

Market Sustainability and Fair Cost of Care Fund 2022 to 2023

Annex B: Cost of Care Report - Age 65+ care homes

Derby City Council

Background and context

The Market Sustainability and Fair Cost of Care Fund ('the fund') sets out funding parameters in support of local authorities to prepare their markets for reform, including the further commencement of Section 18(3) of the Care Act 2014 in October 2023, and to specifically support local authorities to move towards paying providers a fair cost of care.

As a condition of receiving future funding from the fund, Councils are required to evidence the work undertaken to prepare their markets for wider charging reform and thereby increase market sustainability. This required them to produce:

- Cost of care exercises for 65+ care homes and 18+ domiciliary care
- A provisional market sustainability plan, using the cost of care exercise as a key input to identify risks in the local market, with particular consideration given to the further commencement of Section 18(3) of the Care Act 2014 (which is currently in force only for domiciliary care) – a final plan will be submitted in February 2023
- A spend report detailing how funding allocated for 2022 to 2023 is being spent in line with the fund's purpose

This report sets out the approach adopted by Derby City Council in meeting the conditions of the fund and how the cost of care estimates submitted to DHSC within Annex A have been arrived at.

Approach to the exercise

Derby City Council, alongside a number of East Midlands local authorities, commissioned the services of Care Analytics, a specialist in the financial analysis of care markets and the cost of care, to undertake the Fair Cost of Care exercise. This process is one part of the work Care Analytics will be delivering for Derby, which will also include a further analysis of our commissioning and market context to inform our future approaches to care market sustainability and fees.

All providers in scope for the 65+ care home market were sent a detailed survey designed by Care Analytics to capture the necessary operational and contextual detail to draw out the inherent costs of delivering care in the local market. Responses were received directly by Care Analytics and have been reviewed and analysed, with an extensive query process for responses where clarification was needed. This has produced the resulting data analysis of median and quartile costs required from this exercise.

Written correspondence was issued, and direct provider engagement sessions were set up for providers to attend in order to go through the survey template and the process with the

support of Care Analytics. The Council's Adult Social Care Commissioning team also worked directly with individual providers to ensure they were clear on the process and any queries could be resolved.

Interpretation of Annex A results

At this point it is extremely important that DHSC understands the context of the data that has been reported in Annex A. Whilst we acknowledge the intentions of the wider exercise, we cannot stress strongly enough that the Fair Cost of Care median costs alone are not an appropriate basis to inform Council commissioning or fee rates.

Whilst it is fair to say that the median is less skewed by high outlier values (as opposed to averages), the median values themselves can be skewed if the data set does not comprise an appropriate sample of the existing make-up of providers in the local market. Derby's survey response resulted in a reasonable sample size (see section below on 'response rates'), however it is also vitally important to recognise (and ensure) that the data obtained reflects an overall pool of efficient providers as referenced in the requirements of Section 4.31 of the Care and Support Statutory Guidance.

We are particularly conscious that different care home operators locally, have different underlying business models. For example, care homes operated by groups have a different level of Head Office costs than those operated by independent smaller operations. Newer built care homes will inherently have higher capital investments as opposed to older care homes where mortgages will have been considerably reduced or settled over time. Both are key considerations when setting an appropriate return on capital. It would also be prudent to fully assess the impact of post-pandemic occupancy levels in care homes and any residual impact that may be having on unit costs which would impact the calculation of an appropriate return on operations.

For this reason, we must be clear that it is our view that the Fair Cost of Care median costs obtained through this exercise and reported in Annex A are not an absolute basis to inform any finalised sustainable fee rates for future Council commissioning. The data we have collected through this process will provide rich intelligence on which to base further work to support future council commissioning and market shaping. With Care Analytics, we will now undertake further detailed analysis of the data obtained through the Fair Cost of Care exercise and the composite of the median costs, to help us to assess the appropriateness of the data as a fair and meaningful representation of provider cost structures who operate in our local market. The results of this further work will inform the rates on which to base our usual fee rates/commissioning going forwards. This work will be evidenced in the final market sustainability plan, to be submitted in February 2023.

Response rates

A total of 21 care homes submitted a survey to inform both the Council's Fair Cost of Care return and the wider analysis of the local care home market that is to follow.

Of these submitted surveys, we have been able to use 20 in the Fair Cost of Care return. This included 12 out of 24 older adult nursing homes and 8 out of 20 older adult residential care homes. 9 out of the 12 older adult nursing homes reported a significant number of residential residents and so have been used for both the residential and nursing analysis. Where nursing homes reported only a handful of residential residents (without nursing), all residents were classified as nursing.

We were unable to use one survey owing because only partial data was supplied. The data submitted within this survey will contribute to our understanding of the local market, but there were too many gaps to be able to reliably report the care homes staffing or non-staffing costs for the return.

Justification of the proposed approach to return on capital and return on operations

Within Annex E to the fund, DHSC has provided some guidance in support of the calculation of a return on capital and a return on operations. There is a large amount of discretion around the underlying calculation of both elements and expectations of a level of return will differ across provider business structures. Clearly the level of return needs to deal with the layers of risk and desired profit. We have set out below our proposed approach for both elements:

- **Return on capital**

We have provisionally used the 'Potential Approach 1' as set out in the DHSC guidance whereby the return on capital value has been calculated using the median freehold value per bed (note: separate valuations have been obtained from this exercise for 65+ residential care and 65+ residential care with nursing care homes). We additionally have included a provision in the calculation to reflect an estimate for the value of the equipment and furniture in a care home (the equivalent of depreciation). A return on capital has then been calculated using a rate of return on capital of 6.0%. We are clear that, at this stage, this represents a highly provisional figure, and its final value is subject to change as we undertake further analysis of the market.

- **Return on operations**

Return on operations is a mark-up on operating costs. It is clear that, to maintain a working market, providers need a reasonable rate of return on operations. The public sector should not be rewarding care home operators with excess profits, but equally we recognise that providers need to make a return to remain in the market and maintain provision. We have provisionally input 5% for a return on operations.

We believe this is a fair minimum plausible mark-up, though we note that different operating models can produce very different needs for a rate of operating return. The figure should therefore be seen as a guide rather than representing a robust assessment.

Lower quartile, median and upper quartile costs

A table setting out, for each service type, details showing the count of observations, lower quartile, median and upper quartile (where relevant) of all items in Annex A, Section 3 is included as **Appendix 1** to this report.

To be included in the Fair Cost of Care analysis, a care home had to report one or both of all their staffing costs and all their non-staffing costs. Where the total observation count is higher than the respective counts for staffing or non-staffing, this will be due to a handful of care homes which only reported either their staffing or their non-staffing data, but not both.

Annex A, Section 3

The full table in Annex A, Section 3 is included as **Appendix 2** to this report and sets out the median values for each care type.

Basis of data collection

The data from providers was collected during July and August 2022. The financial year was 2022/23. In some instances, historic cost data was used for non-staff cost categories, based on the providers most recent completed financial accounts. Each such cost was then uplifted to a 2022/23 equivalent baseline using an appropriate CPI index. This was done at the most granular level possible so that inflation adjustments are as accurate as possible.

Providers were also asked to identify any costs that had (or would) increase for 2022/23 to an extent that would not be reflected using CPI measures of inflation. Many providers took advantage of this by providing details about structural cost increases, notably utilities and insurance. Each provider's costs were updated to reflect any new baseline where data was supplied.

Payroll data was collected from a recent payroll period in the 2022/23 financial year to inform employer national insurance and pension contributions as a percentage of wages.

For future years, in order to uplift the Fair Cost of Care cost model:

- Staffing costs would be uplifted using a combination of the National Living Wage (for lower paid staff) and any other reasonable method (for higher paid staff). Such

a methodology would need to reflect any pay differentials where necessary to reflect different roles/responsibilities of staff.

- Non-staff costs would be uplifted using an appropriate CPI index.
- Any inflation methodology would also need to take into account structural changes relevant to care home costs.

Description of the questions asked/template used as part of the data gathering exercise

The survey was designed by Care Analytics. It is an adapted version of the survey that they have used to conduct their existing market review service. As Care Analytics market reviews have a wider scope than the Fair Cost of Care exercise required by DHSC, the survey includes a wider set of questions. This will enable a thorough analysis of the marketplace to be undertaken subsequent to the current Fair Cost of Care process.

The survey asks detailed questions about the care home's facilities and residents. It then asks for a detailed breakdown of current staffing, wage rates by role, employment terms and conditions, and use of agency staff. Non-staff operating costs are collected from previous or current financial years at a granular level. Finally, there are a range of free text questions that providers can answer in their own words to inform the market review.

To promote engagement, providers were offered the opportunity to submit financial information in whatever format was exported from their finance system or was already available in their accounts. Care Analytics then standardised the data into the required format for analysis. Many providers took advantage of this opportunity as it saved them considerable time.

To support the data submissions received from providers via the survey, two financial years' worth of accounts data were also requested, in order to help identify outlier costs or exceptional spends in any one particular year. This then allowed for informed treatment for the purpose of the exercise.

We have standardised non-staff costs to fit the necessary structure of the Fair Cost of Care Annex A template. This is not an exact science as costs are recorded in diverse ways in finance systems. Wherever possible, we have sought not to leave costs as 'other', as this makes meaningful comparison between homes difficult.

Appendix 1 - lower quartile, median and upper quartile costs

Total:	£640	£730	£841	£868	£1,029	£1,180
Less FNC:				£659	£820	£970
	1st quartile	Median	3rd quartile	1st quartile	Median	3rd quartile

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	Count of answers	All residential placements (excluding nurses)	All residential placements (excluding nurses)	All residential placements (excluding nurses)	Count of answers	All nursing placements	All nursing placements	All nursing placements
Total Care Home Staffing	17	£406.76	£426.66	£470.97	12	£601.69	£685.63	£766.47
Nursing Staff					12	£172.51	£258.42	£294.60
Care Staff	17	£261.34	£286.13	£308.01	12	£234.69	£273.98	£296.20
Therapy Staff (Occupational & Physio)								
Activity Coordinators	16	£10.67	£13.43	£16.38	12	£10.09	£11.10	£12.48
Service Management (Registered Manager/Deputy)	17	£34.51	£41.82	£49.74	12	£32.49	£45.27	£53.00
Reception & Admin staff at the home	15	£10.22	£13.21	£13.60	11	£10.22	£12.18	£14.04
Chefs / Cooks	16	£18.49	£24.08	£29.93	12	£19.48	£23.04	£33.69
Domestic staff (cleaning, laundry & kitchen)	17	£41.83	£63.11	£77.23	12	£57.59	£65.52	£77.76
Maintenance & Gardening	16	£10.54	£12.77	£14.68	12	£11.42	£13.31	£14.57

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	Count of answers	All residential placements (excluding nurses)	All residential placements (excluding nurses)	All residential placements (excluding nurses)	Count of answers	All nursing placements	All nursing placements	All nursing placements
Other care home staffing (please specify)								
Total Care Home Premises	16	£25.36	£32.85	£42.31	10	£24.36	£36.17	£44.07
Fixtures & fittings	4	£2.98	£6.98	£11.11	3	£6.42	£10.70	£13.37
Repairs and maintenance	15	£14.87	£29.00	£39.11	9	£22.74	£29.96	£41.92
Furniture, furnishings and equipment	12	£3.79	£6.98	£9.58	8	£1.39	£5.46	£9.08
Other care home premises costs (please specify)								
Total Care Home Supplies and Services	16	£93.27	£101.13	£125.55	10	£100.85	£109.14	£127.59
Food supplies	16	£28.25	£32.94	£39.61	10	£29.82	£33.65	£36.11
Domestic and cleaning supplies	16	£6.31	£8.80	£14.14	10	£5.70	£8.62	£13.57
Medical supplies (excluding PPE)	13	£0.83	£2.08	£4.80	9	£1.92	£3.02	£10.59
PPE	3	£2.74	£3.38	£5.95	2	£2.42	£2.74	£3.06
Office supplies (home specific)	14	£1.44	£2.78	£7.36	8	£5.05	£7.55	£8.95
Insurance (all risks)	12	£4.13	£5.42	£6.61	7	£5.27	£5.47	£6.16
Registration fees	15	£3.48	£3.73	£4.54	10	£3.62	£4.06	£5.51
Telephone & internet	16	£1.07	£1.90	£3.08	10	£1.00	£1.61	£3.35
Council tax / rates	13	£0.77	£0.86	£1.63	9	£0.77	£0.85	£1.63
Electricity, Gas & Water	16	£20.64	£31.64	£52.94	10	£21.56	£31.64	£36.78
Trade and clinical waste	12	£3.19	£5.04	£7.69	8	£5.66	£7.70	£9.13
Transport & Activities	14	£1.32	£1.65	£3.00	10	£0.73	£1.60	£3.00
Other care home supplies and services costs (please specify)	14	£3.88	£5.05	£6.31	8	£5.10	£5.97	£7.29

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	Count of answers	All residential placements (excluding nurses)	All residential placements (excluding nurses)	All residential placements (excluding nurses)	Count of answers	All nursing placements	All nursing placements	All nursing placements
Total Head Office	16	£18.96	£50.07	£61.57	10	£26.12	£56.52	£85.08
Central / Regional Management	3	£8.65	£10.84	£15.56	-	£0.00	£0.00	£0.00
Support Services (finance / HR / legal / marketing etc.)	11	£7.71	£41.18	£52.99	8	£14.00	£30.83	£50.54
Recruitment, Training & Vetting (incl. DBS checks)	10	£0.60	£0.73	£2.38	6	£1.10	£2.38	£3.04
Other head office costs (please specify)	4	£58.76	£82.57	£107.70	3	£77.81	£106.37	£109.03
Total Return on Operations		£27.22	£30.53	£35.02		£37.65	£44.37	£51.16
Total Return on Capital		£68.65	£88.62	£105.50		£77.09	£97.24	£105.18
TOTAL		£640.21	£729.85	£840.92		£867.76	£1,029.07	£1,179.56

Supporting information on important cost drivers used in the calculations:	Count of answers	All residential placements (excluding nurses)	All residential placements (excluding nurses)	All residential placements (excluding nurses)	Count of answers	All nursing placements	All nursing placements	All nursing placements
Number of location level survey responses received	17	17	17	17	12	12	12	12
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	27	27	27	27	24	24	24	24
Number of residents covered by the responses	455	455	455	455	12	266	266	266
Number of carer hours per resident per week	17	20.4	22.6	24.4	12	19.6	20.6	23.1
Number of nursing hours per resident per week						7.8	10.2	12.3

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	Count of answers	All residential placements (excluding nurses)	All residential placements (excluding nurses)	All residential placements (excluding nurses)	Count of answers	All nursing placements	All nursing placements	All nursing placements
Average carer basic pay per hour	17	£9.97	£10.28	£10.63	12	£9.96	£10.23	£10.51
Average nurse basic pay per hour						£17.99	£18.52	£19.34
Average occupancy as a percentage of active beds	17	82.4%	88.5%	96.2%	12	77.9%	87.2%	94.2%
Freehold valuation per bed	7	£44,496	£61,802	£76,435	3	£51,815	£69,274	£76,159

Appendix 2, Annex A, Section 3 – median values for each care type

Total: £730 £1,029
Less FNC: £820

	All residential placements (excluding nurses)	All nursing placements
Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.		
Total Care Home Staffing	£426.66	£685.63
Nursing Staff		£258.42
Care Staff	£286.13	£273.98
Therapy Staff (Occupational & Physio)		
Activity Coordinators	£13.43	£11.10
Service Management (Registered Manager/Deputy)	£41.82	£45.27
Reception & Admin staff at the home	£13.21	£12.18
Chefs / Cooks	£24.08	£23.04
Domestic staff (cleaning, laundry & kitchen)	£63.11	£65.52
Maintenance & Gardening	£12.77	£13.31
Other care home staffing (please specify)		
Total Care Home Premises	£32.85	£36.17
Fixtures & fittings	£6.98	£10.70
Repairs and maintenance	£29.00	£29.96
Furniture, furnishings and equipment	£6.98	£5.46
Other care home premises costs (please specify)		
Total Care Home Supplies and Services	£101.13	£109.14
Food supplies	£32.94	£33.65
Domestic and cleaning supplies	£8.80	£8.62

	All residential placements (excluding nurses)	All nursing placements
Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.		
Medical supplies (excluding PPE)	£2.08	£3.02
PPE	£3.38	£2.74
Office supplies (home specific)	£2.78	£7.55
Insurance (all risks)	£5.42	£5.47
Registration fees	£3.73	£4.06
Telephone & internet	£1.90	£1.61
Council tax / rates	£0.86	£0.85
Electricity, Gas & Water	£31.64	£31.64
Trade and clinical waste	£5.04	£7.70
Transport & Activities	£1.65	£1.60
Other care home supplies and services costs (please specify)	£5.05	£5.97
Total Head Office	£50.07	£56.52
Central / Regional Management	£10.84	£0.00
Support Services (finance / HR / legal / marketing etc.)	£41.18	£30.83
Recruitment, Training & Vetting (incl. DBS checks)	£0.73	£2.38
Other head office costs (please specify)	£82.57	£106.37
Total Return on Operations	£30.53	£44.37
Total Return on Capital	£88.62	£97.24
TOTAL	£729.85	£1,029.07

Supporting information on important cost drivers used in the calculations:	All residential placements (excluding nurses)	All nursing placements
Number of location level survey responses received	17	12
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	27	25
Number of residents covered by the responses	455	266
Number of carer hours per resident per week	22.6	20.6
Number of nursing hours per resident per week		10.2
Average carer basic pay per hour	£10.28	£10.23
Average nurse basic pay per hour		£18.52
Average occupancy as a percentage of active beds	88.5%	87.2%
Freehold valuation per bed	£61,802	£69,274