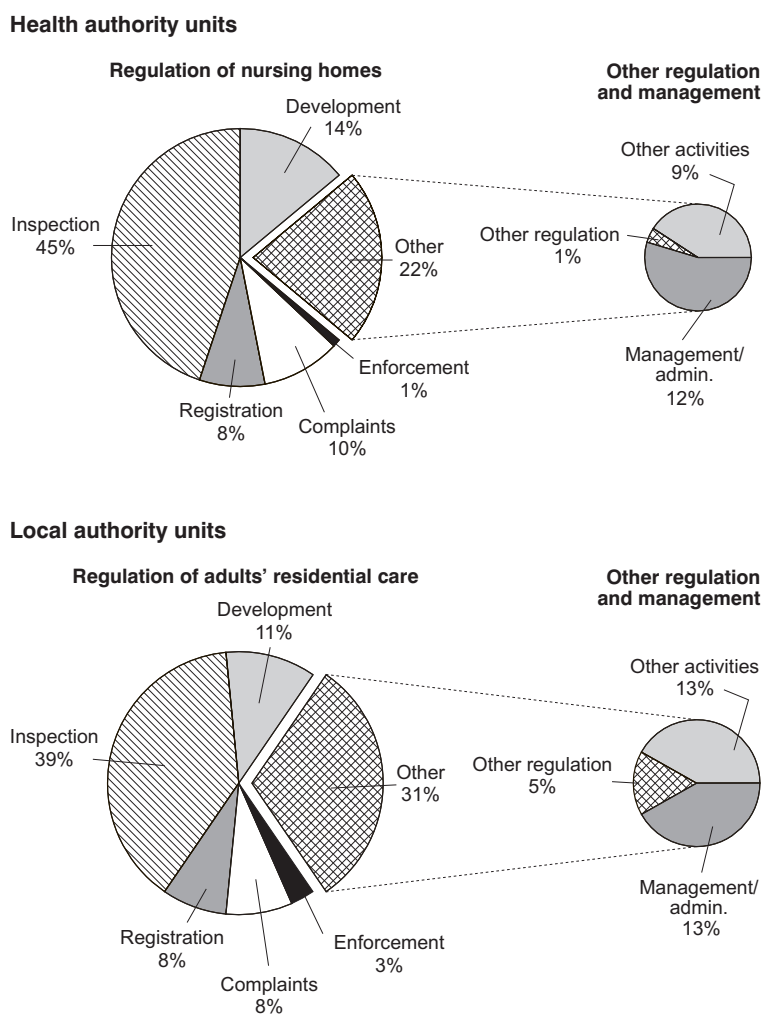
The average costs of eight activities relating to inspection and registration functions were estimated. These activities were: announced inspections; unannounced inspections; new registrations; and variations, re-registrations and de-registrations, for both health and local authority units. The average number of hours of staff time and average costs are shown in table 1. The most important input is the cost of inspector time. The hourly cost was estimated on the basis of full costs including overheads and the expected number of hours worked, allowing for sickness and annual leave. This was adjusted to reflect time spent on general administration and other regulatory activities.

The estimated costs in table 1 also include the costs of other inputs external to the unit for which a charge was made, or for which a charge would be made if the unit were independent. The costs of external inputs were not included in those situations where the expert was carrying out their own duties, for example fire officers.

### Variations in costs of regulatory activities

The reasons why costs fluctuate between

**Figure 1 Inspectors' time use**



**Table 1 Level of staff input and average costs of regulatory activities**

Activity	Local authority units			Health authority units		
	Average no. of hours	Average cost	No. in sample	Average no. of hours	Average cost	No. in sample
Unannounced inspection	10	£650	117	14	£820	104
Announced inspection	18	£1,110	111	16	£1,000	108
New registration	29	£1,960	58	45	£2,820	57
Variation/re-/de-registration	22	£1,480	80	20	£1,600	80

**Table 2 Factors associated with higher costs**

	Local authority units	Health authority units
Unannounced inspection	Number of beds Mental health clients London location Announced inspection	Number of beds Mental health clients Elderly clients Shire authority Announced inspection
Registration	Number of beds Clients with learning disability Mental health clients Single home (not a chain) Residential care home Fit person check undertaken	
Variation in registration	Elderly clients Mental health clients Change of owner New build variation De-registration due to business failure Local authority inspection unit	

**Table 3 Factors associated with lower costs**

	Local authority units	Health authority units
Unannounced inspection	Satisfactory inspection Routine inspection (not initiated by complaint) Size of inspection unit	Satisfactory inspection Private sector home Size of unit
Registration	Purpose built home Private sector home Size of inspection unit	
Variation in registration	Change in registration status (e.g. dual to res. home) Size of unit	

units and between particular regulatory activities were investigated using information provided by units about the characteristics of the home, unit characteristics including location, and outcome of the activity.

Factors associated with higher costs are shown in table 2 and those factors associated with lower costs in table 3.

In relation to inspection, in both local and health authority units, where the inspection was judged to have a satisfactory outcome, the cost of the inspection was less than where major or many actions were required by the provider. The total number of places in residential and nursing homes affected costs of inspections, as larger homes appear to require greater resources. However, the effect of one extra bed is small, only £3.57 for residential homes and £5.80 for nursing homes.

Homes inspected by the local authority and catering primarily for people with mental health problems were predicted to cost £921 to inspect, which is 19 per cent more costly than the predicted £777 to inspect a home for other client groups. In health authority units, inspections of homes for both people with mental health problems and elderly clients were more costly to inspect than homes for other client groups, at £1,022 and £932 respectively. These costs are 35 per cent and 21 per cent higher than the predicted cost of £759 to inspect a home for another client group.

When the inspection by a local authority unit was announced, it was on average £368 more expensive than an unannounced inspection and when it was non-routine, for example initiated by a complaint, it was on average £361 more costly.

A similar pattern of influence was found on registration costs, with client group, size of home and size of inspection unit influencing costs. It was interesting to note that de-registration for reasons of business failure was one of the most costly types of registration changes.

### Enforcement

Information gained through interviews with inspection staff at seven units enabled the resource consumption of nine costly enforcement actions to be identified and the total cost of the action estimated using the bottom-up approach. Resources included inspection staff time, involvement by other agencies for advice and legal advice and representation. With the exception of one case, costs were estimated on the basis of activities undertaken once a decision to proceed with formal sanctions had been taken.

Two of the units were health authority units and the rest local authority units. Homes represented in the sample included nursing homes, residential homes for elderly people and residential homes for people with mental health problems. The size of homes ranged from a small boarding house for three people with mental health problems to a 30-bedded residential home. All homes were in the private sector.

A range of reasons for enforcement were given, from generally poor care reflecting the unfitness of the proprietor to two cases of physical abuse and one failure of the building to meet London standards. The duration of cases also varied widely, from less than 13 hours for an emergency cancellation to over two years. In eight of the nine cases, the action took in ex-

cess of six months to resolve. Actions included emergency cancellations of registration and notices of proposal to cancel the registration. The decision of the unit to cancel the registration was upheld by the registering authority committee, tribunal or magistrate in every case presented.

The nine cases demonstrated that, although enforcement is a rare event in relation to the number of homes regulated, it is very costly. Costs ranged between £2,794 for an emergency closure and £122,880 for an action against two homes. These costs are experienced as serious opportunity costs to inspection unit staff time and may lead to failure to meet statutory inspections. By far the largest items of expenditure were the inspection staff time and legal advice. Total staff time involved in the cases ranged from 60 hours to 1631 hours. This accounted for between 66 per cent and 92 per cent of the total costs in each case. Legal costs ranged from 8 per cent to 32 per cent of the total costs.

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## DISCUSSION

The study results confirmed the expectation that fees do not currently cover the costs of regulating care homes for adults. An interesting finding from this study was that the most important factor affecting the difference between fee income and costs of regulating care homes is the issue of size of home. Currently annual fees are charged on a per bed basis. Although a statistically significant relationship was found between size and costs of inspections, overall the relationship was not marked. Only 10 – 20 per cent of the variation in the cost of regulation is related to the size of the home, although the current fee structure bases 100 per cent of fees on home size, with both residential and nursing homes being charged a set rate of £46 per bed per year.

The implication of this is that while fee income increases rapidly with home size, the cost of inspections (and other regulatory functions) does not. So, if an authority has a large number of relatively small homes, the fee income will be much less than the costs of regulating those homes. If on the other hand, the authority has a large number of large homes, the fee income may cover or even exceed the costs of regulating those homes. This study found that other factors were also associated with the costs of inspecting homes. These were the client group and a regional effect for London local authority units.

It is necessary to consider how fees can be set in a way which reflects these cost variations, is straightforward to administer and is transparent to providers. Not all factors that affect costs should, or would, be practical to include in fees. Nevertheless, if fees are to cover costs, it will be important to monitor all those characteristics which affect costs, as this will assist in both explaining where fees and income diverge, and assist in updating fees at a rate that reflects real cost increases.

Clearly other policy issues will need to be taken into consideration when setting fees. It is important that inappropriate incentives are not set up and that the issue of affordability by providers is considered. Nevertheless, the results provide an important starting point in the process of revising current arrangements for charging providers for the regulatory function. Once the decision is made about how fees are to be set, the analysis presented allows the derivation of indicators that would reflect the expected changes in underlying costs of regulation.

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## FURTHER INFORMATION

For further details, please contact the project secretary, Lesley Banks, at the PSSRU in Canterbury: telephone 01227 823963, email [L.A.Banks@ukc.ac.uk](mailto:L.A.Banks@ukc.ac.uk).

A full 122 page report of the study is available: *The Costs of Regulating Care Homes for Adults*, Ann Netten, Julien Forder and Jane Knight, PSSRU, Canterbury, 1999, at the PSSRU website: [www.ukc.ac.uk/PSSRU/downloads/ddp1496.html](http://www.ukc.ac.uk/PSSRU/downloads/ddp1496.html). Paper copies, price £10 including post & packing (cheques payable to 'UniKent') are available from the Librarian at the PSSRU in Canterbury: telephone 01227 827773.63, email [pssru\\_library@ukc.ac.uk](mailto:pssru_library@ukc.ac.uk).

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