



Department
of Health &
Social Care

Market Sustainability and Fair Cost of Care Fund 2022 to 2023

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

Background and context

The Market Sustainability and Fair Cost of Care Fund ('the fund') sets out funding parameters in support of local authorities to prepare their markets for reform, and to specifically support local authorities to move towards paying providers a fair cost of care.

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

- Cost of care exercises for 65+ care homes and 18+ domiciliary care
- A provisional market sustainability plan, using the cost of care exercise as a key input to identify risks in the local market, – a final plan will be submitted in March 2023
- A spend report detailing how funding allocated for 2022 to 2023 is being spent in line with the fund's purpose

The remainder of this report sets out the approach adopted by Leicestershire County Council in meeting the conditions of the fund and how the cost of care estimates submitted to DHSC have been arrived at.

Approach to the exercise

The local authority, alongside a number of other East Midlands local authorities, commissioned the services of Care Analytics, a specialist in the financial analysis of care markets and the cost of care, to undertake a 'Fair Cost of Care' (FCoC) detailed cost analysis exercise. All providers operating in the 65+ care home market within the area of the local authority were sent a detailed survey designed to capture the necessary operational and contextual detail to draw out the inherent costs of delivering care in the local market. Responses were received directly by Care Analytics, rather than by the local authority, in order to address any concerns regarding confidentiality of business data. These returns have been reviewed by Care Analytics, with responses clarified where needed, in order to produce the resulting data analysis of median and quartile costs required from this exercise.

Provider engagement sessions were set up for providers to attend, in order to go through the survey template and wider FCoC process with the support of Care Analytics. The council additionally worked closely with EMCARE, the trade organisation which represents care home providers across Leicestershire (and wider), which offered support and guidance to individual care homes in collaboration with the local authority to promote the data collection exercise.

Interpretation of the FCoC results

At this point it is extremely important that DHSC understands the context of the data that has been reported by this authority. Whilst we acknowledge the intentions of the wider exercise, and noting the significant benefits in terms of greater understanding of the market that it has given us, we cannot stress strongly enough that the FCoC median costs alone are not an appropriate basis to inform council commissioning fee rates.

Whilst it is fair to say that the median is less skewed by high outlier values (as opposed to mathematical averages), the median values themselves can be skewed if the dataset does not comprise an appropriate and representative sample of the existing make-up of providers in the local market. Although Leicestershire County Council's survey response resulted in a reasonable sample size (see section below on 'response rates'), this should not be taken as necessarily indicating that the sample was sufficiently representative of the market. It is also vitally important to recognise (and ensure) whether the data that has been obtained reflects an overall pool of efficient providers as referenced in the requirements of Section 4.31 of the Care and Support Statutory Guidance.

We are particularly conscious that different care home operators operating in our local market have different underlying business models. For example, care homes operated by groups have a different level of head office costs than do those operated by independent smaller operations. In addition, newer built care homes will inherently have higher capital investments as opposed to older care homes, where mortgages have been considerably reduced or settled over time. These are both key considerations when setting an appropriate return on capital. We would also need to fully assess the impact of post-pandemic occupancy levels in care homes and any residual impact that may be having on unit costs (which again would impact the calculation of an appropriate return on operations).

For these reasons, we must be clear that the FCoC median costs obtained through this exercise do not have sufficient robustness to provide an absolute basis sufficient to inform any finalised sustainable fee rates for future council commissioning. The data we have collected through this process will provide rich intelligence on which to base further work to support future council commissioning and market shaping. We will now undertake further detailed analysis of the data obtained through the FCoC exercise and the composite of the median costs, in order to help us to assess the appropriateness of the data as a fair and meaningful representation of provider cost structures for those organisations that operate in our local market. The results of this further work will inform the rates on which to base our usual fee rates / commissioning going forwards.

Response rates

Eleven nursing homes and twenty-two residential homes responded to the survey. Six of the nursing homes have a significant number of residential only residents and so have

been used for both residential and nursing reporting. Where homes only had a small number of residential only residents, all residents have been treated as if they were nursing. Where there was uncertainty about the number of nursing residents in a home, the whole home or unit has been assumed to be comprised of nursing residents.

At the time the data was collected, there were thirty older adult nursing homes, so the response rate was 36% for nursing care.

Of these submitted surveys, we have been able to use all in the FCoC return.

All surveys that were in scope of the exercise were usable after an extensive query process to resolve gaps, uncertainties, and other data quality issues. Therefore, out of the total of one hundred and six (106) older adult care homes in Leicestershire ultimately thirty-three submitted a usable survey (31%).

This includes eleven out of thirty older adult nursing homes (36%). Additionally, six out of the eleven older adult nursing homes reported a significant number of residential residents and so their data has been used for both the residential and nursing analysis. Where nursing homes reported only a handful of residential residents (i.e. without nursing), all residents were classified as nursing.

The care homes that completed surveys are disproportionately weighted towards groups. Only ten of the thirty-three homes that submitted surveys operate fewer than five care homes nationally. This is only 30% of survey respondents, whereas 55% of the homes in the overall market is comprised of independent homes and small groups with fewer than five homes nationally.

The estimated FCoC median value for residential care is £719 and the estimated FCoC median value for nursing care is £938 (£729 net of FNC). The table below shows these figures, including the breakdown of these figures between non-enhanced need and enhanced need:

	65+ care home places	65+ care home places, enhanced needs	Mid-point of with and without enhanced need
Care homes without nursing	£694	£744	£719
Care homes with nursing	£913	£964	£938
Care homes with nursing (excluding FNC)	£704	£755	£729

These figures exclude some information of those homes survey responses where occupancy is below 85% but does include head office costs and managers' rota adjustments from all surveys. We believe this is a more accurate reflection of providers' costs where efficiency of occupancy and delivery is in place. To include providers with a

lower occupancy would, by default, mean funding void beds across the market where the Council has little control over placements.

Inclusion of the total survey responses, irrespective of occupancy, results in a FCoC median rate of £761 for residential care and £959 (£750 net of FNC) for nursing care. However, for reasons detailed above we feel that this isn't a reflective figure from the returns received.

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

Leicestershire County Council was undertaking a thorough review of our care home market prior to the FCoC exercise. We had already collected data from our providers prior to the publication of the DHSC's guidance. We did not collect "freehold property valuations" in our survey as we did not know it would be a requirement.

The council is aware of the wide range of care home capital values in our market. This includes homes worth less than £40k per bed to premium facilities worth more than £200k per bed. We also know that providers vary in their expected or desired rate of return in percentage terms. We have collected a large amount of evidence of capital costs in our market to demonstrate this range. This range is also evidenced by the wide range of prices care homes charge to self-funders in local care homes.

When determining the return on capital to use for the FCoC return, the council has decided to align results with our usual-rate fee structure. For 2022-23, this is based on an amount of £85 per resident per week for a combined return on operations and return on capital.

This amount takes into account both the types of care home and standard of room typically commissioned by the council, and what is affordable.

We are clear that, at this stage, this represents a highly provisional figure, and its final value is subject to change as we undertake further analysis of the market. We appreciate that there are different operating models which can produce very different needs for both return on capital and return on operations.

Should there be further clarity about how the FCoC cost models required by the DHSC will be used in practice, it may be appropriate to review this decision.

Lower quartile, median and upper quartile costs

As stated above the residential FCoC median cost reported is £719, the lower quartile cost is £610 and the upper quartile cost is £927.

For nursing care, the median cost reported is £938 (£729 plus FNC), the lower quartile cost is £774 and the upper quartile cost is £1,212.

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

Basis of data collection

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

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

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

For future years, in order to uplift fees:

- Staffing costs would be uplifted using a combination of the National Living Wage (for lower paid staff) and any other reasonable method (for higher paid staff). Such a methodology would need to reflect any pay differentials where necessary to reflect different roles / responsibilities of staff.
- Non-staff costs would be uplifted using an appropriate CPI index.
- Any inflation methodology would also need to take into account structural changes relevant to care home costs.

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

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

The survey asks detailed questions about the care home's facilities and residents. It then asks for a detailed breakdown of current staffing, wage rates by role, employment terms

and conditions, and use of agency staff. Non-staff operating costs are collected from previous or current financial years at a granular level. Finally, there is a range of free text questions that providers can answer in their own words to inform the market review.

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

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

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

Summary

To ensure continued viability and market sufficiency, providers need to at least maintain their current levels of revenue, which includes both local authority and self-funder fees. Whilst we acknowledge the intentions of the wider Fair Cost of Care exercise, we cannot stress strongly enough that the Fair Cost of Care median costs alone are not an appropriate basis to inform Council commissioning or fee rates, particularly given the volatility and in year cost pressures effecting care providers.

With Care Analytics, we will now undertake further detailed analysis of the data obtained through the Fair Cost of Care exercise and the composite of the median costs, to help us to assess the appropriateness of the data as a fair and meaningful representation of provider cost structures who operate in our local market. The results of this further work will inform the rates on which to base our usual fee rates/commissioning going forwards.

Leicestershire's position with regard to provider costs and uplifts for 2023/24 will be predicated on the amounts assigned by Central Government to fund these additional costs / pressures.