



Department
of Health &
Social Care

Market Sustainability and Fair Cost of Care Fund 2022 to 2023

**Annex B: Cost of Care Report - Age 65+ care homes
Derbyshire 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, including the further commencement of Section 18(3) of the Care Act 2014 in October 2023, 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, with particular consideration given to the further commencement of Section 18(3) of the Care Act 2014 (which is currently in force only for domiciliary care) – a final plan will be submitted in February 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 [insert name of council] in meeting the conditions of the fund and how the cost of care estimates submitted to DHSC within Annex A have been arrived at.

Approach to the exercise

Derbyshire County Council, alongside several 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 Care Quality Commission registered Care Homes in Derbyshire providing support for people over 65 were initially contacted by the Council's Contracts Department and invited to a briefing session on the proposed Cost of Care Exercise. This included Care Homes that might at that time have had no placements with the council. This meeting was held on the 16 June 2022 and the survey requirements were described to participants by Care Analytics and people were provided opportunity to ask questions. A further Q&A session was held on the 29 June 2022.

Following this meeting the survey was sent to all Providers on 16 June 2022 asking that they consider completing the forms and if they had any questions to contact the Council or Care Analytics. A deadline for receipt of the first forms was set for 8 July 2022. This deadline was subsequently extended to 15 July 2022 to allow Providers to submit their forms and a deadline for managing queries was agreed for 29 August 2022. Responses were received directly by Care Analytics, rather than by the local authority, 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.

As stated during this period Providers were encouraged to ask questions to ensure that their completed surveys best reflected the costs incurred. A number of Providers were contacted by care Analytics following submission of their survey as part of a clarification process to ensure that all questions were completed correctly so that the completed surveys could be used as part of the analysis.

Interpretation of Annex A results

At this point it is extremely important that DHSC understands the context of the data that has been reported in Annex A 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 Derbyshire'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 this reason, we must be clear that the FCoC median costs obtained through this exercise (and reported in Annex A) 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. This work will be evidenced in the final market sustainability plan, to be submitted in February 2023.

Response rates

48 care homes submitted a survey to inform both the Council's Cost of Care (CoC) return and the wider analysis of the local care home market that is to follow. All care homes that submitted a survey were within scope of the exercise. 47 of the 48 care home surveys were able to be used in the CoC return.

The survey response from 1 care home was unusable as there were too many incomplete or unanswered questions/sections, even after an extensive query process.

47 out of 147 (32%) older adult care homes in Derbyshire ultimately submitted a usable survey. (The 147 homes excluded 23 council-operated homes as they are not part of the CoC exercise).

Usable surveys were received from 22 out of 71 (31%) older adult nursing homes and 25 out of 76 (33%) older adult residential care homes (excluding the 23 council-run older adult care homes).

20 of the 22 older adult nursing homes that submitted responses had nursing residents at the time of submission. The other two homes with no nursing residents were therefore only used in the residential analysis.

18 out of the remaining 20 older adult nursing homes reported a significant number of residential residents and so have been used for both the residential and nursing analysis. Where nursing homes reported only a handful of residential residents (without nursing), all residents were classified as nursing.

Sample composition

Although more submissions would have been welcome the Council received a balance of usable surveys from Nursing and Residential Homes. There seemed to be a spread of occupancy probably reflective of the wider market, and seemingly a good mix of homes based on the age of the care home.

However, compared to the overall market, the sample is overly weighted towards groups with very few independently operated care homes completing the survey. This is significant and is the reason why the median costs for both central overheads and repairs & maintenance are reflective of larger groups rather than independents and small stable groups. The survey results are therefore not reflective of the business structure of whole

market and consequently the values in the Cost of Care results need to be approached with caution.

Approach used for return on capital and return on operations

It is acknowledged within the supporting documentation from DHSC that there is an amount of discretion around both return on operations and return on capital with limited guidance on how to approach this complex area for CoC reporting. As already mentioned, the market is made up of Care Providers with very different business structures with a high number of owner managed businesses and fewer 'propco' structures where the process separates the property asset is separated from the trading business.

The result is by splitting consideration of return on operation and return on capital, you inevitably end up with a result that is not indicative of the whole market.

A value of 5% for a return on operations was used as the Council believes this is a plausible mark-up. The return on operations calculation is a mark-up on operating costs and has been calculated by applying 5% to the sum of operating costs submitted. However, it must be noted that this calculation and values were used solely for this Cost of Care exercise.

Return on capital is a different type of calculation. The reported capital value of the care home as submitted in the surveys, was multiplied 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 was 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 was 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.

A 6% return on capital was used against the value of the reported capital value of the care homes as submitted in the surveys. An assumed £15,000 was then added to the capital value for the value of equipment, furniture, etc. within the care home (essentially to reflect depreciation). The data was also adjusted to an assumed 90% occupancy as an average vacancy factor.

The Council acknowledges that 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 (especially older established homes) that are currently in operation, whilst potentially understating the capital costs for newer facilities.

It is also acknowledged that the capital value of the median care home room in the market is likely to be substantially higher than the capital value of the median room that can be commissioned by the council. This reflects the high proportion of 'self-funder' placements and placements where a third party is paid where rates are higher than the Council's usual cost of care. These higher self-funder placements are more frequently made in homes with higher median capital value than the Council would normally place in.

Lower quartile, median and upper quartile costs

A table setting out, for each service type, details showing the count of observations, lower quartile, median and upper quartile (where relevant) of all items in Annex A, Section 3 is included as **Appendix 1** to this report.

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.

Annex A, Section 3

The full table in Annex A, Section 3 is included as **Appendix 2** to this report and sets out the median values for each care type.

Basis of data collection

The data from providers was collected during July and August 2022. The financial year was 2022/23. In some instances, historic cost data was used for non-staff cost categories, based on the providers 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 the FCoC cost model:

- 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 after 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 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 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 Annex A template. 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.

Appendix 1

Total:
Less FNC:

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	
Total Care Home Staffing	
Nursing Staff	
Care Staff	
Therapy Staff (Occupational & Physio)	
Activity Coordinators	
Service Management (Registered Manager/Deputy)	
Reception & Admin staff at the home	
Chefs / Cooks	
Domestic staff (cleaning, laundry & kitchen)	
Maintenance & Gardening	
Other care home staffing (please specify)	
Total Care Home Premises	
Fixtures & fittings	
Repairs and maintenance	
Furniture, furnishings and equipment	
Other care home premises costs (please specify)	
Total Care Home Supplies and Services	
Food supplies	
Domestic and cleaning supplies	
Medical supplies (excluding PPE)	
PPE	
Office supplies (home specific)	
Insurance (all risks)	
Registration fees	
Telephone & internet	
Council tax / rates	
Electricity, Gas & Water	
Trade and clinical waste	
Transport & Activities	
Other care home supplies and services costs (please specify)	
Total Head Office	
Central / Regional Management	
Support Services (finance / HR / legal / marketing etc.)	
Recruitment, Training & Vetting (incl. DBS checks)	
Other head office costs (please specify)	
Total Return on Operations	
Total Return on Capital	
TOTAL	

	£691	£819	£919
	1st quartile	Median	3rd quartile
Count of answers	All residential placements (excluding nurses)	All residential placements (excluding nurses)	All residential placements (excluding nurses)
45	£434.06	£468.63	£507.08
45	£287.29	£305.50	£332.74
37	£11.11	£14.71	£18.91
45	£30.20	£36.48	£44.00
37	£10.55	£13.07	£16.71
44	£19.95	£25.23	£29.56
45	£46.85	£63.31	£80.95
44	£8.68	£12.52	£16.06
42	£25.00	£38.84	£52.86
15	£7.80	£12.23	£23.85
42	£21.16	£24.19	£36.51
27	£2.76	£6.42	£12.90
43	£98.58	£117.54	£134.39
43	£27.76	£30.62	£34.33
38	£7.78	£9.61	£15.01
37	£0.64	£0.85	£2.18
15	£2.70	£4.27	£6.67
40	£3.08	£5.07	£8.49
43	£6.31	£7.77	£8.47
41	£3.24	£3.55	£4.10
43	£1.13	£1.67	£2.08
39	£1.02	£1.28	£1.70
43	£26.38	£35.35	£40.22
42	£2.86	£4.31	£5.73
37	£0.91	£2.28	£5.63
40	£3.64	£5.96	£12.52
43	£22.93	£66.49	£81.51
23	£8.77	£15.03	£33.99
35	£2.64	£4.41	£21.52
40	£1.73	£4.34	£6.68
23	£37.46	£50.68	£64.94
	£29.03	£34.58	£38.79
	£81.28	£92.95	£104.48
	£690.89	£819.03	£919.12

Supporting information on important cost drivers used in the calculations:	
Number of location level survey responses received	45
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	
Number of residents covered by the responses	1,192
Number of carer hours per resident per week	45
Number of nursing hours per resident per week	
Average carer basic pay per hour	45
Average nurse basic pay per hour	
Average occupancy as a percentage of active beds	45
Freehold valuation per bed	29

Count of answers	All residential placements (excluding nurses)	All residential placements (excluding nurses)	All residential placements (excluding nurses)
45	45	45	45
1,192	1192	1192	1192
45	22.5	25.2	26.9
45	£9.89	£10.08	£10.45
45	83.3%	89.5%	97.2%
29	£55,445	£65,554	£75,551

The following shows values of care homes with Nursing

hire

Total:
Less FNC:

£968 **£1,098** **£1,288**
£759 **£889** **£1,079**
1st quartile Median 3rd quartile

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	
Total Care Home Staffing	
Nursing Staff	
Care Staff	
Therapy Staff (Occupational & Physio)	
Activity Coordinators	
Service Management (Registered Manager/Deputy)	
Reception & Admin staff at the home	
Chefs / Cooks	
Domestic staff (cleaning, laundry & kitchen)	
Maintenance & Gardening	
Other care home staffing (please specify)	
Total Care Home Premises	
Fixtures & fittings	
Repairs and maintenance	
Furniture, furnishings and equipment	
Other care home premises costs (please specify)	
Total Care Home Supplies and Services	
Food supplies	
Domestic and cleaning supplies	
Medical supplies (excluding PPE)	
PPE	
Office supplies (home specific)	
Insurance (all risks)	
Registration fees	
Telephone & internet	
Council tax / rates	
Electricity, Gas & Water	
Trade and clinical waste	
Transport & Activities	
Other care home supplies and services costs (please specify)	
Total Head Office	
Central / Regional Management	
Support Services (finance / HR / legal / marketing etc.)	
Recruitment, Training & Vetting (incl. DBS checks)	
Other head office costs (please specify)	
Total Return on Operations	
Total Return on Capital	
TOTAL	

Count of answers	All nursing placements	All nursing placements	All nursing placements
20	£642.73	£712.10	£842.53
20	£163.00	£247.49	£301.50
20	£289.51	£311.79	£343.48
18	£12.64	£15.18	£18.44
20	£32.28	£40.67	£60.21
18	£10.87	£13.57	£18.26
20	£17.42	£22.03	£25.63
20	£59.20	£70.77	£83.25
20	£10.11	£13.02	£17.63
19	£26.68	£43.38	£56.07
7	£16.14	£20.70	£27.34
19	£21.25	£26.03	£36.27
13	£1.70	£8.28	£12.90
19	£110.83	£123.34	£133.89
19	£26.52	£30.31	£31.87
16	£7.06	£12.52	£22.09
17	£0.66	£0.80	£3.48
5	£3.11	£3.11	£5.07
16	£3.51	£5.07	£7.91
19	£7.53	£7.77	£9.07
18	£3.24	£3.61	£4.72
19	£1.04	£1.26	£1.78
18	£0.88	£1.43	£2.09
19	£28.88	£39.47	£40.69
19	£4.23	£5.31	£6.10
16	£0.66	£1.30	£3.40
16	£5.79	£8.58	£12.52
19	£61.22	£73.39	£79.73
7	£6.97	£15.04	£42.91
17	£2.69	£3.29	£24.06
19	£3.42	£6.14	£7.91
11	£42.46	£56.72	£64.94
	£42.07	£47.61	£55.61
	£84.92	£98.08	£120.22
	£968.45	£1,097.91	£1,288.06

Supporting information on important cost drivers used in the calculations:	
Number of location level survey responses received	
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	
Number of residents covered by the responses	
Number of carer hours per resident per week	
Number of nursing hours per resident per week	
Average carer basic pay per hour	
Average nurse basic pay per hour	
Average occupancy as a percentage of active beds	
Freehold valuation per bed	

Count of answers	All nursing placements	All nursing placements	All nursing placements
20	20	20	20
71	71	71	71
20	448	448	448
20	23.9	25.7	26.9
	8.1	9.0	10.3
20	£9.87	£9.99	£10.38
	£17.69	£18.56	£19.41
20	69.8%	84.2%	92.9%
11	£58,595	£70,000	£89,194

To be included in the CoC analysis, each care home had to report at a minimum 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. It was decided to include these data as they were still valid for the purpose of this exercise.

Appendix 2

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

Total:
Less FNC:

£794 £845 £1,072 £1,123
£863 £914

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	
Total Care Home Staffing	
Nursing Staff	
Care Staff	
Therapy Staff (Occupational & Physio)	
Activity Coordinators	
Service Management (Registered Manager/Deputy)	
Reception & Admin staff at the home	
Chefs / Cooks	
Domestic staff (cleaning, laundry & kitchen)	
Maintenance & Gardening	
Other care home staffing (please specify)	
Total Care Home Premises	
Fixtures & fittings	
Repairs and maintenance	
Furniture, furnishings and equipment	
Other care home premises costs (please specify)	
Total Care Home Supplies and Services	
Food supplies	
Domestic and cleaning supplies	
Medical supplies (excluding PPE)	
PPE	
Office supplies (home specific)	
Insurance (all risks)	
Registration fees	
Telephone & internet	
Council tax / rates	
Electricity, Gas & Water	
Trade and clinical waste	
Transport & Activities	
Other care home supplies and services costs (please specify)	
Total Head Office	
Central / Regional Management	
Support Services (finance / HR / legal / marketing etc.)	
Recruitment, Training & Vetting (incl. DBS checks)	
Other head office costs (please specify)	
Total Return on Operations	
Total Return on Capital	
TOTAL	

	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
	£444.36	£492.91	£687.79	£736.41
	£281.22	£329.77	£247.49	£247.49
	£14.71	£14.71	£15.18	£15.18
	£36.48	£36.48	£40.67	£40.67
	£13.07	£13.07	£13.57	£13.57
	£25.23	£25.23	£22.03	£22.03
	£63.31	£63.31	£70.77	£70.77
	£12.52	£12.52	£13.02	£13.02
	£38.84	£38.84	£43.38	£43.38
	£12.23	£12.23	£20.70	£20.70
	£24.19	£24.19	£26.03	£26.03
	£6.42	£6.42	£8.28	£8.28
	£117.54	£117.54	£123.34	£123.34
	£30.62	£30.62	£30.31	£30.31
	£9.61	£9.61	£12.52	£12.52
	£0.85	£0.85	£0.80	£0.80
	£4.27	£4.27	£3.11	£3.11
	£5.07	£5.07	£5.07	£5.07
	£7.77	£7.77	£7.77	£7.77
	£3.55	£3.55	£3.61	£3.61
	£1.67	£1.67	£1.26	£1.26
	£1.28	£1.28	£1.43	£1.43
	£35.35	£35.35	£39.47	£39.47
	£4.31	£4.31	£5.31	£5.31
	£2.28	£2.28	£1.30	£1.30
	£5.96	£5.96	£8.58	£8.58
	£66.49	£66.49	£73.39	£73.39
	£15.03	£15.03	£15.04	£15.04
	£4.41	£4.41	£3.29	£3.29
	£4.34	£4.34	£6.14	£6.14
	£50.68	£50.68	£56.72	£56.72
	£33.36	£35.79	£46.40	£48.83
	£92.95	£92.95	£98.08	£98.08
	£793.54	£844.52	£1,072.39	£1,123.43

Supporting information on important cost drivers used in the calculations:	
Number of location level survey responses received	
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	
Number of residents covered by the responses	
Number of carer hours per resident per week	
Number of nursing hours per resident per week	
Average carer basic pay per hour	
Average nurse basic pay per hour	
Average occupancy as a percentage of active beds	
Freehold valuation per bed	

	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
	45	45	20	20
	1192	1192	448	448
	23.2	27.2	23.7	27.7
	£10.08	£10.08	£9.99	£9.99
	89.5%	89.5%	84.2%	84.2%
	£65,554	£65,554	£70,000	£70,000

For this exercise the difference between standard and enhanced was reflected in the staffing allocated. This is not sensitive enough to the different types of enhanced provision that each different provider services offer. This relied on Providers self-reporting their own enhanced care which needs further understanding. This exercise was not designed to provide a more detailed view of definitions and or differences between standard and enhanced care.