Cost of Care Annex B: Care Homes

(Ealing Council)

Contents

Introduction and exercise constraints

For clarity, as defined by the Department of Health Guidance, the cost of care best describes the actual costs a care provider incurs in delivering care at the point in time that the exercise is undertaken. It is typically presented as a unit cost for an hour of domiciliary care or a bed per week in a care home. Fee rates or prices most commonly refer to the figure a local authority sets and/or agrees to pay a provider for a particular service and will vary in relation to the type of service, contractual framework or level of need. For reporting purposes for this exercise as defined by the Department of Health, and in terms of understanding the cost of care, fair means the median actual operating costs for providing care in the local area (following completion of a cost of care exercise) for a series of care categories. Fair/median costs are considered under this exercise to be "what is sustainable for the local market". The government recognises that this may

oversimplify what is a complex picture of care and support needs. But for data collection purposes it is necessary to find a way of standardising cost reporting. The outcome of the cost of care exercise is not intended to be a replacement for the fee-setting element of local authority commissioning processes or individual contract negotiation. However, as commissioners, we have a fundamental difference of opinion in the relevance of a median as sustainable. In statistical terms, given the wide variety of operating models within each setting, it is a very simplified model and would not be used in lieu of detailed market analysis and more nuanced provider engagement and understanding to inform the councils direction of travel in relation to fees and sustainability.

This document provides key interpretation notes for the Cost of Care (CoC) care home outputs that have been provided in annexe A. We have several caveats, concerns and qualifications about the validity the approach and results of this exercise, which we will attempt to illustrate in summary. While we recognise the benefit of attempting to establish a shared understanding of operating costs, we do not feel confident that this initial result is satisfactory or indicative of the reality for the range of care home providers who operate in the region. We have had a particularly small sample of useable returns for care homes (the equivalent of 13 homes were included in the calculation for the sub region, accounting for only 32% of bed capacity, excluding the PFI nor do not consider the sample to be representative of the self-funder market). However, in line with the guidance, it provides a starting point for ongoing engagement with the market to understand and respond to a range of sustainability issues and gear our fee/pricing approaches in a way that fulfils our statutory market shaping duties in a challenging economic climate. It will also help us to continue the wider conversation about the impact of future changes outlined in section 18.3 of the Health and Care Act.

The data we have collected through this process will provide some intelligence and further lines of enquiry on which to base future council commissioning and market shaping. However, there are so many confounding variables that the notion that the median reported costs from this sample of care homes represents a ‘fair’ cost of care is questionable.

Feedback from London Councils

Below is an extract of collated feedback from London local authorities on the cost of care exercise, which is offered to further summarise the constraints of the exercise. Many of these points are relevant to the Ealing submission and our experience in undertaking the exercise.

"Having followed guidance, we are not confident that the cost of care figures provided here are fair or sustainable. They provide data without the context and insight to come to an accurate judgement on the fair cost of care. This is because: The cost is derived from a sample of the care market that chose to provide data, so risks not being fully representative of the cost of care.

This is particularly true in London where small care markets are common, and where out-of-borough care home placements are also common.
Costs can vary significantly from provider to provider, impacted by factors that include the size of the organisation, variations in staff pay rates and use of agency staff. There is also significant variation in Return on Operations costs submitted by home care providers and likewise Return on Capital.
Due diligence has been carried out on the data provided, however, there was insufficient time to comprehensively review cost data with providers and there is no practical way of scrutinising central overheads.
The median calculation method produced results that do not reliably reflect market costs.
DHSC guidance did not provide clear criteria for moderation (e.g., adjusting for ROO / ROC).
DHSC guidance recommends querying outliers with providers, however there is no clear line between a cost being inefficient or an outlier.
Rising inflation, living and running costs mean that the data submitted through this exercise at a point in time may no longer be accurate."

"This exercise presented significant and fundamental constraints, including issues with data quality, lack of clarity in the structure and guidance for the exercise and unreliable results being produced by the mathematical median calculation method.

……. these limitations are such that the results produced by this exercise cannot be treated as wholly reliable or accurate"

"……the quality of the cost information produced by this exercise is limited to a significant extent by several key risks and issues. These limitations include the following:

- As the median rate simply selects one value in the middle of the range of prices submitted by providers, this does not guarantee that a median rate will correspond with an accurate market rate.
- The median calculation is more suitable for large data sets, whereas for small sample sizes the addition or removal of a single value can significantly impact the median.
- The method does not give weighting to relevant factors such as the actual number of clients supported by a provider – for example costs submitted by a provider supporting one client would have an equal impact on the median calculation as a provider supporting 100 clients.
- Additionally, the median calculation method diverges from the mean average calculation method to determine the iBCF rates (the average rates paid by councils)
- Providers submitted rates of return on operations and capital across a wide range of values, and in some cases with incomplete backing data on how the values were arrived at. It is advisable to uphold a degree of consistency to moderation of these cost lines to ensure that the median rates identified are accurate and sustainable.

There are several interdependencies that will significantly impact the costs of providing care. Since the deadline for data submissions closed at the end of July 2022, several new developments have emerged which are relevant to provider costs. These include:

- Energy costs: on 8 September 2022, central government announced a policy to provide financial support for households ("energy price guarantee") alongside a new 6-month scheme for businesses and other non-domestic energy users. The details of the scheme are yet to be published.

- Inflation: rate of inflation is unpredictable and continuously changing. The inflation rate for 2022/23 is not a reliable benchmark for determining fees in future financial years; it is necessary to have a dynamic approach to working with providers to understand actual costs.
- London Living Wage: on 22 September, the Living Wage Foundation announced an uplifted London Living Wage rate for the 2022/23 financial year of £11.95.

The data quality concerns are such that, even after final analysis, it is necessary for the local authority to consider other factors in setting fee rates as the cost of care outputs alone do not provide a reliable basis for fee setting. The outcome of the cost of care exercise is not intended to be a direct replacement for the fee setting element of the local authority commissioning process or individual contract negotiations. It is expected that actual fee rates may differ, as the outcome of sound judgement, evidence, and local negotiation. The outputs of this exercise will be one element to inform future negotiations, taking into consideration other known market factors including inflation, demand, capacity, benchmarking, quality and importantly affordability for the Local Authority and availability of funding."

Response rate and sample size

Ealing Council engaged a reputable external partner (Care Analytics) to conduct the statistical analysis on receipt of the submissions. Ealing has worked with this partner for many years to conduct similar pricing and commissioning analysis work. The same partner was used by 2 other neighbouring boroughs, which facilitated the mirroring of our existing sub regional commissioning and market management arrangements and was informed further by their existing understanding of the market in Northwest London. All eligible care home providers based in the Borough were engaged in this exercise, through written communication and a series of online provider forums, with and without the third party supporting the exercise, and electronic qualitative surveys. Support was provided by the partner agency, and the councils Market Management team conducted numerous telephone-based surveys to ascertain and increase the level of participation in the exercise. However, as outlined in this report, there are

considerable issues with the relevance and accuracy of the calculated results of the useable submissions.

There are 24 older adult care homes in scope for the exercise in Ealing. 7 care homes submitted surveys using Care Analytics template. However, 2 surveys could not be used. Only 5 usable surveys were therefore submitted. 3 of the homes are essentially entirely nursing (>95% of residents) and 2 are entirely residential. All 5 surveys are of a good standard. However, it should be noted that the 5 homes include 1 x low-need care home (a circa 1-to-7 daytime care staff to resident ratio), 2 x 1-to-5 daytime care staffing ratio, 1 x 1-to-4 daytime care staffing ratio, and 1 x home with mostly specialist units operating even higher care staffing during the day. Each of these homes is unlikely to be delivering an equivalent level of care. There is no obvious way of classifying these homes by the DHSC's Annex A template categories (standard and enhanced) as there are at least 3 (if not 4) levels of care staffing in these 5 homes. As a result, a set of working assumptions have been used as a solution for reporting for standard and enhanced care categories required for this exercise. The 5 usable surveys account for only 21% of homes in scope for this exercise, and 31% of borough-based bed capacity, excluding the PFI. This was not considered sufficient to inform any meaningful analysis.

Because the sample sizes at a borough are considered statistically small, we have proposed to produce more meaningful CoC results by combining Brent and Ealing data. Given Brent and Ealing have had the same pricing framework within the Commissioning Alliance for some time, there are strong grounds for a joint submission, reflecting our sub regional market profile. Previous benchmarking and analysis indicate that the two markets are very similar, and therefore costs should not differ significantly on a like-for-like basis (where care homes operate similar staffing levels, in a similar type of building, and where the provider has a similar business structure). On this basis the figures calculated here reflect a total of the 13 usable submissions (the equivalent of 6 residential homes and 7 nursing homes). This allows for a sample equivalent to 32% of the overall bed capacity across the combined subregion, and 24% of care homes and is better, but far from ideal, for undertaking statistical analysis.

Despite combining surveys from each borough, the sample sizes still remain small when taken on a care home basis (6 for residential and 7 for nursing). With these types of sample size, the median results could markedly move with the addition of only 1-2 more care homes (and likely would increase quite considerably given the current sample composition compared to the rest of the market).

Median care worker costs are relatively high in the survey sample, as the daytime care staff to resident ratio is a little above 1-to-5 at the median. However, in general, most of the homes in the sample have 'lean' home-based supplies and services, 'lean' ancillary staffing, low repair, and maintenance spend and middling central overheads. The reason the combined sample has these types of cost profile is that most of the surveys are care homes that near exclusively support public-sector funded residents. There are few homes in the survey sample that support significant numbers of self-funders. If the sample was extended to include more self-funder-orientated homes, the median costs would increase (higher spend on ancillary staffing, repairs & maintenance, food, etc., and likely higher freehold capital values). It was noted that there is particularly high volatility around central overheads and reported freehold capital valuations. The inclusion or exclusion of one home can move some numbers significantly. The results provided count each care home once (equal weighting) irrespective of resident/occupancy.

The following are the most important points explaining why the initial CoC median costs are not necessarily an appropriate basis for a direct link between the costs and the councils commission standard-rated placements. This section covers the following considerations

- Small sample size
- Approach to occupancy
- Treatment of outliers
- Treatment of staffing costs, staffing levels and use of agency workers
- Variable and unchallengeable central overhead costs
- Variations in the median capital for council commissioned beds vs self-funded beds

- The interpretation of the word "fair" in relation to the exercise, sample size and validity of any median cost in a market with significantly different overheads depending on model of ownership and operation and exposure to council commissioned beds
- Margins of discretion in different cuts and interpretation of data to manipulate the reported median vs a pure approach (noting limitations of validity of sample size and that Ealing has adopted a pure approach with noted assumptions)
- Relevance of the approach to return on operating cost and capital
- Difficulty in accurately differentiating between the standard and enhanced bed categories in practice. To distinguish between standard and enhanced, we accepted the recommendation of subtracting two care worker hours from the median results for standard and adding two care worker hours for enhanced.
- Difficulty in accurately apportioning costs in dual registered homes
- Difficulty in applying an accurate and consistent approach to nursing care costs
- The variability in the range of reported overheads
- The limitations of this extract in relation to varying inflation pressures currently experienced that are not fully reflected in a time specific snapshot

More detailed explanation of these points is provided overleaf. Furthermore, it has been difficult to work in this space given the uncertainty about the extent to which high or low CoC median values in this exercise will influence future grant funding. Although funding to support reform will be allocated nationally it is important to recognise the disproportionate impact on authorities that have a higher proportion of older adults, more care homes and a high proportion of self-funders – any funding needs to be closely correlated/fully match the financial impact on each authority. We expect challenges in managing expectations and

the extent to which these medians anchor councils to commitments on future prices or rates, which is not the intention, but is something that will, along with our detailed local market analysis and understanding, inform council commissioning and the work we do with sub regional partners. There has been a notable lack of clarity on these issues which has left us, and other councils we have spoken to, in a very difficult position in relation to financial planning and market engagement. Our understanding of the rising demand for care extends not just to cost (and significant inflationary pressures) but to acuity and the impact of an aging population. There is also the potential cost arising from unpaid carers no longer providing support, particularly if adversely affected by changes to benefits. The wider Adult Social Care Reforms agenda represents a new burden for local authorities and must be funded. In addition to issues about the method and statistical relevance of the data capture for the CoC, the lack of clarity about future funding has contributed to questions about the usefulness of the entire exercise.

Detailed Explanation/Qualifications on the Reported Median:

Owing to the small sample sizes, we have NOT excluded any homes because of low occupancy, where unit costs are sometimes much higher. There is also no clear cut-off point for the CoC exercise, especially given that occupancy in many homes is lower than usual owing to the Covid-19 pandemic. In most cases, the lower the home's occupancy, the more variable their staffing unit costs.

We have NOT excluded costs as being outliers unless the costs are inconsistent with other data or impossible. There is no assumption that homes should be reasonably efficient (as there should be when configuring council usual-rate cost models). Whilst the DHSC recommends that outliers should be queried with care homes, there is no clear dividing line between a cost being inefficient or being an outlier for this exercise.

Staffing costs are whole home/unit staffing, only excluding care workers explicitly identified as providing one-to-one support to residents. Some of the staff costs included within the CoC results will be covered by higher fees (or enhancements) paid by the council, CCGs (in particular) and other residents for need-based and other reasons. There is no way of stripping these costs out for the CoC return (which is why care staffing in costs models is best standardised to be meaningful).

Staffing levels vary enormously between homes, and it is not just for need-based reasons. Many homes include a level of ancillary staffing that is aimed at self-funders (paying much higher prices) and is not necessary for safe and legally compliant care. Even if these homes all have costs that are above the median, the resulting median can be dragged up to be in the higher end of costs for standard-rated care (especially in small samples).

Some homes have very high agency usage. This can be either temporary or a long-term way of staffing for some care homes. These costs are included in full in.

Some cost categories are highly variable. The median can therefore be somewhat arbitrary and easily moved. This is especially true of head-office costs (or equivalent), which vary from £5 to £200+ per resident week. There is no practical way of scrutinising central overheads of groups for these types of exercises. It is also not in the council's long-term interest to report 'limits' for such cost categories, as it may distort future exercises of a similar nature.

Some cost categories are highly variable. The median can therefore be somewhat arbitrary and easily moved. This is especially true of head-office costs (or equivalent), which vary from £5 to £200+ per resident week. There is no practical way of scrutinising central overheads of groups for these types of exercises. It is also not in the council's long-term interest to report 'limits' for such cost categories, as it may distort future exercises of a similar nature.

Above all, a sound rule of thumb is to assume that councils commission the majority of the more efficiently priced rooms in any care home market. Even in the same care home, room standards can vary to such an extent (size, location, aspect, facilities) that the difference in relative value can be substantial (if such a thing could be objectively quantified). The median capital value of rooms bought by any council will invariably be substantially lower than the median capital value of all rooms in the market, and indeed, the median capital value in homes with rooms of varying standards. Given all the above, the policy objective that the council needs to start to move towards paying the "fair" cost of care as defined as the median rates following this exercise therefore needs to be carefully interpreted, especially given the relevance of the sample size and usable data.

Given limited financial resources, most councils have understandably based their usual rates/commissioning on a model of efficient care homes with the lowest cost base (for example independent owner- operators in old buildings with 'sunk' (paid-off) capital costs). However, in most markets this will be a long way below the median cost. This is not just a question of cost control or efficiency in the traditional sense of the word. The costs incurred by independent care homes operating in old properties are simply not achievable by homes with different business structures and operating in newer facilities. It is a fact that depending on local market forces, legitimate cost differences across the market are often insufficiently reflected in the way councils commission care home placements.

The discretion (albeit subject to some limited clarification in the guidance) the extent to which councils can reasonably interpret data adds further complication. For example, the discretion around return on capital and return on operations, the possible ways of apportioning care staff to care categories, and the potential limits than can be reasonably set on certain cost lines, collectively mean that any CoC result can be moved by at least £100 per resident week. For example should the council want to report lower CoC results, the potential options for doing so include approaches such as (i) limiting spend on agency staff, (ii) excluding homes with low occupancy (where their costs are high), (iii) setting limits on staffing levels (particularly for some ancillary roles), and (iv) weighting freehold valuations if old stock is under-represented in the sample (or using another methodology that results in a lower return on capital).

However, if adjustments like this are made, it arguably attaches an increased legitimacy to the reported results that 'pure' results need not have. In many respects, it may be easier to report 'pure' results and for the council to stand by the coherent position that the median costs from a sample of care homes in the market are not a suitable basis to determine the amount councils should pay for standard-rated council-funded care-home placements. Ealing has opted to adopt a pure approach and clarify the caveats and limitations in relation to the relevance and accuracy of the calculated median costs for this exercise. In addition, different cuts of the data can lead to different results. This is because the samples are small and care home costs are often highly variable (though not necessarily for the same service). As such, the median (or any quartile) can move depending on how a

sample is selected. This is particularly true in relation to (i) staffing costs, (ii) central overheads, and (iii) reported freehold capital values of care homes, as the range of costs for each of these categories is very wide.

In particular the CoC return requires the council to report both the costs and median price paid by the council for four categories: residential, residential enhanced, nursing, nursing enhanced. Based on previous experience, other than genuinely specialist homes, the distinction between standard and enhanced is arbitrary if describing care homes or care units. The concept only makes sense if describing individuals; and for cost models, the concept only makes sense if care worker and nurse hours are standardised (rather than using the actual staffing in the home). Care homes support individuals with different levels of need and often charge different prices to respective residents in the same care units (sharing the same core staffing). For the CoC exercise, there is no way of apportioning staff to different care categories to take this into account.

It is not possible to use care staff hours to reliably distinguish between standard and enhanced, as staff roles overlap. Small homes (in particular) tend to have very high care worker hours but offset with few dedicated ancillary staff. It is also not possible to use total staffing in the home as a differentiator, as this varies widely for reasons unrelated to need.

We concur with the opinion of the partner who undertook the data analysis in that we do not believe the dementia/non-dementia distinction is useful in this context. Levels of dementia support vary by home and/or care unit. Many homes supporting clients with dementia have lower care staffing than care homes supporting residents without dementia. The notion that a comparatively low-need dementia unit should be classified as 'enhanced' whilst a complex care unit (with much higher staffing) is treated as 'standard' is clearly erroneous. It will also result in inflated unit costs for the standard categories. Furthermore, many units are mixed where the unit classification is uncertain.

The DHSC has confirmed (verbally) that the dementia status is only one way to define enhanced – and councils have discretion about what is reported. As a practical solution, we have adopted the recommend calculation of median costs for all residential placements and all nursing placements. To distinguish between

standard and enhanced, we recommend subtracting two care worker hours from the median results for standard and adding two care worker hours for enhanced. Although this methodology is far from perfect it makes the most sense for the purposes of this exercise for the following reasons.

The approach makes conceptual sense as most care home units are comprised of individuals with a range of needs.

It allows the largest sample to be used for both standard and enhanced categories, reducing the likelihood of unstable and unpredictable results. To some extent, this type of approach is unavoidable with small sample sizes.

Given the adjustments are symmetrical, it means the approach does not change the overall median costs.

The approach aligns to how most councils commission (using some form of standard and enhanced classification with circa 4.0 care worker hours difference between them). The 2- hour adjustment is a matter of judgment and could, for instance, be 1.5 hours or 2.5 hours. This level of gap is not artificial, as it represents the difference between a daytime staffing ratio, such as the difference between 1-to-6 and 1-to-5.

The approach has the advantage of lowering the "headline" figures for standard residential and standard nursing. As well as better aligning with council commissioning for many councils, this may have political advantages, as some stakeholders are likely to anchor to any reported "fair" cost of care as being the minimum councils should pay.

Councils using the iESE data capture tool will likely report results based on a dementia / non-dementia split. This is because the tool ‘forced’ providers to identify residents in this way. However, based on the data we have seen, there are not many homes with different costs for enhanced and standard. This is because (i) most homes only report whole-home staffing and costs are equally apportioned between residents, or (ii) dementia and non-dementia clients often reside in the same care unit and so have the same costs ascribed to them.

There are significant issues around apportioning costs in dual-registered homes (most nursing homes), both in terms of staffing and non-staffing costs. This is another reason why a standardized are more useful for commissioning purposes. It should be noted that to meet the requirements of a nursing registration, a home only needs one qualified nurse for each hour of the week, and this could be a manager, rather than someone working on the care rota. This is particularly problematic in homes that only have a handful of nursing residents, which is common in some markets. Such homes principally have a nurse on the rota for marketing purposes, and so residents can stay in the home if they develop nursing needs. The nurse unit costs in these homes can be very high if nurse costs are only apportioned to nursing residents. Identifying the 'right' number of nursing residents in a home/unit is problematic. There is inconsistency in the way homes classify nursing, it is not solely based on receipt of FNC. It is infeasible to query all the permutations. Where queries were sent to care homes asking about apportioning nurse costs, the answer was nearly always that they could not do it.

To calculate nurse unit costs, we have divided nurse costs by the stated number of nursing residents in the home. This sometimes results in low unit costs and sometimes high unit costs.

Owing to the above factors, there is a reasonable chance that many of the reported nurse and care worker costs (at the median and quartiles) are not a reliable indicator of the "cost" when the council commissions a nursing placement. As a minimum, it is usually necessary to consider nurse and care worker costs collectively (deducting FNC from the total). There are also some non-staff costs (such as medical supplies) that tend to be higher for nursing residents. However, this is often 'lost' within the data in dual-registered homes. It should be noted that according to the FNC definition, such costs are excluded from the calculation of FNC rates.

Care homes support individuals with different levels of need and often charge different prices to respective residents in the same care units (sharing the same core staffing). For the CoC exercise, there is no way of apportioning staff to different care categories to take this into account.

It is not possible to use care staff hours to reliably distinguish between standard and enhanced, as staff roles overlap. Small homes (in particular) tend to have very high care worker hours but offset with few dedicated ancillary staff. It is also not possible to use total staffing in the home as a differentiator, as this varies widely for reasons unrelated to need.

We do not believe the dementia/non-dementia distinction is useful in this context. Levels of dementia support vary by home and/or care unit. The DHSC has confirmed (verbally) that the dementia status is only one way to define enhanced – and councils have discretion about what is reported.

As a practical solution, Care Analytics recommend calculating median costs for all residential placements and all nursing placements. To distinguish between standard and enhanced, we (the council) accepted the recommendation of subtracting two care worker hours from the median results for standard and adding two care worker hours for enhanced.

To be included in the analysis, the care home had to report all their staffing costs OR all their non-staffing costs. If the total observation count is higher than the respective counts for staffing or non-staffing, this will be because of a handful of care homes who only reported either staffing or non-staffing data. Surveys with partial data can be used to inform subsequent analysis of the local market but cannot be included in the analysis.

The median of central overheads can be arbitrary as it can move by large amounts depending on the sample composition. The reported range of costs across all councils with whom working with the partner undertaking the analysis is £5 to £500+ per resident week. Even ignoring the top and bottom 10% of costs, there is still a range of £10 to £150 per resident week. Even though many of the high reported central overheads likely include profit extraction of some sort (such as management charges to linked companies), there is no practical way of scrutinising the central overheads of large organisations without a disproportionate amount of work (and access to their management accounts, which few, if any would allow). Furthermore, many groups (especially charities) genuinely have very high central overheads. We have interrogated various charity accounts in detail to confirm this. For many charities, alternative income sources

mean there is no pressure to have efficient central overheads (and often other costs). Some of these charities exist in North and West London.

Inflation costs in this report based on the snapshot of time in question do not, in our view, reflect the sustained pressures the market is currently experiencing. All non-staff operating costs have been uplifted to May 2022 (around the start of the current financial year). However, the rate of inflation continues to increase. It should therefore be noted that some cost lines reported are already likely to be significantly behind current costs.

We anticipate continued pressure for inflation uplift on council fees into next year. Energy in particular is a real cost pressure faced by care homes when their tariffs come up for renewal. The combined utilities cost line (including water) used to have a range of circa £20-30 per resident week for most homes. It is now probably in the region of £40-70 excluding outliers. Care homes in old energy-inefficient buildings are particularly at risk as new utility bills could potentially be more than £100 per resident week. These increases may be reflective of the current economic climate and need to be addressed as part of our market sustainability duties, within available resources, but may not necessarily be an ongoing and permanent factor in the councils pricing assumptions.

The reported PPE costs are generally a reasonable indication of costs for 2022-23, whilst the government portal remains open. Several providers have estimated a circa £10.00 per resident week cost for PPE next year if the portal closes. This will largely depend on government guidelines on mask usage and mask unit costs at the time. This may therefore be another additional cost next year (compared to the reported CoC results).

Furthermore, it has been difficult to work in this space given the uncertainty about the extent to which high or low CoC median values in this exercise will influence future grant funding. We expect challenges in managing the expectations the extent to which these medians anchor councils to commitments on future prices or rates, which is not the intention, but is something that will inform council commissioning. There has been a notable lack of clarity on these issues which has left us, and other councils we have spoken to, in a very difficult position in relation to financial planning and market engagement. Unfortunately, in our view, in

addition to issues about the statistical relevance of the data capture, this has contributed to questions about the utility of the entire exercise.

Return on capital/Return on Operations

There is a large amount of discretion around both return on operations and return on capital and there has been little useful guidance on how to approach this complex area for CoC reporting.

The fact that the DHSC has produced a template that separately reports both return on operations and return on capital is also not without controversy. This is a 'loaded' presentation as PropCo- OpCo business structures – separate companies owning and operating care homes – contain double layers of risk and profit compared to owner-managed businesses. This decision is considered unusual given that owner-operated businesses make up the majority of the care home market. Many PropCo-OpCo business structures are artificial accounting devices with the same ultimate owner.

By splitting consideration of return on operation and return on capital, you inevitably end up with a higher result (or results that do not seem high enough when considered separately).

We have provisionally input 5% for a return on operations. Informed opinion suggests this is the minimum plausible mark-up. However, it should be noted that for-profit providers would not operate a leased care home with a target return on operations below the 15-20% range where there are risks around occupancy.

Return on operations is a mark-up on operating costs. It is calculated by applying X% to the sum of operating costs. For example, a care home with operating costs of £500 per resident week calculates as £25 return on operations (£500 x 5% = £25).

Return on capital is a different type of calculation. You take the capital value of the care home, multiply it by the return on capital percentage, and then divide by 52 weeks. For example, a care home worth £100,000 per bed with a 5.2% return on capital is £5,200 per year. This is then £100 per bed week.

It is then necessary to adjust for both (i) vacant beds (+5% to 10%) and for (ii)

depreciation of equipment and furniture (an additional circa £20 per resident week is reasonable, though it would be considerably higher in high-specification care homes).

It is not necessary to include depreciation of buildings, land, amortisation of goodwill, or the cost of major works, as these costs are covered by the capital value of the care home. Counting them separately would therefore be double counting.

Reporting the median capital costs has a huge error margin in terms of practical usage, as it will usually be generous for many care homes, whilst hugely understating the capital costs required for newer and better facilities.

As a starting calculation, we have applied a 6% return on capital of the median reported capital value of the care home. We have also added an assumed £15,000 for the value of equipment, furniture, etc. within the care home (essentially depreciation). We have also adjusted to an assumed 90% occupancy as an average vacancy factor.

It should be noted that most self-funder prices are invariably based on significantly higher returns on capital than 6%.

Real-world return on operations and return on capital are a matter of market forces. The care home market has high barriers to entry, so many care homes can achieve very high returns on capital.

For the purpose of this exercise, the result is that depending on treatment the return on capital and operations is just a number that can be moved up or down substantially depending to influence the resulting medians or nature of the care market the sample is trying to represent.

Date of sample and adjustments for inflation

The data from providers was collected during July and August 2022. The financial year was 2022- 23. Historic cost data was used for non-staff cost categories based on the providers most recent completed accounts. Each cost was uplifted to a 2022-23 baseline using an appropriate CPI index. This was done at the most granular level possible so that inflation adjustments are as accurate as possible. Each cost line was updated from the middle of their

respective financial year to May 2022 (close to the start of the 2022-23 financial year).

Providers were 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 providers 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. Given the error margin associated with the cost models (and the fact that the median does not really represent anything meaningful), any error margin associated with an inflation methodology is largely immaterial. What is far more important is that the council gives reasonable fee uplifts for the placements it commissions that are reflective of the cost increases faced by the providers it works with. The council undertakes an annual sub regional price review exercise, informed by benchmarking and inflationary considerations. These considerations include uplifts to statutory minimum pay, RLW considerations where appropriate, pension contributions, NHS uplifts, consumer and retail related factors relevant to the sector. The council reaches settlements based on reasonable assumptions of inflationary pressures through individual provider negotiations and balances this with resource constraints each year as part of the annual inflation negotiation process. Ealing intends to continue to work with providers from 2022/23 to agree local fee rates that are sustainable for the local market.

Data collection method

The survey was designed by Care Analytics. It is an adapted version of the survey that they used to conduct their market review service. As Care Analytics market reviews have a wider scope than the CoC exercise required by the DHSC, the survey includes a wider set of questions to enable a thorough analysis of the marketplace. It also has the added benefit of allowing scrutiny of financial

figures supplied by care homes for coherency, which in turn allows irrational

figures to be challenged or excluded with confidence.

The survey asks detailed questions about the care homes 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 is exported from their finance system or is 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 can save considerable time.

APPENDIX 1: Quartiles

Lower quartile, median and upper quartile (where relevant) of all items in Annex A, Section 3

Table 1: Summary of quartile data for Residential care (note all 41 eligible care homes are counted as residential for this exercise noting our caveats about dual registered homes)

Quartiles	Residential Care	1st quartile	Median	3rd quartile
Subtype	Total:	£717	£810	£1,059
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)
Total Care Home Staffing	6	£447.08	£465.70	£608.85
Total Care Home Premises	5	£17.00	£21.76	£43.54
Total Care Home Supplies and Services	5	£111.14	£117.36	£125.04
Total Head Office	4	£19.09	£60.18	£114.39

Total Return on Operations	n/a	£29.72	£33.25	£44.59
Total Return on Capital	n/a	£92.84	£111.99	£123.08
TOTAL	n/a	£716.86	£810.24	£1,059.48

Table 2: Supporting Information for Residential care

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)
Number of location level survey responses received	6	6	6	6
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	41	41	41	41
Number of residents covered by the responses	178	178	178	178
Number of carer hours per resident per week	5	25.1	27.6	29.6
Number of nursing hours per resident per week	n/a	n/a	n/a	n/a
Average carer basic pay per hour	6	£10.04	£10.34	£10.82
Average nurse basic pay per hour	n/a	n/a	n/a	n/a
Average occupancy as a percentage of active beds	6	88.0%	95.3%	99.1%
Freehold valuation per bed	4	£65,460	£82,058	£91,668

Table 3: Detailed Breakdown for Residential care

Total:		**£717**	**£810**	**£1,059**
Less FNC:				
		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)
Total Care Home Staffing	6	**£447.08**	**£465.70**	**£608.85**
Nursing Staff				
Care Staff	6	£312.86	£336.82	£401.82
Therapy Staff (Occupational & Physio)				
Activity Coordinators	5	£13.78	£15.28	£16.69
Service Management (Registered Manager/Deputy)	6	£40.34	£52.45	£66.50
Reception & Admin staff at the home	4	£11.06	£11.99	£14.54
Chefs / Cooks	6	£20.84	£31.56	£40.12
Domestic staff (cleaning, laundry & kitchen)	6	£22.95	£32.40	£33.94
Maintenance & Gardening	3	£13.38	£13.75	£14.14
Other care home staffing (please specify)				
Total Care Home Premises	5	**£17.00**	**£21.76**	**£43.54**
Fixtures & fittings	-	£0.00	£0.00	£0.00
Repairs and maintenance	4	£20.57	£26.37	£32.85
Furniture, furnishings and equipment	3	£5.75	£6.45	£14.77
Other care home premises costs (please specify)				
Total Care Home Supplies and Services	5	**£111.14**	**£117.36**	**£125.04**
Food supplies	5	£23.98	£30.37	£32.55
Domestic and cleaning supplies	5	£11.06	£11.45	£19.59
Medical supplies (excluding PPE)	5	£1.04	£6.71	£20.92
PPE	2	£1.47	£2.66	£3.85
Office supplies (home specific)	4	£2.66	£2.88	£3.73
Insurance (all risks)	5	£4.95	£5.44	£6.51
Registration fees	3	£3.20	£3.25	£3.30
Telephone & internet	5	£1.98	£2.40	£2.53
Council tax / rates	4	£0.95	£3.91	£6.63
Electricity, Gas & Water	5	£28.79	£32.38	£40.03
Trade and clinical waste	4	£4.35	£4.99	£5.50
Transport & Activities	5	£0.74	£1.62	£2.10
Other care home supplies and services costs (please specify)	5	£3.79	£7.12	£7.96
Total Head Office	4	**£19.09**	**£60.18**	**£114.39**
Central / Regional Management	1	£50.30	£50.30	£50.30
Support Services (finance / HR / legal / marketing etc.)	3	£10.26	£16.64	£22.29
Recruitment, Training & Vetting (incl. DBS checks)	4	£0.69	£1.26	£2.55
Other head office costs (please specify)	3	£15.78	£20.61	£87.80
Total Return on Operations		**£29.72**	**£33.25**	**£44.59**
Total Return on Capital		**£92.84**	**£111.99**	**£123.08**
TOTAL		**£716.86**	**£810.24**	**£1,059.48**

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)
Number of location level survey responses received	6	6	6	6
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	41	41	41	41
Number of residents covered by the responses	178	178	178	178
Number of carer hours per resident per week	5	25.1	27.6	29.6
Number of nursing hours per resident per week				
Average carer basic pay per hour	6	£10.04	£10.34	£10.82
Average nurse basic pay per hour				
Average occupancy as a percentage of active beds	6	88.0%	95.3%	99.1%
Freehold valuation per bed	4	£65,460	£82,058	£91,668

Table 4: Summary of data for Nursing Care (note 25 of the 41 eligible care homes are counted as nursing for these exercises noting our caveats about dual registered homes)

Quartiles	Nursing Care	1st quartile	Median	3rd quartile
Totals	Total	£942	£1,072	£1,288
Subtype	Less FNC	£733	£863	£1,079
Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	Count of answers	All nursing placements	All nursing placements	All nursing placements
Total Care Home Staffing	7	£585.76	£664.25	£754.55
Total Care Home Premises	6	£15.17	£23.51	£40.16
Total Care Home Supplies and Services	6	£117.40	£121.27	£191.58
Total Head Office	6	£31.98	£37.29	£44.76
Total Return on Operations	n/a	£37.52	£42.32	£51.55
Total Return on Capital	n/a	£153.99	£183.44	£205.31
TOTAL	n/a	£941.81	£1,072.08	£1,287.91

Table 5: Supporting Information for Nursing care

Supporting information on important cost drivers used in the calculations:	Count of answers	All nursing placements	All nursing placements	All nursing placements
Number of location level survey responses received	7	7	7	7
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	25	25	25	25
Number of residents covered by the responses	7	455	455	455
Number of carer hours per resident per week	6	22.6	26.7	29.9
Number of nursing hours per resident per week	n/a	7.2	8.1	8.7
Average carer basic pay per hour	7	£10.10	£10.19	£10.38
Average nurse basic pay per hour	n/a	£19.00	£19.66	£19.85
Average occupancy as a percentage of active beds	7	94.2%	95.7%	96.9%
Freehold valuation per bed	3	£118,462	£143,984	£162,936

Table 6: Detailed Breakdown for Residential care

Total:		**£942**	**£1,072**	**£1,288**
Less FNC:		**£733**	**£863**	**£1,079**
		1st quartile	Median	3rd quartile

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	Count of answers	All nursing placements	All nursing placements	All nursing placements
Total Care Home Staffing	**7**	**£585.76**	**£664.25**	**£754.55**
Nursing Staff	7	£182.63	£202.90	£232.13
Care Staff	7	£280.59	£330.74	£356.31
Therapy Staff (Occupational & Physio)				
Activity Coordinators	7	£8.35	£11.83	£14.53
Service Management (Registered Manager/Deputy)	7	£38.47	£50.46	£60.28
Reception & Admin staff at the home	6	£10.29	£11.68	£18.09
Chefs / Cooks	7	£17.31	£23.64	£25.94
Domestic staff (cleaning, laundry & kitchen)	7	£33.66	£44.61	£67.42
Maintenance & Gardening	7	£12.07	£13.75	£14.44
Other care home staffing (please specify)				
Total Care Home Premises	**6**	**£15.17**	**£23.51**	**£40.16**
Fixtures & fittings	2	£1.98	£3.51	£5.04
Repairs and maintenance	6	£10.21	£16.94	£33.12
Furniture, furnishings and equipment	3	£4.53	£5.05	£9.09
Other care home premises costs (please specify)				
Total Care Home Supplies and Services	**6**	**£117.40**	**£121.27**	**£191.58**
Food supplies	6	£30.69	£32.38	£34.75
Domestic and cleaning supplies	6	£11.12	£11.36	£22.27
Medical supplies (excluding PPE)	6	£11.49	£19.96	£21.26
PPE	5	£0.86	£5.69	£10.20
Office supplies (home specific)	6	£3.03	£3.35	£10.31
Insurance (all risks)	6	£5.34	£7.83	£9.85
Registration fees	5	£3.25	£3.36	£3.46
Telephone & internet	6	£1.60	£2.49	£2.60
Council tax / rates	4	£0.37	£0.73	£1.00
Electricity, Gas & Water	6	£32.49	£34.32	£41.60
Trade and clinical waste	6	£5.03	£5.66	£6.13
Transport & Activities	6	£1.66	£1.95	£5.88
Other care home supplies and services costs (please specify)	6	£5.62	£7.54	£17.77
Total Head Office	**6**	**£31.98**	**£37.29**	**£44.76**
Central / Regional Management	3	£33.06	£34.03	£42.16
Support Services (finance / HR / legal / marketing etc.)	6	£4.10	£10.86	£20.77
Recruitment, Training & Vetting (incl. DBS checks)	6	£0.83	£2.07	£5.61
Other head office costs (please specify)	3	£13.98	£20.61	£23.99
Total Return on Operations		**£37.52**	**£42.32**	**£51.55**
Total Return on Capital		**£153.99**	**£183.44**	**£205.31**
TOTAL		**£941.81**	**£1,072.08**	**£1,287.91**

Supporting information on important cost drivers used in the calculations:	Count of answers	All nursing placements	All nursing placements	All nursing placements
Number of location level survey responses received	7	7	7	7
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	25	25	25	25
Number of residents covered by the responses	7	455	455	455
Number of carer hours per resident per week	6	22.6	26.7	29.9
Number of nursing hours per resident per week		7.2	8.1	8.7
Average carer basic pay per hour	7	£10.10	£10.19	£10.38
Average nurse basic pay per hour		£19.00	£19.66	£19.85
Average occupancy as a percentage of active beds	7	94.2%	95.7%	96.9%
Freehold valuation per bed	3	£118,462	£143,984	£162,936

APPENDIX 2: Medians

Annex A, Section 3 with one column of median values for each care type

Table 7: Median values for each care type

Total:	£810	£1,072	£785	£836	£1,046	£1,098
Less FNC:	n/a	£863	n/a	n/a	£837	£889
Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	All residential placements (excluding nurses)	All nursing placements	65+ care home places without nursing	65+ care home places without nursing, enhanced needs	65+ care home places with nursing	65+ care home places with nursing, enhanced needs
Total Care Home Staffing	£465.70	£664.25	£441.30	£490.10	£639.49	£689.00
Total Care Home Premises	£21.76	£23.51	£21.76	£21.76	£23.51	£23.51
Total Care Home Supplies and Services	£117.36	£121.27	£117.36	£117.36	£121.27	£121.27
Total Head Office	£60.18	£37.29	£60.18	£60.18	£37.29	£37.29
Total Return on Operations	£33.25	£42.32	£32.03	£34.47	£41.08	£43.55
Total Return on Capital	£111.99	£183.44	£111.99	£111.99	£183.44	£183.44
TOTAL	£810.24	£1,072.08	£784.62	£835.85	£1,046.09	£1,098.07

Table 8: Supporting information for median values for each care type

Supporting information on important cost drivers used in the calculations:	All residential placements (excluding nurses)	All nursing placements	65+ care home places without nursing	65+ care home places without nursing, enhanced needs	65+ care home places with nursing	65+ care home places with nursing, enhanced needs
Number of location level survey responses received	6	7	6	6	7	7
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	41	25	41	41	25	25
Number of residents covered by the responses	178	455	178	178	455	455
Number of carer hours per resident per week	27.6	26.7	25.6	29.6	24.7	28.7
Number of nursing hours per resident per week	n/a	8.1	n/a	n/a	8.1	8.1
Average carer basic pay per hour	£10.34	£10.19	£10.34	£10.34	£10.19	£10.19
Average nurse basic pay per hour	n/a	£19.66	n/a	n/a	£19.66	£19.66

Average occupancy as a percentage of active beds	95.3%	95.7%	95.3%	95.3%	95.7%	95.7%
Freehold valuation per bed	£82,058	£143,984	£82,058	£82,058	£143,984	£143,984

Table 9: Detailed breakdown of median values

	Total:	£810	£1,072	£785	£836	£1,046	£1,098
	Less FNC:		£863			£837	£889

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	All residential placements (excluding nurses)	All nursing placements	65+ care home places without nursing	65+ care home places without nursing, enhanced needs	65+ care home places with nursing	65+ care home places with nursing, enhanced needs
Total Care Home Staffing	**£465.70**	**£664.25**	**£441.30**	**£490.10**	**£639.49**	**£689.00**
Nursing Staff		£202.90			£202.90	£202.90
Care Staff	£336.82	£330.74	£312.42	£361.22	£305.98	£355.49
Therapy Staff (Occupational & Physio)						
Activity Coordinators	£15.28	£11.83	£15.28	£15.28	£11.83	£11.83
Service Management (Registered Manager/Deputy)	£52.45	£50.46	£52.45	£52.45	£50.46	£50.46
Reception & Admin staff at the home	£11.99	£11.68	£11.99	£11.99	£11.68	£11.68
Chefs / Cooks	£31.56	£23.64	£31.56	£31.56	£23.64	£23.64
Domestic staff (cleaning, laundry & kitchen)	£32.40	£44.61	£32.40	£32.40	£44.61	£44.61
Maintenance & Gardening	£13.75	£13.75	£13.75	£13.75	£13.75	£13.75
Other care home staffing (please specify)						
Total Care Home Premises	**£21.76**	**£23.51**	**£21.76**	**£21.76**	**£23.51**	**£23.51**
Fixtures & fittings	£0.00	£3.51	£0.00	£0.00	£3.51	£3.51
Repairs and maintenance	£26.37	£16.94	£26.37	£26.37	£16.94	£16.94
Furniture, furnishings and equipment	£6.45	£5.05	£6.45	£6.45	£5.05	£5.05
Other care home premises costs (please specify)						
Total Care Home Supplies and Services	**£117.36**	**£121.27**	**£117.36**	**£117.36**	**£121.27**	**£121.27**
Food supplies	£30.37	£32.38	£30.37	£30.37	£32.38	£32.38
Domestic and cleaning supplies	£11.45	£11.36	£11.45	£11.45	£11.36	£11.36
Medical supplies (excluding PPE)	£6.71	£19.96	£6.71	£6.71	£19.96	£19.96
PPE	£2.66	£5.69	£2.66	£2.66	£5.69	£5.69
Office supplies (home specific)	£2.88	£3.35	£2.88	£2.88	£3.35	£3.35
Insurance (all risks)	£5.44	£7.83	£5.44	£5.44	£7.83	£7.83
Registration fees	£3.25	£3.36	£3.25	£3.25	£3.36	£3.36
Telephone & internet	£2.40	£2.49	£2.40	£2.40	£2.49	£2.49
Council tax / rates	£3.91	£0.73	£3.91	£3.91	£0.73	£0.73
Electricity, Gas & Water	£32.38	£34.32	£32.38	£32.38	£34.32	£34.32
Trade and clinical waste	£4.99	£5.66	£4.99	£4.99	£5.66	£5.66
Transport & Activities	£1.62	£1.95	£1.62	£1.62	£1.95	£1.95
Other care home supplies and services costs (please specify)	£7.12	£7.54	£7.12	£7.12	£7.54	£7.54
Total Head Office	**£60.18**	**£37.29**	**£60.18**	**£60.18**	**£37.29**	**£37.29**
Central / Regional Management	£50.30	£34.03	£50.30	£50.30	£34.03	£34.03
Support Services (finance / HR / legal / marketing etc.)	£16.64	£10.86	£16.64	£16.64	£10.86	£10.86
Recruitment, Training & Vetting (incl. DBS checks)	£1.26	£2.07	£1.26	£1.26	£2.07	£2.07
Other head office costs (please specify)	£20.61	£20.61	£20.61	£20.61	£20.61	£20.61
Total Return on Operations	**£33.25**	**£42.32**	**£32.03**	**£34.47**	**£41.08**	**£43.55**
Total Return on Capital	**£111.99**	**£183.44**	**£111.99**	**£111.99**	**£183.44**	**£183.44**
TOTAL	**£810.24**	**£1,072.08**	**£784.62**	**£835.85**	**£1,046.09**	**£1,098.07**

Supporting information on important cost drivers used in the calculations:	All residential placements (excluding nurses)	All nursing placements	65+ care home places without nursing	65+ care home places without nursing, enhanced needs	65+ care home places with nursing	65+ care home places with nursing, enhanced needs
Number of location level survey responses received	6	7	6	6	7	7
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	41	25	41	41	25	25
Number of residents covered by the responses	178	455	178	178	455	455
Number of carer hours per resident per week	27.6	26.7	25.6	29.6	24.7	28.7
Number of nursing hours per resident per week		8.1			8.1	8.1
Average carer basic pay per hour	£10.34	£10.19	£10.34	£10.34	£10.19	£10.19
Average nurse basic pay per hour		£19.66			£19.66	£19.66
Average occupancy as a percentage of active beds	95.3%	95.7%	95.3%	95.3%	95.7%	95.7%
Freehold valuation per bed	£82,058	£143,984	£82,058	£82,058	£143,984	£143,984

Table 10 Calculated median vs average paid (table 4 of Annex A)

Description	18+ homecare, £ per contact hour	65+ care home without nursing, £ per resident per week	65+ care with nursing, £ per resident per week
Cost of care exercise result (from above)	£17.92	£810.24	£1,072.08
Average 2021/22 external provider fee rate (using iBCF definitions, consistently with 2022/23)	£15.65	£720.77	£772.10
Average 2022/23 external provider fee rate (using iBCF definitions)	£15.90	£805.79	£812.84
NHS funded nursing care rate 2022/23	Not applicable	Not applicable	£209.19
Average 2022/23 external provider fee rate with FNC where applicable	£15.90	£805.79	£1,022.03
Hence distance from cost of care exercise result (%)	-11.29%	-0.55%	-4.67%
Hence 2022/23 fee uplift compared to 2021/22 (%, excluding FNC)	1.60%	11.80%	5.28%