# Annex B: Cost of Care Report - Care Homes 65+

## Response rate / conduct of the Cost of Care exercise

* 1. There are five residential homes registered within the Borough that are in scope for this exercise. (A sixth residential Care Home has since opened.) All provide residential care without nursing. Two also provide residential care with nursing.
	2. Four of the five Providers (80%) responded, giving four responses for residential care without nursing and two responses for residential care with nursing.
	3. Care Home managers and Provider finance leads were invited to a briefing on the Cost of Care exercise in June 2022 as part of a regular Care Home Provider engagement forum. Assistance in completing the exercise was offered, although four of the five Providers completed the exercise without this (the fifth did not submit). An initial deadline for returns was set at 15 July 2022 but was left open to allow more time for completion. The last submission was received on 22 August 2022. Requests for clarification and further information were made following receipt of submissions. These included percentage cost uplifts, NI (National Insurance) and other staff on costs, occupancy levels, and subtotal lines with missing data. Further responses were received from two Providers.
	4. Figures were collected using the CHIP Care Homes Cost of Care tool. Providers were not asked to submit additional information.

## Determination of the Medians

* 1. Given the small number of Residential and Nursing Care Homes in the Borough it was important to make full and accurate use the data we received. This was complicated especially by one Provider submitting only at very summary levels, and not at all for some subtotal categories, although there were zero values in other submissions. Had there been a much larger number of Providers in the Borough we might have excluded that Provider’s submission.
	2. We considered four different options for calculating the median costs:
* Total level
* Individual line level
* Subtotal level (but distinguishing nursing, care, and other staff)
* Subtotal level as above, but calculating medians across residential and nursing except for nursing and care staff costs
	1. The results from the different approaches were not widely different: residential £913 - £928, nursing £1,100 - £1,111.
	2. Our conclusions about each of these are set out in Table 1. On the basis of the analysis shown in Table 1 we have submitted figures at subtotal level with aggregation on non-direct staff costs across residential and nursing (option 4).

*Table 1: Options for calculating the median costs:*

|  |  |
| --- | --- |
| 1. Total level
 | We initially preferred this approach, but we found that it required us to fill in missing data by using averages drawn from other Provider submissions. We decided this was not the most transparent use of the data. |
| 1. Individual line level
 | This required us to calculate medians excluding zero values at a detailed level. Although it produced the lowest overall results, we are not convinced that the results are valid. |
| 1. Subtotal level
 | This enabled us to use all of the data submitted, and deal with missing data based on the other submissions received. But the absolute number or submissions in each care category is still very low. |
| 1. Subtotal level with aggregation of non-direct staff costs across residential and nursing
 | This approach equalises costs other than nursing and care staff costs across all locations. The fifth Provider that did not make a submission may have different costs, and similarly a new entrant. |

## Approach to Return on Operations

* 1. Providers were invited to submit figures for Return on Operations based on their group policy. Responses ranged from 10% to 15% in one case. One Provider did not submit a figure. We recognise that 10% may be a reasonable commercial aspiration overall. However, we consider that it exceeds the level we can justify from public funds in a relatively high unit cost area. We have therefore proposed, after consultation with LGA/ADASS London Finance Leads and ADASS North East London Finance Network, a ceiling of 5% in our Cost of Care calculations.

## Approach to Return on Capital

* 1. Return on Capital has been based on Provider returns. One Provider reported a Return on Capital based on a freehold valuation. All other submissions based their figures on rental cost. One submission did not provide figure. The figures submitted per resident week were broadly consistent.
	2. We also considered using LHA Inner London East rates less premises costs. However, this produced results that were either 84% higher than Provider returns (based on category B) or 46% lower (based on category A).
	3. This is an area that would warrant more detailed attention in any future Cost of Care exercises.

## Results of the Cost of Care exercise Residential and Nursing Care Homes 65+

* 1. The cost base for all but one Provider submission was 2022-23. One Provider did not “specify an uplift” in the CHIP Care Homes Cost of Care tool. Clarification was asked, but no response received. However, the staff pay rates provided were sufficiently in excess of most other submissions for us to decide to treat the submission as being based on 2022-23 rates.
	2. As no Providers differentiated the costs of standard needs and enhanced needs, we have entered the same numbers in the standard needs and enhanced needs columns in Table 3 below.

*Table 2: Summary Cost of Care results for 65+ Care Homes*

|  |  |  |
| --- | --- | --- |
|  | **Residential** | **Nursing** |
| Count of observations | 4 | 2 |
| Lower quartile cost | £916.52 | £1,101.39 |
| Median cost | £922.60 | £1,109.59 |
| Upper quartile cost | £939.88 | £1,120.57 |

*Table 3: Detailed Cost of Care results for 65+ Care Homes*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cost of Care exercise results - all cells should be £ per resident per week** | **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** |
| **Care Home staffing:** | **£503.94** | **£503.94** | **£682.02** | **£682.02** |
| * Nursing Staff
 | £0.00 | £0.00 | £178.08 | £178.08 |
| * Care Staff
 | £349.11 | £349.11 | £349.11 | £349.11 |
| * Therapy Staff (Occupational & Physio)
 | £0.00 | £0.00 | £0.00 | £0.00 |
| * Activity Coordinators
 | £11.07 | £11.07 | £5.54 | £5.54 |
| * Service Management (Registered Manager/Deputy)
 | £48.75 | £48.75 | £18.33 | £18.33 |
| * Reception & Admin staff at the home
 | £11.44 | £11.44 | £4.47 | £4.47 |
| * Chefs / Cooks
 | £42.12 | £42.12 | £27.26 | £27.26 |
| * Domestic staff (cleaning, laundry & kitchen)
 | £42.78 | £42.78 | £21.39 | £21.39 |
| * Maintenance & Gardening
 | £7.44 | £7.44 | £3.83 | £3.83 |
| * Other care home staffing
 | £4.88 | £4.88 | £94.83 | £94.83 |
| **Care home premises:** | **£69.75** | **£69.75** | **£69.75** | **£69.75** |
| * Fixtures & fittings
 | £0.00 | £0.00 | £0.00 | £0.00 |
| * Repairs and maintenance
 | £27.22 | £27.22 | £27.22 | £27.22 |
| * Furniture, furnishings, and equipment
 | £5.47 | £5.47 | £0.00 | £0.00 |
| * Other Care Home premises costs
 | £21.65 | £21.65 | £42.53 | £42.53 |
| **Care home supplies and services:** | **£111.84** | **£111.84** | **£111.84** | **£111.84** |
| * Food supplies
 | £34.36 | £34.36 | £17.18 | £17.18 |
| * Domestic and cleaning supplies
 | £4.28 | £4.28 | £2.14 | £2.14 |
| * Medical supplies (excluding PPE)
 | £4.98 | £4.98 | £2.49 | £2.49 |
| * PPE
 | £0.00 | £0.00 | £1.18 | £1.18 |
| * Office supplies (home specific)
 | £3.28 | £3.28 | £2.04 | £2.04 |
| * Insurance (all risks)
 | £5.94 | £5.94 | £3.03 | £3.03 |
| * Registration fees
 | £3.61 | £3.61 | £1.81 | £1.81 |
| * Telephone & internet
 | £3.26 | £3.26 | £0.29 | £0.29 |
| * Council tax / rates
 | £0.80 | £0.80 | £0.40 | £0.40 |
| * Electricity, Gas & Water
 | £29.80 | £29.80 | £42.89 | £42.89 |
| * Trade and clinical waste
 | £4.61 | £4.61 | £3.04 | £3.04 |
| * Transport & Activities
 | £5.44 | £5.44 | £2.72 | £2.72 |
| * Other Care Home supplies and services costs
 | £2.56 | £2.56 | £75.57 | £75.57 |
| **Head office:** | **£76.30** | **£76.30** | **£76.30** | **£76.30** |
| * Central / Regional Management
 | £22.34 | £22.34 | £0.00 | £0.00 |
| * Support Services (finance / HR / al / marketing etc.)
 | £36.79 | £36.79 | £46.80 | £46.80 |
| * Recruitment, Training & Vetting (incl. DBS checks)
 | £8.21 | £8.21 | £9.36 | £9.36 |
| * Other head office costs
 | £11.43 | £11.43 | £0.00 | £0.00 |
| **Return on Operations** | **£38.09** | **£38.09** | **£47.00** | **£47.00** |
| **Return on Capital** | **£122.68** | **£122.68** | **£122.68** | **£122.68** |
| **TOTAL** | **£922.60** | **£922.60** | **£1,109.59** | **£1,109.59** |
| ***Supporting information on important cost drivers used in the calculations:*** |  |  |  |  |
| * *Number of location level survey responses received*
 | 3 | 4 | 2 | 2 |
| * *Number of locations eligible to fill in the survey (excluding those found to be ineligible)*
 | 5 | 5 | 2 | 2 |
| * *Number of residents covered by the responses*
 | 40 | 54 | 57 | 8 |
| * *Number of carer hours per resident per week*
 | 28 | 28 | 28 | 28 |
| * *Number of nursing hours per resident per week*
 | N/A | N/A | 8 | 8 |
| * *Average carer basic pay per hour*
 | £11.14 | £11.14 | £11.04 | £11.04 |
| * *Average nurse basic pay per hour*
 | £0.00 | £0.00 | £20.51 | £20.51 |
| * *Average occupancy as a percentage of active beds*
 | 88% | 88% | 81% | 81% |
| * *Freehold valuation per bed*
 | £127,325.44 | £127,325.44 | - | - |

## Future Indexation

* 1. It is proposed to base future indexation as shown in Table 3.

*Table 3: Future indexation*

|  |  |
| --- | --- |
| Nursing staff costs | NHS pay award |
| Care staff costs | London Living Wage |
| Other staff costs | ONS average weekly earnings |
| Non-staff costs | CPI |

## Amendments to Provider Returns

* 1. We have used Provider submitted figures in most cases. However, there were several instances where we concluded we could not rely on the data:
* One Provider submitted an NI percentage based on the employee NI rates but did not take account of the NI thresholds. We have conveyed this to the Provider but not received a reply. We have adjusted to reflect the actual NI payable by nursing and care staff working full time
* Providers submitted differing levels for staff cover costs, ranging from 15%, through 19%, to 31%. We have sought clarification from the outlying Provider, but in the absence of a response have adjusted to reflect the submissions from other Providers
* The CHIP Care Homes Cost of Care tool asked for occupancy rates at 1 April 2022. Submitted figures ranged from 100% (mostly a block contract) to 61%. We sought clarification from Providers who otherwise submitted low or hight occupancy levels, recognising that some of the figures might reflect a pandemic / post-pandemic situation rather than a sustainable position. The two Providers who submitted low rates did not respond. We have therefore adjusted to a floor of 90% occupancy, based partly on pre-pandemic national levels, and partly on the shortage of supply in the local area.

## Challenges with Provider Returns

* 1. 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.
	2. 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.
* 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.
* Providers also submitted inflationary rates and costs that varied significantly across cost lines including Nursing and Carer staff costs, Employer’s National Insurance (ENI) contributions, energy costs, training, and insurance.

##

* 1. 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 residential and nursing 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 Care Home 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 Provider 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.
	1. 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.
	1. From the outset, it is important to acknowledge the fundamental limitations of the data and the unknown variables that are key constraints for the analysis of the Cost of Care data. The data quality concerns are such that, even after final analysis, it is necessary for the council to consider other factors in setting fee rates as the Cost of Care outputs alone do not provide a reliable basis for fee setting.
	2. The outcome of the Cost of Care exercise is not intended to be a direct replacement for the fee setting element of the councils 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 council and availability of funding.