

Cost of care report: residential and nursing care for people aged 65 and over

1 February 2023

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1. Introduction

The Cost of Care exercise undertaken by the London Borough of Bexley represents an extensive engagement and analytic cycle. This report, and all supporting information, was based on fourteen care home providers operating within the borough.

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 challenges are specified in further detail under the section 'Approach to Analysis'.

The Council has a responsibility for managing the local care market and negotiates fee rates with contracted providers each year in line with good practice guidance and legislation. This has due regard to the actual costs of providing care, whether services represent best value, and other local factors. When setting and reviewing fee rates, the Council goes through a process of market analysis to determine an appropriate level of inflationary uplift, where applicable, upon which to base our contract negotiations.

These limitations are such that the results produced by this exercise cannot be treated as wholly reliable or accurate. The London Borough of Bexley intends to work with providers from 2022/23 to agree local fee rates that are sustainable for the local market.

Further, we are unable to provide any detail on future rates until we have clarity on the national funding distribution.

2. Provider engagement

2.1 Initial engagement

The exercise was raised in Provider Forum sessions in both May and June 2022. The Council explained its importance to the authority and gave the providers information on the exercise and the range of information which would be required. We also had a Provider Session on 6th June 2022, focused purely on Fair Cost of Care, where we explained how the exercise would be used, timings, the range of information required to complete submissions and the support available to help providers with the exercise. This led to several questions which were responded to, and the Council subsequently set up a separate email address for providers to send in questions.

Individual approaches were made to providers both in the home care and care home market, where we commission large numbers of placements or care, to ensure that our data reflected the market as best as possible.

During July 2022, additional sessions were held to provide further support and clarification of issues that providers were expressing. These sessions were supported by the Care Providers

Alliance and had providers from across South East London attending which gave a rich and helpful discussion. Further details of these sessions are included immediately below. Again, at these sessions the formal and informal support was explored and how to complete the Tools was demonstrated on screen to ensure clarity and address concerns raised.

The Council initially hosted a virtual engagement event for care home providers on the 8 July 2022. During this event Richard Ayres from the Care Providers Alliance alongside Ian Buchan (Older People's Commissioning Support, London Borough of Bexley):

- introduced the Fair Cost of Care exercise.
- demonstrated the use of Care Cubed, whilst outlining sources of support and information.
- shared official guidance links for the Fair Cost of Care exercise; and
- had a question-and-answer session.

The Council reviewed the list of care home providers providing care to residents and determined which homes would be considered as in scope, with all learning disability care homes classified as out of scope.

The Council subsequently emailed all providers, individually, with links to official guidance. Where required, this was followed up with verbal and further email correspondence to support and encourage provider engagement. Two further virtual sessions with the Care Providers Alliance were hosted for providers.

2.2 Self-funders

Our Quality Assurance Lead has strong relationships with the market. As part of their regular contact with care homes, they met with all the care home managers and deputies to encourage and support them to take part in the exercise. In particular, we felt strongly that we needed to engage with the care homes that we do not commission care from as they tend to focus on the self-funder market.

Despite attempts to engage our self-funder providers, we received only one complete return from the five main self-funder care homes in the borough. Therefore, when looking at the median we have captured the majority of homes which accept the local authority rates and this ignores a large percentage of beds which tend to have higher costs associated with them. This leaves the sample to be unrepresentative of the market locally.

2.3 Further engagement

The London Borough of Bexley appointed Grant Thornton UK LLP to support the Council in the Fair Cost of Care exercise and granted access to Care Cubed.

Once all information and progress to date made by the Council was shared with Grant Thornton, they split all in scope providers into ‘buckets’ to determine the position of each provider:

Table 1 – Engagement cycle carried out with all in-scope providers

“Bucket”	Engagement cycle carried out by Grant Thornton
A) Not registered on Care Cubed	<ul style="list-style-type: none"> • Immediate engagement by email in the first instance, followed up by a phone call if required. • Where providers refused to participate in the exercise and complete Care Cubed, understand why and share at weekly progress meetings with the Council for escalation if required. In most cases where providers responded to inform on non-completion, capacity issues were noted as the reason for not completing the exercise.
B) Registered on Care Cubed; no information provided to date	<ul style="list-style-type: none"> • Immediate engagement by email in the first instance, followed up by a phone call, if required.
C) Registered on Care Cubed; information provided to date incomplete/ in query	<ul style="list-style-type: none"> • Engagement to discuss incomplete/ returns in query through email and phone calls, providing support to complete the tool.
D) Registered; information completed/ not in query	<ul style="list-style-type: none"> • No initial engagement. • Analysis of returns started. • Proposed clarification questions shared with the Council for discussion. • Final clarification questions shared with provider by email in the first instance, followed up by a phone call, if required.

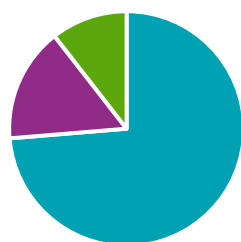
Once in scope providers were allocated to a “bucket,” the Council informed them via email of Grant Thornton involvement. Grant Thornton then contacted each provider individually offering support and guidance, according to their bucket allocation following the planned engagement cycle. It was agreed that for submissions to be included within the Fair Cost of Care calculations, submissions needed to be completed by 20 September 2022. There was, therefore, additional engagement with providers in advance of this date to gain as many submissions as possible.

Weekly operational meetings were scheduled for Grant Thornton to provide updates on progress to the Council’s Adult Social Care Reform Programme Task and Finish Group. A progress tracker

was developed to monitor the progress, engagement and providers' submissions. Examples of the slides presented at these meetings and the progress tracker are included below.

Charts 1 and 2 – Examples of slides showing progress made with provider engagement

Care Homes Progress



- Submitted (Bucket C)
- Registered, not yet submitted (Bucket B)
- Not registered (Bucket A)

Home Care Progress



- Submitted (Bucket C)
- Confirmed will action (Bucket B)
- No response (Bucket A)

Provider	Bucket Status	Weekly update	Contact Made
	C	Care cubed complete and analysis in progress.	
	B	Have been chased by the Council but no response received so far.	Email 22.08 + 23.08 + 26.08.
	B		Email 22.08 + 23.08 + 26.08.
	A		Email 22.08 + 23.08 + 26.08.
	C	Care cubed complete and analysis in progress.	
	C	Care cubed complete and analysis in progress.	
	C	Care cubed complete and analysis in progress.	
	C	Care cubed complete and analysis in progress.	
	A	Have been chased by the Council but no response received so far.	Email 22.08 + 23.08 + 26.08.
	B		Email 24.08 + 26.08.
	A → C	Care cubed complete and analysis in progress.	Email 22.08 + 23.08 + 26.08.

2.4 Submissions and response rate

There are twenty care homes that provide care to Bexley residents. This list of care homes was reviewed by the Council and consideration given to which providers should be invited to participate. The final status of provider engagement is summarised below:

- Nineteen care homes were deemed in scope for this exercise
- Seventeen of these nineteen registered on Care Cubed
- Fourteen of the seventeen providers subsequently submitted their returns.
- The response rate of the exercise, as a percentage of those invited (excluding providers for whom the exercise turned out not to be relevant) and they engaged with the market was 73.7%.

Care home providers were invited to complete the Care Cubed portal and responses were received from fourteen providers. The data from this was reviewed on a weekly basis by Grant Thornton who validated provider responses and identified any outliers. Where required, further information and clarification questions were asked from providers through direct emails and phone calls. The clarification questions sent to four providers are listed below:

Table 2 – Clarification questions sent to four of the providers

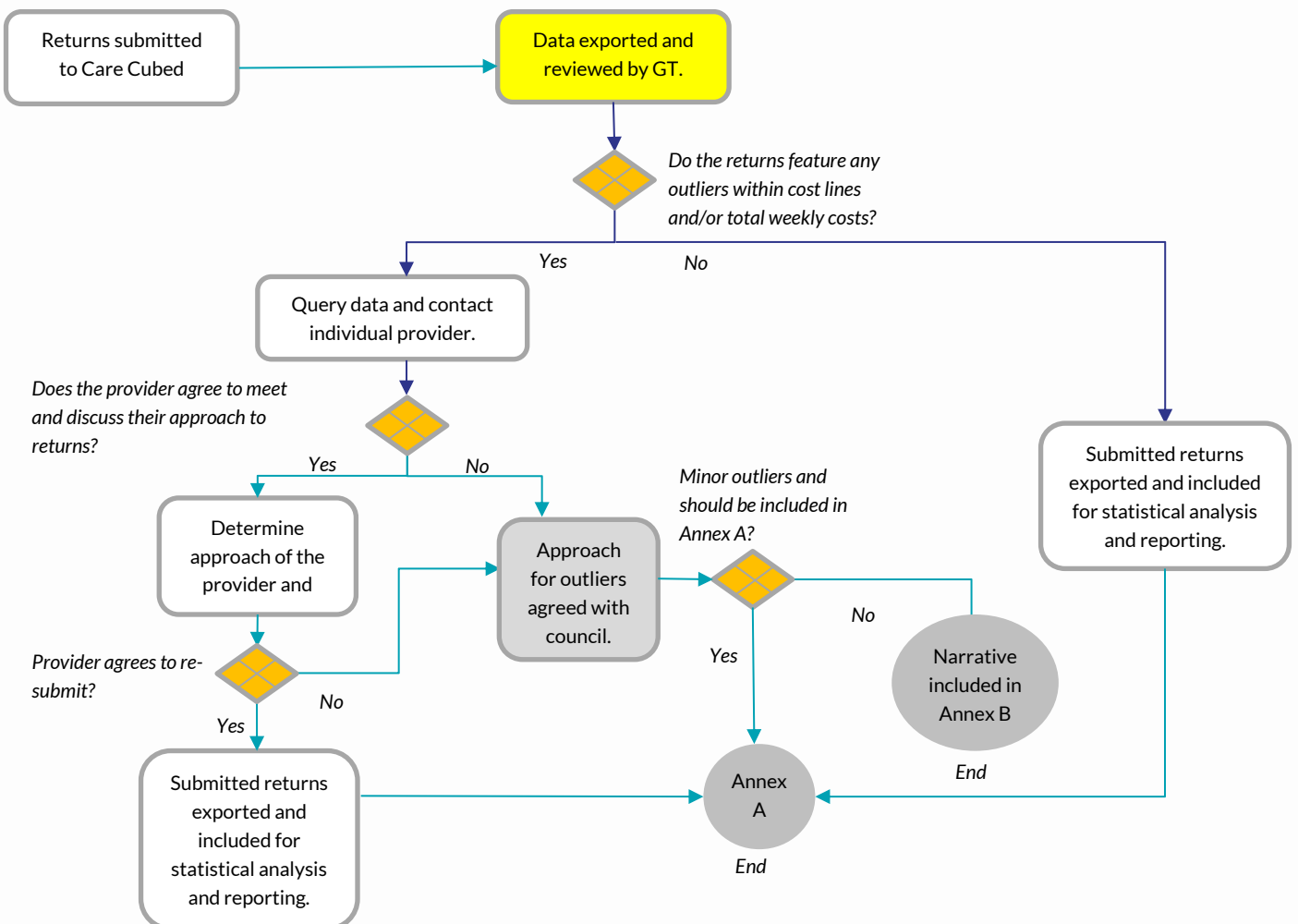
Provider Reference	Section of the return	Clarification
1	Direct Care	The return failed to include care staff or nursing staff costs.
2	Return on Capital	The return is missing the return on capital percentage and return on operations.
3	Return on Capital	The return is missing the return on capital percentage, however the percentage for return on operations seems high. Have the two been incorrectly combined?
4	Return on Capital	The return is missing the rate per resident per week.

Of these clarifications raised, Provider 1 re-submitted their return. Grant Thornton spoke with Provider 3 who outlined that as a small, family run business it is not in their practice to split return on capital and return on operations, therefore they entered the combined value into Care Cubed. Providers 2 and 4 were contacted several times but no response was received.

3. Approach to analysis

To determine the fair cost of care for older people’s care homes as required by this exercise, the Council have analysed provider submissions with reference to available evidence and sector guidance. All provider data was drawn from the Care Cubed portal, with data exports used to determine both statistical findings and the identification of outliers, summarised above as part of the clarification questions. Where the Council had queries about specific cost lines in submissions, the Council contacted individual providers to seek clarification or justification of costs and any missing data. The general approach to analysis, and subsequent updates to data, is best summarised in the flow chart below.

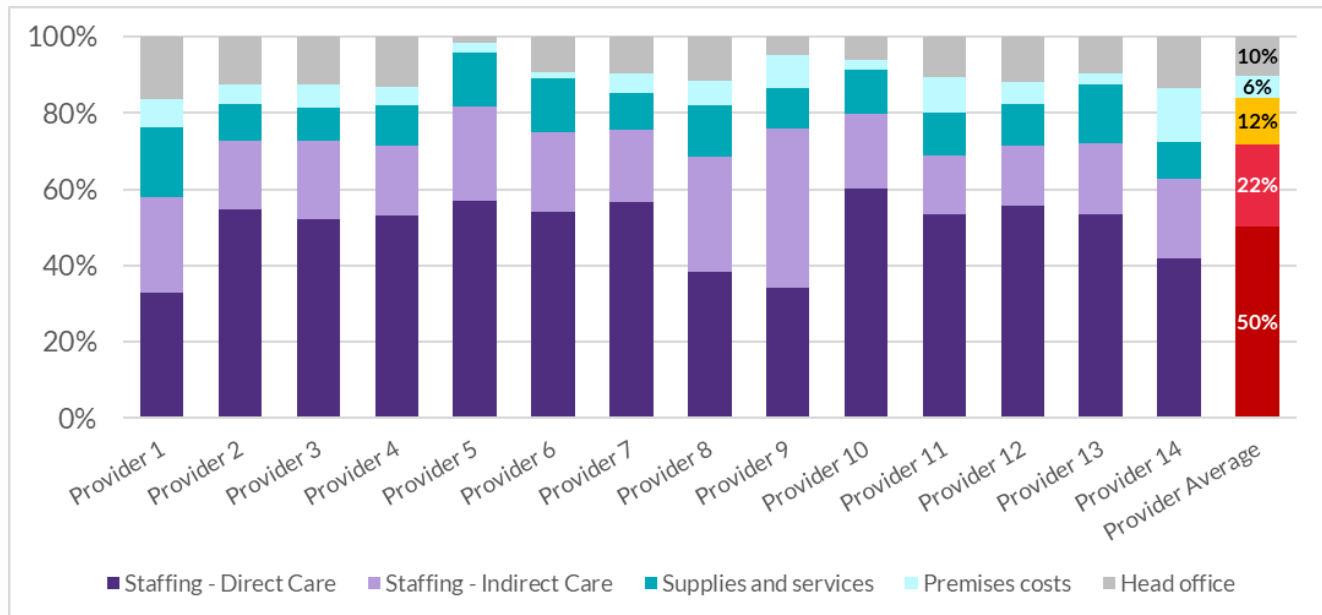
Chart 3 – Flow chart showing the general approach to analysis



As per industry guidance, clarification was sought on statistically significant areas of spend. Initial analysis of the returns highlighted a large proportion of spend on staffing care (both direct and indirect) along with large variation across care homes. Providers were contacted in the event of anomalous staffing costs, as well as justification for approaches adopted on return on capital and return on operations. Typically, higher staffing costs were associated with a greater proportion of

agency nursing staff or the proportion of self-funders within care homes. Consequently, unusually high staffing costs were not explicitly amended or adjusted for the purposes of Annex A. The chart below represents initial analysis of weekly costs, at which point fourteen providers had submitted their returns.

Chart 4 – Breakdown of weekly costs per resident



Providers were contacted for clarification questions in advance of finalising the submissions, in line with the table within the previous section. Once the final set of figures were agreed, and the Care Cubed portal was updated to reflect any provider re-submissions, the process to convert submissions into a fair cost of care was, as follows:

- 1) For each provider, a weekly cost per bed was calculated for all sub-service lines as broken down within Care Cubed. These also represent the sub-service lines within Annex A, which allowed for a straightforward conversion of raw data exports into Annex A. The weekly cost per bed for each sub-service line was based on the total expenditure in 2021/22, i.e., with no percentage uplift applied, and the respective occupancy of each care home as of April 2022. The only sub-service line which did not account for the total occupancy of the care home was expenditure on nursing staff. In this scenario, the weekly cost per bed was determined exclusively on the number of nursing placements, rather than accounting for total occupancy.
- 2) The next logical step would have been to calculate a sub-service line median for each care home type, as delineated in Annex A. However, within the Care Cubed portal there is no differentiation between care staff costs for those with dementia and those without. For instance, a care home which houses ten residents without dementia and twenty residents with dementia will end up with the same weekly cost per bed, regardless of the person’s needs. Essentially, a provider will have expenditure associated with staffing costs which does not accurately reflect how these costs go towards dementia and non-dementia residents.

Theoretically, it would have been possible to separate care homes by those which house no dementia residents. However, given the low number of care homes housing exclusively non-dementia residents, this approach would reduce the sample size, and hence reliability of any data analysis. Therefore, to determine weekly costs for care homes with and without dementia a new approach was adopted, which accounts for as much data as possible, and explained below.

- 3) The approach was to discount the differentiation of dementia and non-dementia care homes within Care Cubed. Instead, a median weekly care staff cost per bed was calculated for (a) residential homes and (b) nursing homes. A dementia uplift factor was then applied to the median weekly care staff cost, based on the total proportion of dementia and non-dementia residents across all care homes. This results in much more 'reasonable' costs, with a clear increase in costs associated with care staff for dementia residents.
- 4) The uplift factor agreed is explained later in this report, within the section fair and reasonable adjustments. Note that the uplift factor was applied only on care staff costs. For all other sub-service lines, a median cost of care was calculated for (a) residential care and (b) nursing care. If a provider housed any non-nursing residents, then their respective weekly costs were included within the median for (a) residential care. Similarly, if a provider housed any nursing residents, then their respective weekly costs were included within the median for (b) nursing care. Essentially, the only difference in the total weekly cost per bed for residential and residential with dementia is within the weekly care staff cost per bed.
- 5) A total weekly cost of care per bed could then be calculated for each care home type, based on a sum of the sub-service line medians determined from the approach so far. However, these figures were based on expenditure from 2021/22. Therefore, each sub-service median weekly cost per bed was inflated based on the average uplift factor as reported by providers in their Care Cubed returns.
- 6) At this point, a number of fair and reasonable adjustments were required. These centre around the dementia uplift factor referenced above, an appropriate approach to return on operations and return on capital, and a scaling factor applied to certain fixed costs based on the reported occupancy rate of care homes. These adjustments are detailed below.

4. Fair and reasonable adjustments

4.1 Dementia uplift factor

As referenced in Points 2, 3 and 4 above, there is no differentiation between care staff cost for those with dementia and those without. To overcome this, the following steps were carried out:

- a) Calculate a median weekly care staff cost per bed for (a) residential homes and (b) nursing homes.
- b) Assign a 'complexity uplift' to those with dementia. For instance, within a care home, staffing costs will be a certain percentage greater for those with dementia. Staffing costs are assumed

to be higher for those with dementia given the increased complexity of care giving required, along with any additional time required over the course of a week to deliver this care.

- c) Based on the total proportion of dementia and non-dementia residents across care homes, a new weighted average care staff cost was back calculated, generating two median care staff costs: one for those with dementia and one without.

The dementia uplift factor was set at 20% and applied to costs on Care Staff, Nursing Staff, and Therapy Staff.

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

As the figures submitted by older people's care homes for both return on operations and return on capital varied across a wide range, applying the approach outlined below supports consistency in calculating a median rate for this exercise, informed by industry guidance for care homes.

In determining that a combined rate of 11.2% for return on operations (5.2%) and return on capital (6.0%) is the appropriate figure we have considered the factors listed below. These factors will inform - but not necessarily determine - our fee-setting decisions, but we have also had regard to them in moderating and deciding the information submitted to the Department of Health and Social Care (DHSC).

First, the Council has a duty to consider how it will achieve the objectives prescribed by section 5(1) of the Care Act 2014, which requires us to promote the efficient and effective market in our area. In doing so we must have regard to the matters outlined in section 5(2) of the Care Act 2014.

Second, in doing so we must have regard to the matters set out in the Care and Support Statutory Guidance.

Third, we must have regard to the Market Sustainability and Fair Cost of Care Fund 2022 – 23 Guidance.

Fourth, as a public body we must reach a determination that is not irrational, in that it is within the range of decisions that a public body acting reasonably could make.

Finally, we must have regard to our public sector equality duty under s149 of the Equality Act 2010.

The Council have determined that the data submitted to the DHSC will be premised on a minimum rate of 5.2% for surplus profit or return on operations and of 6% for return on capital being sufficient to support the market in our area. In our assessment, the Bexley care home market is a diverse market that provides good quality services to clients. Additionally, the Laing Buisson

guidance sets out the market-based observation that 5% is an appropriate figure for surplus profit or return on operations and that 6% is an appropriate figure for return on capital for care homes. Based on an appraisal of local market sustainability and with reference to the Laing Buisson guidance, the Council is of the view a combined rate of 11.2% for return on operations (5.2%) and return on capital (6%) will be appropriate to secure sufficient and sustainable service provision, ensuring a variety of high-quality services in the borough.

4.3 Occupancy rates

Using data from the Care Cubed portal, weekly costs per bed were calculated on the respective occupancy of each care home, as of April 2022. Though variable costs within care homes (Care Staff, Food, etc.) will fluctuate based on the number of occupied beds, there are several fixed costs which will appear high on a per bed basis in the event of low occupancy. A sustainable care home market requires a minimum occupancy rate to avoid the prospect of care homes failing. Historically, we have commissioned beds on the premise of care homes operating at appropriate levels of occupancy. As of April 2022, occupancy rates within the borough were reported to be 89.2%. An occupancy factor has been applied to several fixed costs based on occupancy standing at 90.0%.

This occupancy factor was calculated as $89.2\% / 90.0\% = 0.98$.

It was applied on the following weekly costs per bed:

- Service Management
- Reception
- Water
- Insurance (all risks)
- Registration fees
- Telephone
- Council tax / rates
- Trade and Waste
- Central / Regional Management
- Support Services
- Other head office costs

5. Limitations

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 residents supported by a provider

– costs submitted by a provider supporting one Bexley resident would have an equal impact on the median calculation as a provider supporting one hundred Bexley residents. Additionally, the median calculation method diverges from current practice, whereby the Council uses a mean average calculation method to determine the improved Better Care Fund rates.

Providers also submitted inflationary rates and costs that varied significantly across cost lines including Nursing and Carer staff costs, Employers' National Insurance contributions, energy costs, Training, and Insurance. These inconsistencies present concerns regarding the accuracy of the data.

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, called the energy price guarantee, alongside a new six-month scheme for businesses and other non-domestic energy users.
- 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.

Other limitations identified are as follows:

- 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 varied 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.
- Costs varied significantly around Employers' National Insurance contributions.
- DHSC guidance did not provide clear criteria for moderation (e.g., adjusting for return on operations).
- 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.

Funded Nursing Care contributions are included in the Fair Cost of Care outcome and therefore consideration would need to be given about the cost of nursing provision based on the outcome of this exercise and potential cost impact to health partners who also commission placements.

Providers have consistently raised this issue at Provider Forums. The exercise does not address their key concern of maintaining the workforce. We have seen high levels of churn amongst staff, reported by one care provider to be as high as 40%, but others regularly report churn at 25% - 30% of their care staff per year. Providers have seen staff lost to other sectors such as a major internet delivery provider who pay £2.50 more per hour than the average carer rate. Providers have also commented on the rates of pay in the local retail and hospitality being higher than care, with care staff needing to meet a high level of skill and regulation.

6. Annex A – Outputs

Table 3 below shows the results of the cost of care exercise for each cost line. Annex A has been published with this report on the Council’s website and gives a further breakdown.

Table 3 – Results of the cost of care exercise for each cost line

Cost lines	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	£428.01	£484.64	£624.01	£713.55
Total Care Home Premises	£33.73	£33.73	£23.31	£23.31
Total Care Home Supplies and Services	£100.52	£100.52	£111.74	£111.74
Total Head Office	£92.28	£92.28	£74.95	£74.95
Total Return on Operations	£34.04	£36.98	£43.37	£48.02
Total Return on Capital	£39.27	£42.67	£50.04	£55.41
TOTAL	£727.85	£790.83	£927.42	£1,026.99

As detailed within the ‘Approach to Analysis’ section of this report, a fair cost of care was determined by calculating median weekly costs for sub-service cost lines and uplifting these rates to 2022/23. The median rates for 2022/23 are therefore standalone rates, rather than a median of individual provider rates. Essentially, this means that it is not possible to determine interquartile ranges on cost of care data for 2022/23. Theoretically, interquartile ranges could be drawn

directly from the uplifted values in the Care Cubed portal returns, though this would lead to costs of care with no Fair and Reasonable Adjustments applied. To avoid inconsistency in the fair cost of care as determined through the Council’s approach to analysis, interquartile ranges have not been included within the table below:

Table 4 – Results of the cost of care exercise by care home type

Care Home Type	Count of observations	Median
65+ care home places without nursing	11	£727.85
65+ care home places without nursing, complex needs	11	£790.83
65+ care home places with nursing	7	£927.42
65+ care home places with nursing, complex needs	7	£1,026.99