

- **Market Sustainability and Fair Cost of Care Fund**

Annex B - 65+ Care homes



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Fair Cost of Care

Introduction

In 2021 the Government announced large-scale reforms to the Adult Social Care sector set out in the [Build Back Better Policy Paper](#). The long-term objective of these reforms is to work with local authorities to make local care and support markets sustainable, provide choice for individuals at affordable rates, and improve overall wellbeing.

To this end, the Government outlined a [Market Sustainability and Fair Cost of Care Exercise](#) for local authorities to help inform how adult social care will be reformed. The aim is to ensure that providers are paid a fair cost for care and to develop resilient and sustainable care markets.

This document sets out how the Fair Cost of Care (FCOC) estimates were arrived at. The tables presented in this document represent analytical work completed on the data submitted by care home providers operating in the Royal Borough of Kingston (the Council).

The Council commissioned Alma Economics following a competitive tender conducted under ESPO Framework Agreement 664_21 Consultancy Services. Alma economics was commissioned to further strengthen the council's internal commissioning and contract management capacity and to undertake the work associated with the FCOC grant conditions, to increase the transparency to the exercise and greater market oversight as a result of increased section 18(3) of the Care Act 2014 commissioning. Alma Economics engaged with local adult social care providers to collect data and analyse the cost of adult social care services and the costs incurred by providers, all the work carried by Alma Economics is independent but produced in collaboration with the Council and South West London partnership.

Engagement with providers

Response rate

In total 30 care home providers were considered within scope for the FCOC exercise in the Council. Out of those, 11 submitted data on care homes' costs, representing 37% of all care home providers within scope. Specifically, the submissions received include 6 care homes with nursing, and 8 care homes without nursing, covering approximately 52% of the care home market.

In order to increase providers' engagement, at the beginning of the project, the Council and Alma Economics organised a workshop with care home providers. During the workshop the team explained to providers how to sign up to the portal and to submit their data, and provided tips and suggestions on how to fill up the template and participate in the Fair Cost of Care exercise. After the workshop, the Council team and Alma Economics shared the workshop material as well as guidance on how to fill in the questionnaire with providers.

In addition, Alma Economics delivered one-to-one sessions for providers who needed additional

support to complete the questionnaire. The sessions were conducted online and lasted between 30 minutes and 1 hour depending on the needs of the providers. The Council's Commercial team acted as the named point of contact throughout the process; the Commercial officers made regular phone calls, emails and shared FCOC materials and offered support in addition to Alma Economics support offer in order to encourage submissions.

To maximise engagement and response rates, the data submission deadline was extended on multiple occasions until early September.

Description of questions asked, and template used

The data on care home costs were collected using the [toolkit](#) developed by ADASS. This tool was commissioned by the Care and Health Improvement Programme (CHIP) to help providers input data and to help local authorities gather information for the FCOC exercise. Most providers operating in the Council (27 out of 30) registered to the portal.

The tool collected information on the care home location, expenditure, Return on Operations (ROO) and Return on Capital (ROC), occupancy, staffing hours, and direct staff costs. Once data has been submitted, the toolkit provides estimates on the average cost per resident per week, both for occupied beds with nursing and without (for individuals with and without dementia).

What worked well

- The engagement activities carried out were useful to highlight providers' challenges in collecting the data and provide additional insights to those coming out from the data collection exercise.
- Most providers were aware of the data collection exercise as the vast majority signed up to the online portal.
- The data collection exercise covered a representative share of the market.

Areas for improvement

- Data on ROC and ROO were particularly unreliable.
- Providers mostly needed help in understanding how to input the data and what type of information was required, especially smaller providers who don't have a dedicated finance team.
- Some providers did not attend the one-to-one sessions scheduled.
- Overall, the data submitted are of lower quality than data for the home care market, with several cells left blank by providers and inconsistencies across providers' submissions.

Data analysis

The Council and Alma Economics recognise the limitations associated with data quality, lack of provider engagement with the exercise, and the median calculation. In particular, responses received included significant outliers, implausible data (e.g. negative numbers), and blanks, while approximately half of the providers did not submit their cost of care. Regarding the median calculation, this approach is better suited to large datasets and lacks weighting of each provider's submission. As a result, a provider supporting one client would have the same impact on the median as one supporting hundreds.

We have taken several steps to increase robustness and validity of our calculations but the results produced by this exercise cannot be treated as wholly reliable or accurate. Our approach, outlined in the following sections, considered differences in capital structures, occupancy rates, and profit margins. This is achieved through adjusting ROC and ROO rates, setting a minimum cut-off for occupancy, and excluding outliers.

We ensured our approach was fit-for-purpose by attending online webinars explaining the requirements for Annex A, B, and C and attending weekly meetings with the South West London working group to discuss methodology and results, as well as official guidance on how to analyse the data. As mentioned above, we engaged with providers either by email or by organising one-to-one sessions to ask follow-up questions and clarifications on their submissions when needed. Specifically, we requested clarifications on outliers, blank cells, zero values, and potential mistakes.

Our analysis closely followed DHSC guidance on data cleaning to ensure the correct identification of outliers ([DHSC, 2022](#)). Specifically, we applied Tukey's rule and excluded values that were not within the rule's limits¹. To that end, we first calculated the median, lower and upper quartile of each cost item including all responses. Then, we calculated the interquartile range as the difference between the upper and lower quartiles. Lastly, we excluded as outliers all data points that were either: (i) above 1.5 times the interquartile range from the upper quartile; or (ii) below 1.5 times the interquartile range from the lower quartile.

As part of the project, Alma Economics conducted upskilling sessions with the Council team to share best practices and lessons learned from this exercise. The sessions covered all aspects of the analytical work, including stakeholder engagement, data analysis, and modelling. These sessions ensured that the Council will be able to conduct similar exercises in the future.

Base price year and uplift

The toolkit allowed providers to submit cost information for the period April 2021- March 2022 and to provide a percentage uplift to bring costs to April 2022 levels. Our analysis is based on 2021-22 data following a percentage uplift, as they were more reliable than April 2022 figures. Our approach to uplifting 2021-22 figures is based on the National Living Wage (NLW) and inflation growth. Specifically, the "Care Staff" cost item has been increased by 6.6%, following the NLW growth from the 2021-22 average to 1st of April 2022 for over 23-year-olds ([UK government, 2022](#)).

¹ Tukey's rule is a statistical approach which identifies outliers based on the interquartile range. Specifically, an outlier is defined as any observation more than 1.5 times the interquartile range from the lower or upper quartiles.

However, we do not assume that care home staff are on the NLW, rather we expect their wages to move proportionately with the NLW. All remaining cost items have been increased by 3.2%, following the growth of the ONS deflator for “Human health and social work activities” over the same period ([ONS, 2022](#)).

Our approach on Return on Capital and Return on Operations

After carefully examining the submitted data on ROC and ROO, we noted values that were inconsistent with the literature and evidence collected by other councils. For instance, some submissions included negative values for ROCs and ROOs or extreme outliers. To address this issue, we set the ROO and ROC of all providers to 5% and 6% respectively based on the empirical evidence collected by [LaingBuisson, \(2022\)](#).

According to the authors of the report, there is extensive market-based evidence that investors are willing to pay about nine times annual operating profit (EBITDAR) or equivalently, 11.0% whole business annual return on capital for a sustainable freehold care home. Furthermore, it has been observed that investors in care home property seek a yield of approximately 6.0% per annum to offer care home accommodation. Therefore, the difference between the two yields approximates the care home operators’ profit, after paying the financing costs of the property.

Our approach on occupancy

Following suggestions by the LGA and discussions with the South West London working group, we have set a minimum cut-off of 80% occupancy for the exercise. This was done after other members in the SWL working groups noted that occupancy rates were particularly low compared to previous years. To avoid inaccurate occupancy rates resulting in higher costs per bed, we have examined each cost item in the submission of the only provider below the cut-off, and excluded items that were either outliers or fixed costs.

Data Tables

The data presented below for beds with nursing are based on 6 providers that submitted the data, while one provider has been excluded from calculations on residential homes due to data reliability.

Based on the data returns received, the cost figures are the same between occupied beds with nursing and without nursing, with the only difference being the cost of nursing staff. In other words, besides the cost of nursing staff, there is no difference between costs associated with beds with nursing versus beds without nursing.

As mentioned above, data are collected both for services with and without dementia. However, it is worth noting that the current data returns seem to suggest that there are no extra costs associated with dementia. All cost figures submitted by care home providers are the same whether the care home residents have dementia or not.

Table 1 presents the median cost of a bed (with and without nursing) per resident per week. The final median cost has been calculated as the sum of the individual cost items to reduce the impact of outliers or incorrect values on the final figure. The cost categories examined were (i) staffing, (ii) premises, (iii) supplies and services, (iv) head office, (v) ROO, and (vi) ROC. The rates presented for care homes with nursing include Funded Nursing Care (FNC) and Continuing Healthcare

(CHC).

Table 1. Median costs for 65+ care homes 2021-22, per resident per week

Median costs	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	£538.61	£538.61	£793.75	£793.75
Nursing Staff	£0.00	£0.00	£262.32	£262.32
Care Staff	£379.26	£379.26	£306.68	£306.68
Therapy Staff (Occupational & Physio)	£0.00	£0.00	£0.00	£0.00
Activity Coordinators	£10.63	£10.63	£13.60	£13.60
Service Management (Registered Manager/Deputy)	£46.14	£46.14	£51.08	£51.08
Reception & Admin staff at the home	£15.22	£15.22	£18.47	£18.47
Chefs / Cooks	£28.84	£28.84	£58.77	£58.77
Domestic staff (cleaning, laundry & kitchen)	£43.49	£43.49	£62.26	£62.26
Maintenance & Gardening	£15.02	£15.02	£13.81	£13.81
Other care home staffing (please specify)	£0.00	£0.00	£6.74	£6.74
Total Care Home Premises	£48.70	£48.70	£36.37	£36.37
Fixtures & fittings	£11.10	£11.10	£7.60	£7.60
Repairs and maintenance	£21.44	£21.44	£22.16	£22.16
Furniture, furnishings and equipment	£6.78	£6.78	£6.62	£6.62
Other care home premises costs	£9.37	£9.37	£0.00	£0.00
Total Care Home Supplies and Services	£105.01	£105.01	£140.08	£140.08
Food supplies	£35.33	£35.33	£33.04	£33.04
Domestic and cleaning supplies	£9.36	£9.36	£15.18	£15.18
Medical supplies (excluding PPE)	£7.71	£7.71	£15.45	£15.45

PPE	£0.00	£0.00	£0.29	£0.29
Office supplies (home specific)	£3.59	£3.59	£3.56	£3.56
Insurance (all risks)	£4.83	£4.83	£5.72	£5.72
Registration fees	£4.41	£4.41	£3.89	£3.89
Telephone & internet	£1.92	£1.92	£2.36	£2.36
Council tax / rates	£0.76	£0.76	£0.76	£0.76
Electricity, Gas & Water	£22.98	£22.98	£30.27	£30.27
Trade and clinical waste	£3.82	£3.82	£3.82	£3.82
Transport & Activities	£2.41	£2.41	£3.91	£3.91
Other care home supplies and services costs	£7.88	£7.88	£21.83	£21.83
Total Head Office	£87.39	£87.39	£93.35	£93.35
Central / Regional Management	£38.13	£38.13	£38.64	£38.64
Support Services (finance / HR / legal / marketing etc.)	£42.88	£42.88	£42.88	£42.88
Recruitment, Training & Vetting (incl. DBS checks)	£6.38	£6.38	£10.72	£10.72
Other head office costs (please specify)	£0.00	£0.00	£1.11	£1.11
Total Return on Operations	£52.98	£52.98	£48.70	£48.70
Total Return on Capital	£283.31	£283.31	£323.29	£323.29
TOTAL	£1,116.00	£1,116.00	£1,435.54	£1,435.54

Tables 2 and 3 present the median, upper quartile, and lower quartile cost of a bed (with and without nursing respectively) per resident per week. The last column indicates the number of providers included in the calculation of each cost line. The costs of care home occupied beds with and without nursing have been calculated based on six and eight care home data submissions respectively. Where the response count is lower than these numbers, individual data points have been excluded as outliers following Tukey's rule described above.

As in Table 1, the final median cost has been calculated as the sum of individual cost items (after removing outliers) to reduce the impact of outliers or incorrect values on the final figure. Similarly, the lower and upper quartile costs have been calculated for each cost item individually, and then summed.

Table 2. Quartile costs and response count for care home providers with nursing 2021-2022, per resident per week

Cost Items	Median of cost items	Lower (First) Quartile	Upper (Third) Quartile	Response count
Care home staffing				
Nursing staff	262.32	216.49	316.40	6
Care staff	306.68	298.32	323.20	4
Therapy Staff (Occupational & Physio)	0.00	0.00	0.00	5
Activity Coordinators	13.60	11.47	16.08	5
Service Management (Registered Manager / Deputy)	51.08	35.78	92.03	6
Reception & Admin staff at the home	18.47	13.10	20.18	5
Chefs / Cooks	58.77	38.41	87.44	6
Domestic staff (cleaning, laundry & kitchen)	62.26	61.41	65.37	3
Maintenance & Gardening	13.81	13.35	14.21	4
Other care home staffing	6.74	0.00	36.33	6
Section total	793.75	688.31	971.24	
Care home premises				
Fixtures & Fittings	7.60	1.88	12.94	6
Repairs & Maintenance	22.16	7.33	30.47	5
Furniture, furnishings and equipment	6.62	6.59	6.95	5
Other care home premises costs	0.00	0.00	3.57	5
Section total	36.37	15.80	53.93	
Care home supplies and services				
Food supplies	33.04	32.15	35.53	5
Domestic and cleaning supplies	15.18	8.34	23.45	6
Medical supplies excluding PPE	15.45	8.78	26.40	6
PPE	0.29	0.00	0.73	6
Office supplies (Home specific)	3.56	2.25	3.62	5

Insurance (all risks)	5.72	3.73	15.68	6
Registration fees	3.89	3.43	5.43	6
Telephone & Internet	2.36	1.84	4.77	6
Council tax / rates	0.76	0.67	0.85	5
Electricity, gas & water	30.27	23.67	36.89	6
Trade and clinical waste	3.82	0.00	4.50	5
Transport & Activities	3.91	3.34	8.47	5
Other care home supplies	21.83	7.61	22.35	5
Section total	140.08	95.81	188.68	
Head office				
Central / regional management	38.64	21.66	54.70	6
Support services (finance / HR / legal / marketing)	42.88	19.55	101.29	6
Recruitment, Training & Vetting (inc. DBS checks)	10.72	6.69	28.16	6
Other head office costs	1.11	0.00	11.22	6
Section total	93.35	47.90	195.37	
Total exc. ROC & ROO	1,063.55	847.82	1,409.22	
Return on Operations and Return on Capital				
Return on operations	48.70	25.67	52.98	5
Return on capital	323.29	283.31	393.98	3
Section total	371.99	308.98	446.96	
Final total	1,435.54	1,156.80	1,856.18	

Table 3. Quartile costs and response count for care home providers without nursing 2021-2022, per resident per week

Cost Items	Median	Lower (First) Quartile	Upper (Third) Quartile	Response count
Care home staffing				
Nursing staff	0.00	0.00	0.00	8
Care staff	379.26	297.85	478.76	7
Therapy Staff (Occupational & Physio)	0.00	0.00	0.00	8
Activity Coordinators	10.63	2.45	13.07	7
Service Management (Registered Manager / Deputy)	46.14	29.83	92.80	8
Reception & Admin staff at the home	15.22	2.99	19.75	7
Chefs / Cooks	28.84	6.51	52.02	7
Domestic staff (cleaning, laundry & kitchen)	43.49	25.38	58.39	7
Maintenance & Gardening	15.02	13.67	15.45	6
Other care home staffing	0.00	0.00	0.00	6
Section total	538.61	378.69	730.24	
Care home premises				
Fixtures & Fittings	11.10	1.88	14.97	6
Repairs & Maintenance	21.44	10.68	32.62	7
Furniture, furnishings and equipment	6.78	2.28	7.42	7
Other care home premises costs	9.37	0.89	19.94	7
Section total	48.70	15.73	74.94	
Care home supplies and services				
Food supplies	35.33	33.57	38.26	7
Domestic and cleaning supplies	9.36	7.58	10.89	7

Medical supplies excluding PPE	7.71	7.10	7.88	5
PPE	0.00	0.00	0.43	7
Office supplies (Home specific)	3.59	2.58	9.54	7
Insurance (all risks)	4.83	1.78	11.30	7
Registration fees	4.41	3.55	5.99	7
Telephone & Internet	1.92	1.01	2.51	7
Council tax / rates	0.76	0.64	0.85	6
Electricity, gas & water	22.98	21.50	36.20	8
Trade and clinical waste	3.82	0.00	4.50	6
Transport & Activities	2.41	1.71	3.24	7
Other care home supplies	7.88	5.52	18.41	7
Section total	105.01	86.54	150.00	
Head office				
Central / regional management	38.13	21.66	51.11	6
Support services (finance / HR / legal / marketing)	42.88	19.55	94.95	7
Recruitment, Training & Vetting (inc. DBS checks)	6.38	5.12	12.03	6
Other head office costs	0.00	0.00	2.23	6
Section total	87.39	46.33	160.32	
Total exc. ROC & ROO	779.71	527.29	1,115.51	
Return on Operations and Return on Capital				
Return on operations	52.98	25.67	57.83	5
Return on capital	283.31	263.32	303.30	2
Section total	336.29	288.99	361.14	
Final total	1,116.00	816.28	1,476.64	

Miscellaneous notes

The following note refers to individual cost lines in Annex A, section 3 tables.

- 1) Lines 136/137- Average external provider fee rates for 2021/22 and 2022/23: The figures

presented in these rows are based only on in-borough data.