



Essex County Council

Annex B – Cost of Care Report – Care Home

Essex County Council

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Context

The purpose of this document is to provide an overview of the approach taken by Essex County Council (ECC) to deliver the Fair Cost of Care Exercise. The Council commissioned LaingBuisson to deliver on this exercise, ECC have been keen to ensure that an independent consultant supported the delivery of median Fair Cost of Care. The approach was taken to ensuring that the exercise was managed independently.

Executive Summary

On the 6th of April 2022, the Council instructed LaingBuisson to support the delivery of the Fair Cost of Care Exercise covering registered care homes for older peoples (65+), as described and specified in government guidance¹. The Council were keen to ensure that all Essex Providers were fully engaged in this exercise and that as many providers as possible contribute to the delivery of both the cost of care tasks which will support the Fair Cost of Care outcome. The overall scope of the exercise was to focus on our:

- Domiciliary Care market for Adults 18+
- Residential and Nursing market for Adults 65+

The Council felt it was important to ensure that our returns reflected our vast and diverse market, which included:

- Contracted and non-contracted providers,
- ECC Managed and non ECC Managed Adults including Self Funders
- Different organisational types e.g., Limited Companies, not for profit organisations
- Large and small providers

We have a large market of social care providers, of approximately 400 CQC registered care homes. ECC had an expectation that providers were made aware of the exercise and as many as possible to complete the tool kits.

This report is based on validated submissions relating to individual, CQC registered care home services within the council's boundaries which responded via the DHSC recommended CareCubed portal hosted by iESE.

In the validation process, toolkit submissions were checked by LaingBuisson for sense and consistency, and anomalies were amended as necessary with the agreement of providers.

¹ Market Sustainability and Fair Cost of Care Fund 2022 to 2023: guidance, updated 25 August 2022

<https://www.gov.uk/government/publications/market-sustainability-and-fair-cost-of-care-fund-2022-to-2023-guidance>

This report contains:

- All of the detailed operating cost categories and supporting items of information required by DHSC, extracted from respondents' validated toolkit submissions.
- Return on capital and return on operations, determined by the council on the basis of the best available evidence.
- Key characteristics of each care home, such as scale, sector, group ownership, etc, which may assist in analysis related to market sustainability, with data sourced from CQC and LaingBuisson's data warehouse; and
- Other ratios derived from the toolkit submissions, which may assist in understanding drivers of costs.

Headline results

A summary of median total costs derived from the FCoC exercise is presented in Table 1. A more granular analysis of the cost of care results, including all of the cost lines prescribed by DHSC for councils to qualify for grant funding, is set out in Table 4².

Table 1 Median total costs¹ calculated from wholly or partly validated FCoC toolkit submissions by providers located in Essex (including return on capital and operating profit) at 2022/23 prices

	Standard	Enhanced Care	A) Fully validated submissions	B) Partially validated submissions (with one or more validated cost lines)	C) Services in scope	Response rate (A+ B) / C * 100
	£ per week	£ per week	Number	Number	Number	%
Nursing homes (65+)	1,138.66	1,122.17	25	12	64	57%
Residential homes (65+)	848.81	858.56	50	9	144	41%
The calculated values incorporate the following council-determined benchmarks, which supersede median values from toolkit responses:						
Return on capital	6% pa applied to median freehold valuation per resident ²					
Return on operations	5% mark-up on median operating costs					

¹ Derived from Table 4

² Care home valuation per resident may be capped to excludes costs of high specification assets aimed at the private pay market.

² It should be noted that the segmentation into four care home modalities, Standard / Enhanced, Residential / Nursing, does not necessarily capture the full range of possible sub-segmentation that exists within the care home sector.

Approach

Commissioning approach

LaingBuisson were instructed to support the delivery of our statutory obligations for the Cost of Care, with their primary focus being:

- To engage with our social care market alongside the Council to ensure a robust engagement and communication campaign raised enough awareness with our providers.
- To actively work with our providers to encourage providers to complete the cost of care tool kits and provide support in completing and submitting their returns.
- To work with providers to ensure all tool kits were verified so that the maximum number of returns can be used to obtain the median rates for the Fair Cost of Care outcome.
- To ensure an auditable process was adopting for engaging with providers and completing their returns.

LaingBuisson have provided the Council with:

- A verified and unverified returns from providers that have completed a return (verified or unverified)
- An audit log of the number of contacts made to providers, alongside an audit trail of changes made to any returns with confirmation the changed made where confirmed with the provider.
- Care Home Report detailing their findings and insight. ECC has utilised this information and modified it based on our internal insight.

Engagement Approach

The Council have been keen to ensure all providers were and continue to be aware of the Fair Cost of Care exercise and where we are within the process and the importance in supporting the Council to deliver on this national exercise. From the 6th April 2022 the Council completed a series of communications. This included:

Table 2 Activity regarding engagement for the Fair Cost of Care exercise

When	What we did	Aimed at
20 th April 2022	The first communication was sent to home care and care home providers by Laing Buisson	Domiciliary and Older People Residential and Nursing Providers
16 th May 2022	Home care providers emailed directly about the Fair Cost of Care exercise which included links to the toolkit and LB contact details	Domiciliary Providers
25 th May 2022	Fair Cost of Care page launched on the Provider Portal – includes links to both toolkits	Domiciliary and Older People Residential and Nursing Providers
27 th May 2022	A direct email was sent to care home providers informing them of the launch of the iESE toolkit and how to register	Residential and Nursing Providers
16 th June 2022	Virtual session with ECA and care providers that included a Fair Cost of Care discussion	ECA Provider members

When	What we did	Aimed at
23 rd June 2022	Joint Essex County Council, LaingBuisson, Essex Care Association and The Care Provider Alliance letter sent to the market about the Fair Cost of Care exercise	Domiciliary and Older People Residential and Nursing Providers
24 th June 2022	Development of a Fair Cost of Care webpage on our Essex County Council provider hub to provide information to our market. The webpage provided information the task, key contacts, any key questions and timescales.	Domiciliary and Older People Residential and Nursing Providers
11 th July 2022	A direct email was sent to care home providers advising of two provider support sessions on the 12 th and 14 th July 2022, run by The CPA and iESE.	Residential and Nursing Providers
18 th July 2022	A reminder email was sent directly to all op care home and home care providers reminding them of the 31 st of July 2022 deadline for toolkit returns	Domiciliary and Older People Residential and Nursing Providers
Mid/late July	ECC officers have telephoned/emailed the tier 1 and 2 residential care providers as well as key home care providers requesting their support with this exercise	Domiciliary and Older People Residential and Nursing Providers
1 st August 2022	Extension to providers completing the tool until the 11 th of August 2022.	Domiciliary and Older People Residential and Nursing Providers

In addition to this, the Council has sent out care Provider Bulletins highlighting the Fair Cost of Care exercise throughout the above period. Council officers have also attended and flagged this exercise at care provider locality forums within Essex.

Throughout the above timeline, LaingBuisson have contacted providers directly via phone and email to ensure providers are aware of the exercise, to support the providers to complete the tool kits and to answer any provider queries.

Care UK, Local Government Association (LGA) and Essex Care Association (ECA) have shared any communications and encouraged the market to complete the returns. A number of different types of webinars were provided to support providers and we attended locality forums with operations and our market to raise awareness on the Fair Cost of Care process.

High Level Timelines

The Council were keen to ensure providers had as much time as possible to complete the tool kits. Therefore, alongside issuing communications, we were keen to ensure providers had links of where the tool kits were, our key dates were:

- 25th May 2022: Launch of the residential and nursing tool kit
- 31st July 2022: Planned closure of the tool kits
- 11th August 2022: New extension deadline for tool kits
- 15th September 2022: initiate governance with senior stakeholders on the outcome of the exercise and draft core documents to government.
- 16th September 2022: Deadline for verified submissions of tool kits
- 26th September 2022: Engagement with DASS and Finance Director on the exercise.

- 27th September 2022: High level summary provided to CLT on the outcome, impact and next steps.
- 3rd October 2022: Sign off with DASS and Finance Director on draft documentation for Government and key messages to Council members.
- 7th October 2022: briefing with Councillor Spence, cabinet member for Adult Social Care on the outcome of the exercise and key messages.
- 13th October 2022: briefing with PLT on the outcome of the exercise and key messages.
- 14th October 2022: Submit draft returns to government

The Council have tried to give providers as much opportunity to complete and verify their returns with LaingBuisson. This has been vital to ensuring we obtain as many verified returns as possible within our set timescales.

After the 14 October 2022 a deep dive analysis on the returns will be undertaken and a comprehensive analysis to meet the required checklist by government is delivered and supports out final submission for February 2023.

It is noted that in order to follow the Council's process for governance and to obtain appropriate approval for the final submission of the returns to Government by end February 2023, a report will need to be approved at Cabinet on the 9 February 2023 which in turn will mean our governance process will need to start around the 6 December 2022.

Verification of Returns with LaingBuisson

ECC chose to utilise the toolkits provided by the LGA and DHSC – the commissioned iESE CareCubed toolkit.

There were 208 registered care homes in scope (predominantly for older people, aged 65+) located within the boundaries of Essex County Council, after removing homes primarily for younger adults. DHSC guidance states that only older people's care homes in contact with local authorities are in scope, but since nearly all care older people's homes have at least one council-funded resident, predominantly privately funded homes were interpreted as being in scope as well

LaingBuisson worked with the Council over the summer of 2022 to engage with providers through a variety of communication channels, the most important being intensive, direct telephone contact to encourage participation and completion of the toolkit. In addition, support was given to providers who were in process of completing their submissions. Over the course of the project, a total of 870 calls were made to care home providers in Essex. Validation of completed toolkits, including querying anomalies via CareCubed, took place in parallel.

LaingBuisson's experience, gained from similar care cost exercises carried out in recent years, is that the quality of submissions is variable. Large corporate groups typically have the resources to submit consistent and reliable numbers, but SMEs and micro-businesses can find it challenging to deal with the volume and complexity of data requested in toolkits and may leave some questions unanswered and incorrectly answer others. Consequently, it is necessary to apply a robust validation process, including querying anomalous submissions with respondents and assisting them to provide the appropriate data.

In the validation process, toolkit submissions were checked by LaingBuisson for sense and consistency and anomalies were amended as necessary with the agreement of providers. Checking of toolkits was conducted individually through a comparison of submissions from similar care homes, and through comparisons between submissions and LaingBuisson’s historic Care Cost Benchmarks dataset³. Toolkit submissions for individual cost lines were queried when they were found to be significantly outside of expected ranges, with particular attention paid to the plausibility of figures which contribute most notably towards total costs - most of which being costs related to staffing.

A facility to query submissions was made available through the Local Authority user interface of the Care Cubed platform. This involved the submission of comments on individual figures given by providers. Providers were then notified that their response had been put into a query and were able to see the flagged queries with comments, upon logging into the platform. Changes to submissions were only enabled on the provider side, meaning that any queried anomalies which a provider did not understand or did not attempt to resolve, could not be fully validated through the platform.

Consequently, even after applying such validation processes as were practicably possible, there remained toolkits with one or more cost lines which were inappropriately null or zero, or which appeared to be outside of reasonable ranges. In most cases, the anomalies related to minor cost items, and it was evident that an approach was needed which would optimise the use of fully validated data without discarding toolkits which still contained unvalidated data for some minor cost lines.

As part of the verification process ECC had the opportunity to review and challenge the methodology, approach and findings presented by LaingBuisson. LaingBuisson reflected any changes requested into the relevant documentation as a result of these discussions which impacted the median rates.

Incomplete toolkit submissions

The Council chose to adopt **outlier exclusion** approach as recommended by LaingBuisson, and have defined outliers to encompass:

- a) Null (empty) or zero values for any cost line where a null / zero value is inappropriate: and
- b) Non-zero values which are outside specified boundaries.

With respect to b), having researched various methodologies, we adopted Double Median Absolute Deviation (Double MAD) as the preferred approach to setting outlier boundaries for each individual cost line.

$$MAD = median(|X_i - \bar{X}|)$$

³ LaingBuisson has collected cost data from UK wide care home surveys and local Fair Price exercises commissioned by councils, the NHS and independent care associations over more than a decade. They provided a useful source of benchmarking data against which 2022 FCoC toolkit submissions could be compared, in particular with regard to staff hours per resident per week, which is the single most important driver of care home costs.

Median Absolute Deviation (MAD) is calculated by finding the absolute difference between each validated data point and the validated sample median and then calculating the median of these absolute differences. For normally distributed data, MAD is multiplied by a constant $b = 1.4826$, however, the distribution is unknown and not symmetric in our data sample.

Furthermore, statistically testing for skewness in the sample confirms that the data suffers from a highly asymmetric distribution across all categories. Using a singular Median Absolute Deviation value, disregarding the asymmetry in the distribution, would produce unreliable results. For this reason, we opted for an enhanced method called “Double MAD”.

The premises of this method are similar to the classic version, with the only difference being the calculation of two Median Absolute Deviations: 1) the median absolute deviation from the median of all points less than or equal to the median and (2) the median absolute deviation from the median of all points greater than or equal to the median. This allows us to set pertinent outlier thresholds taking into account skewness in the data sample. Finally, for each cost line, we have defined as an outlier any data point which is more than 2 X MAD above or below the median. All such outliers have been excluded from the calculation of median costs in Table 4.

Response Rates

The LaingBuisson team have fully validated 75 toolkit submissions and partially validated 21 toolkit submissions, the latter being those for which one or more (but not all) of the cost lines had been validated. Adding the two together, the 96 fully or partially validated toolkits represents a response rate of 46% of care homes in scope. For some individual cost lines, the effective response rate was higher and for some it was lower, see Table 4 for the number of respondents (in brackets) for each individual cost line.

Table 3 segments response rates according to key care home characteristics which might have a bearing on costs validated. At present, the segments which are over-represented include strategic providers and large corporate group operated homes. Conversely, small group and non-affiliated homes are at present under-represented. There is variable representation of the constituent Districts of Essex County Council.

Table 3 – Segmented response rates (validated plus partially validated) by key characteristics

	Nursing Homes			Residential Homes		
	Respondents	Homes in scope with the relevant characteristic	Response rate (%)	Respondents	Homes in scope with the relevant characteristic	Response rate (%)
Total	37	62	60%	59	148	40%
Strategic providers	19	20	95%	29	29	100%
Provider sector						
For-profit	35	58	60%	50	135	37%
Not-for-profit	2	3	67%	9	13	69%
Build status						
Purpose built	22	48	46%	43	46	93%
Not purpose built	9	14	64%	10	102	10%
Operator scale						
Large corporate group ¹	20	21	95%	29	29	100%
Medium group ²	10	22	45%	20	41	49%
Small group or independent ³	5	19	26%	10	78	13%
Service scale						
Large service scale(50+ beds)	26	41	63%	30	39	77%
Medium service scale(20-49 beds)	10	20	50%	24	88	27%
Small service scale (<20 beds)	1	1	100%	5	21	24%
CQC ratings						
Good or Outstanding	25	43	58%	48	119	40%
Not Good or Outstanding	10	18	56%	11	27	41%
District Council (Counties only)						
Basildon Borough Council	0	1	0%	7	10	70%
Braintree District Council	5	6	83%	8	17	47%

Brentwood Borough Council	3	5	60%	5	8	63%
Castle Point Borough Council	2	3	67%	5	8	63%
Chelmsford City Council	4	7	57%	5	11	45%
Colchester Borough Council	5	9	56%	5	15	33%
Epping Forest District Council	3	9	33%	3	12	25%
Harlow District Council	2	2	100%	2	2	100%
Maldon District Council	2	2	100%	2	12	17%
Rochford District Council	1	3	33%	3	6	50%
Tendring District Council	3	8	38%	9	38	24%
Uttlesford District Council	5	6	83%	5	9	56%

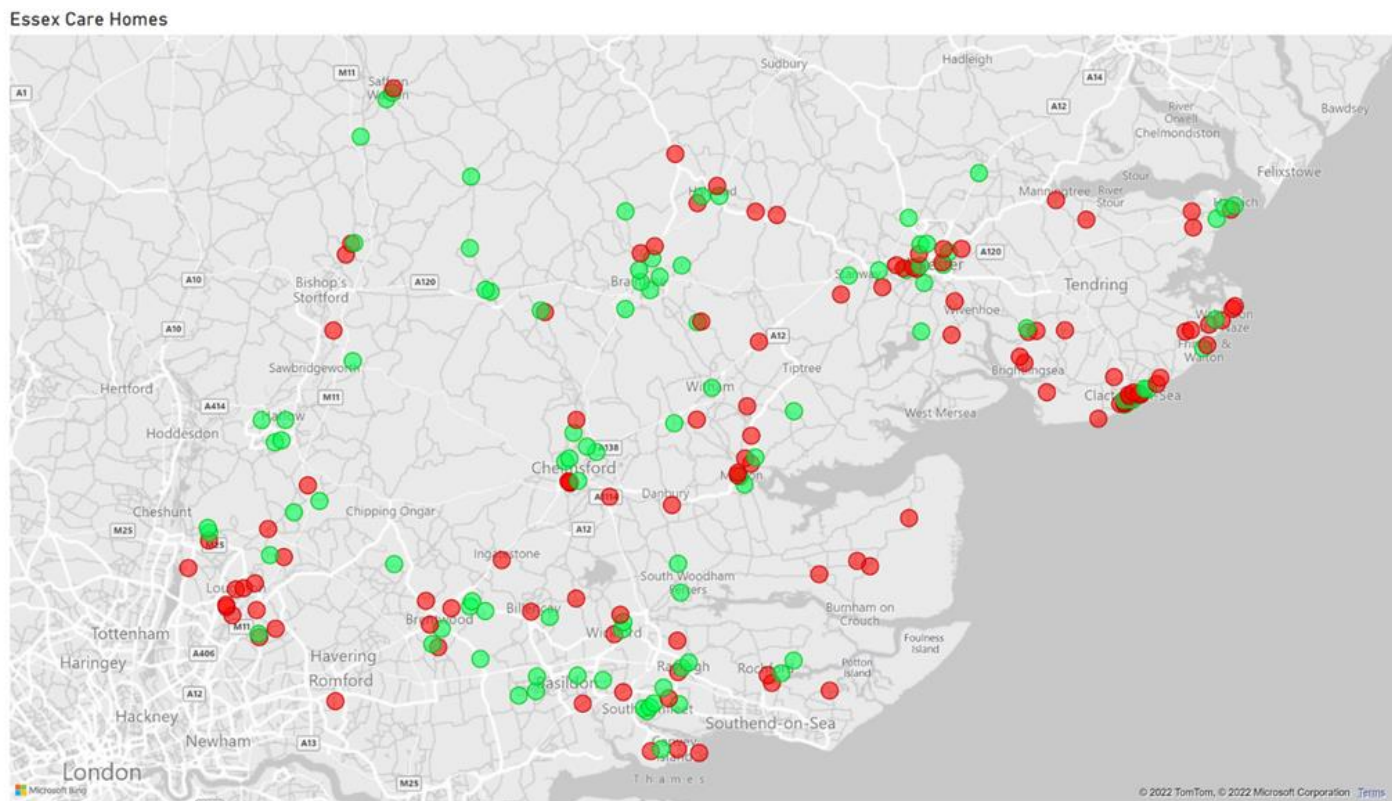
¹ 40 or more care homes for older people across the UK

² 3 - 39 care homes for older people across the UK

³ Fewer than 3 care homes for older people across the UK

Geographical spread of care homes in Essex

Figure 1. Geographical representation of those responded compared to non-responders



- Respondents
- Non-respondents

Base price year and uplifts

All of the FCoC results cited in this report are expressed at April 2022 prices. They have been calculated by multiplying the 'uplift' factors entered in the toolkit submissions by the 2021/22 (base year) toolkit costs per resident, for each cost line, to arrive at costs per resident at April 2022 prices. In any normal year, costs at April (the beginning of the financial year) would be expected to prevail over the full financial year (April 2022 to March 2023) because staffing is the main driver of cost and pay rates are usually set

at the beginning of the financial year for the whole year in the light of the National Living Wage settlement which is implemented in April. The surge of inflation in 2022/23, however, means that care home costs per resident may well change significantly over the course of the new financial year, over and above this report's results at April 2022. For submissions with a 2021/22 base price year and no uplifts entered in the toolkit submission, uplifts have been interpolated based on the National Living Wage for low-paid staff (care and domestic), the monthly earnings index for other staff, and CPI (Consumer Price Index) and CPIH (Consumer Price Index with Housing) percentage change figures for non-staffing costs for the 12 months up to April 2022⁴. These figures have been chosen on a point-by-point basis, where appropriate figures have been identified to account for relative price effects⁵, with overall CPI inflation figures used where no appropriate, goods/services-specific CPI figure has been identified.

Return on capital and return on operations

DHSC guidance indicates that councils should determine, on the basis of available evidence, the appropriate return on capital and return on operations rates that should be added to operating costs (calculated at medians from validated toolkit responses) in order to arrive at the median total cost for each of the four modalities of care in the FCoc returns, and that these rates should be evidence based. The rates agreed by ECC are:

- a) Return on capital 6% per annum
- b) Return on operations 5% mark-up on operating costs

In order to determine the £ value of return on capital, it is necessary to apply the rate of return to a capital value per resident. This can be derived from the toolkit submissions as the median of freehold valuation per bed (see Supporting Information at the foot of Table 4), divided by occupancy per registered bed (see also Supporting Information at the foot of Table 4), to express the £ value on a 'per resident' basis. The calculation for Essex County Council based on validated toolkit submissions at the date of this report is: 6% TIMES £76,441 DIVIDED BY 88.9% TIMES 7/365 = £98.91 per resident per week, see Table 4.

Return on operations is calculated at 5% of the Operating cost subtotals in Table 4. This has been seen as the current optimal percentage to apply. In Essex, we have chosen to adopt the median percentage on domiciliary from this exercise (5%) and in order to align to our market shaping strategy, we have amended the return on operations to be the same. However, we acknowledge that the median of the returns submitted resulted in a return on operations of 10%.

Essex will explore the national view on both return on capital and return on operations and will work with the providers and look to negotiate appropriate return on capital and return on operations in the follow-up investigations following this exercise.

⁴ Table 22, <https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation>

⁵ The LaingBuisson approach to uplifting is broadly in line with guidance on inflationary adjustment set out in The Green Book 2022, Section 5.13, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1063330/Green_Book_2022.pdf

Analysis and results

Summary results for care homes located in Essex are presented in Table 4, in the form prescribed by the DHSC guidance. All operating costs have been derived from validated toolkit submissions, after applying the outlier exclusion rules described above. Return on capital and return on operations are based on the benchmarks set out above.

Because of the way in which CareCubed calculates costs, the differential (if any) between ‘enhanced’ (usually interpreted as dementia) and non-enhanced total costs is entirely due to the staffing costs. All other cost lines are identical for enhanced and non-enhanced care.

LaingBuisson have used their *Care Cost Benchmarks* model as a broad check on the plausibility of the FCoC results in Table 4. LaingBuisson expect (from *Care Cost Benchmarks*) nursing care costs to be about £250 per week higher than residential care costs - made up from registered nursing staff input at around the 2022/23 NHS FNC rate of £209.19, plus some additional non-nurse carer staff input. LaingBuisson also expect (from *Care Cost Benchmarks* data set going back over a decade) a differential between ‘enhanced’ (i.e. dementia) and non-enhanced residential care, the former being more costly. But LaingBuisson would *not* expect any differential between enhanced and non-enhanced nursing care. This is in line with our findings from previous cost of care exercises within Essex.

Any divergence from the expected pattern in the Table 4 median results may be a result of normal variance within small numbers of validated toolkits.

The results in Table 4 should be seen in the context of policy guidance from the Department of Health and Social Care. The latest DHSC guidance, dated 25 August 2022, recognises that ‘*median figures for the broad service types within scope (standard residential care, residential care for enhanced needs, standard nursing care and nursing care for enhanced needs)*’ ... ‘*may oversimplify what is a complex picture of care and support needs.*’

Table 4 Median costs of care homes (65+) located in Essex, £ per week at 2022/23 prices

Cost of Care exercise results - all cells should be £ per resident per week	Non-Nursing		Non-Nursing with enhancement		Nursing		Nursing with enhancement	
Staffing⁶	496.77		506.05		772.81		757.11	
Nursing Staff	-		-		260.09	(23)	228.69	(18)
Care Staff	333.71	(62)	342.99	(38)	349.66	(23)	365.36	(20)
Therapy Staff	1.39	(2)	1.39	(2)	1.39	(2)	1.39	(2)
Activity Coordinators	9.52	(69)	9.52	(69)	9.52	(69)	9.52	(69)
Service Management	44.32	(77)	44.32	(77)	44.32	(77)	44.32	(77)
Reception & Admin	11.55	(68)	11.55	(68)	11.55	(68)	11.55	(68)
Chefs / Cooks	25.19	(78)	25.19	(78)	25.19	(78)	25.19	(78)

⁶ No adjustment has been made following the changes in NI Levy. This will need to be considered in the near future.

Domestic Staff	44.78	(73)	44.78	(73)	44.78	(73)	44.78	(73)
Maintenance & Gardening	10.74	(61)	10.74	(61)	10.74	(61)	10.74	(61)
Other Care Home Staff	15.57	(14)	15.57	(14)	15.57	(14)	15.57	(14)
Care Home Premises	36.49		36.49		36.49		36.49	
Fixtures & Fittings	5.38	(24)	5.38	(24)	5.38	(24)	5.38	(24)
Repairs and Maintenance	20.41	(73)	20.41	(73)	20.41	(73)	20.41	(73)
Furniture, Furnishings and Equipment	6.68	(56)	6.68	(56)	6.68	(56)	6.68	(56)
Other Care Home Premise Costs	4.02	(39)	4.02	(39)	4.02	(39)	4.02	(39)
Care Home Supplies and Services	106.29		106.29		106.29		106.29	
Food	36.5	(78)	36.5	(78)	36.5	(78)	36.5	(78)
Domestic & Cleaning	7.06	(77)	7.06	(77)	7.06	(77)	7.06	(77)
Medical Supplies	2.18	(77)	2.18	(77)	2.18	(77)	2.18	(77)
PPE	1.92	(23)	1.92	(23)	1.92	(23)	1.92	(23)
Office Supplies	2.16	(71)	2.16	(71)	2.16	(71)	2.16	(71)
Insurance	6.05	(76)	6.05	(76)	6.05	(76)	6.05	(76)
Registration Fees	3.59	(66)	3.59	(66)	3.59	(66)	3.59	(66)
Telephone & Internet	1.51	(76)	1.51	(76)	1.51	(76)	1.51	(76)
Council Tax / rates	0.91	(76)	0.91	(76)	0.91	(76)	0.91	(76)
Electricity, Gas & Water	29.24	(74)	29.24	(74)	29.24	(74)	29.24	(74)
Trade and Clinical Waste	4.47	(68)	4.47	(68)	4.47	(68)	4.47	(68)
Transport & Activities	1.11	(73)	1.11	(73)	1.11	(73)	1.11	(73)
Other Care Home	9.59	(81)	9.59	(81)	9.59	(81)	9.59	(81)
Head Office	74.64		74.64		74.64		74.64	
Central / Regional Management	43.98	(67)	43.98	(67)	43.98	(67)	43.98	(67)
Support Services	11.28	(81)	11.28	(81)	11.28	(81)	11.28	(81)
Recruitment, training & vetting	6.07	(73)	6.07	(73)	6.07	(73)	6.07	(73)
Other head office costs	13.31	(30)	13.31	(30)	13.31	(30)	13.31	(30)
Sub-total Operating Costs	714.19		723.47		990.23		974.53	
Return on Operations	35.71		36.17		49.51		48.73	

Return on Capital	98.91	98.91	98.91	98.91
Total	848.81	858.56	1,138.66	1,122.17
Supporting information				
Number of Location level survey responses received	59	26	37	28
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	144	144	64	64
Number of residents covered by the responses	2510	1008	1633	1213
Number of carer hours per resident per week	28	32	28	28
Number of nursing hours per resident per week	-	-	11	15
Average carer basic pay per hour	£10.56	£10.92	£10.63	£10.79
Average nurse basic pay per hour	-	-	£19.35	£19.61
Average occupancy as a percentage of active beds	88.9%			
Freehold valuation per bed	£76,441.2			

All data derived from toolkit responses except for return on capital and return on operations, which have been superseded by the council based on a 6% annual return on capital for premises and a 5% mark-up on operating and head office costs for return on operations

Further Analysis by service type showing median, lower and upper quartile information can be found in Appendix 1.

Sensitivity Analysis

The median total costs set out in Table 4 are sensitive to the following factors:

- The efficacy of the validation process in eliminating implausible and incorrect toolkit submissions for individual cost lines. We believe that the validation process, as described was effective.
- The validity of the rules adopted for elimination of outliers before calculating the medians for each cost line. Outlier exclusion was restrictive, and we believe the rules adopted, as described were appropriate.
- Calculation of capital cost per occupied bed, including the Return on Capital benchmark adopted
- Adjustment for occupancy, if any
- The approach to calculating confidence intervals for the median total costs

The value of each of the benchmark rates (return on capital and return on operations) that councils may, in line with DHSC guidance, set at their own discretion, subject to being evidence based.

Sensitivity to capital cost per occupied bed

Actual values of capital costs per occupied bed are calculated from the toolkits as freehold valuation divided by number of residents. In some cases, particularly in affluent areas where developers have targeted the private pay market in recent years, land and build costs for high specification homes may be considerably greater than the council is reasonably willing to pay for a standard physical environment for council placements. For the purpose of determining a fair cost of care, therefore, councils may reasonably wish to supersede the freehold valuations per occupied bed reported in toolkits with a suitable benchmark value.

LaingBuisson has addressed this issue in its *Care Cost Benchmarks* model by gathering evidence on the cost of developing a new-build care home constructed to a standard specification in an area of moderate land costs. The projected (national) land and build cost at April 2022 is calculated at £110,000 per registered bed (equivalent to £122,000 per occupied bed at 90% occupancy). This is viewed as the **ceiling** asset value that councils may wish to fund in order to incentivise the development of new capacity. The **floor** asset value, according to the *Care Cost Benchmarks* model, is approximately £30,000 per bed, representing converted care home stock on the borderline of registrable quality. Assuming an even spread of stock between the floor and ceiling, in line with the national balance between converted and new build stock, the average capital value is about £70,000 per registered bed (£78,000 per occupied bed) nationally. This is a benchmark that may be suitable for a council which seeks to support existing capacity sustainably, but not incentivise new care home capacity.

LaingBuisson recommends that, for the purposes of calculating a fair cost of care for council supported residents, the median freehold valuation per bed derived from toolkit submissions should be capped at a maximum of £110,000, being the estimated build + land cost of developing a new care home to a standard mid-market specification, and that freehold valuation per occupied bed should be capped at £122,000, assuming 90% occupancy. Essex County Council has yet to explore this aspect of the calculations but will aim to include this in the further engagement with providers in the coming months.

Sensitivity to occupancy rates

Care home occupancy rates in many council areas are still recovering from excess deaths during the Covid pandemic, and possibly from a dampening of demand as a result of negative experiences during Covid. There is a case, in principle, for adjusting the median costs in Table 4 (which are based on 2021/22 occupancy levels) to take account of possibly higher average occupancy rates by April 2022, or to adjust costs to an 'efficient' benchmark, which might be in the region of 90%.

While the council may take occupancy rates into consideration when looking at market sustainability and setting fee rates for 2022/23 and beyond, LaingBuisson do not recommend making any occupancy-based adjustments to the median costs set out in Table 4 for the purposes of FCoC, for the following reasons:

- Based on validated submissions to date, occupancy rates in most council areas are not substantially different from national, sector wide pre-Covid averages;
- Occupancy adjustments would need to make assumptions about fixed and variable costs of care homes, which may be contentious; and
- Any adjustment introduces an additional layer of potential contention, and begs the question: why not consider other adjustments.

For illustration, however, the potential impact of adjusting calculated median costs, to reflect a benchmark occupancy rate of 90%, is set out in Table 5. It requires an assumption on fixed and variable costs. For illustration we have arbitrarily assumed that 75% of average care home operating costs would remain fixed as occupancy changed within the observed rate and the selected benchmark, and that 25% would be variable, varying pro rata with occupancy, The resulting counterfactual differences in median

total costs are illustrated in Table 5. If any occupancy adjustment is proposed in subsequent market sustainability work, we would recommend the council consult with providers regarding the appropriate method of adjustment.

Table 5 Illustrative impact of superseding the median toolkit occupancy rate with a ‘counterfactual’ benchmark occupancy rate of 90% , assuming that 30% of operating costs are fully variable and 70% are fixed within the range bounded by the benchmark occupancy and the toolkit median occupancy

	Non-Nursing	Non-Nursing with enhancement	Nursing	Nursing with enhancement
Calculated value of the occupancy adjustment (£ pw)	-£2	-£3	-£3	-£3

Confidence intervals

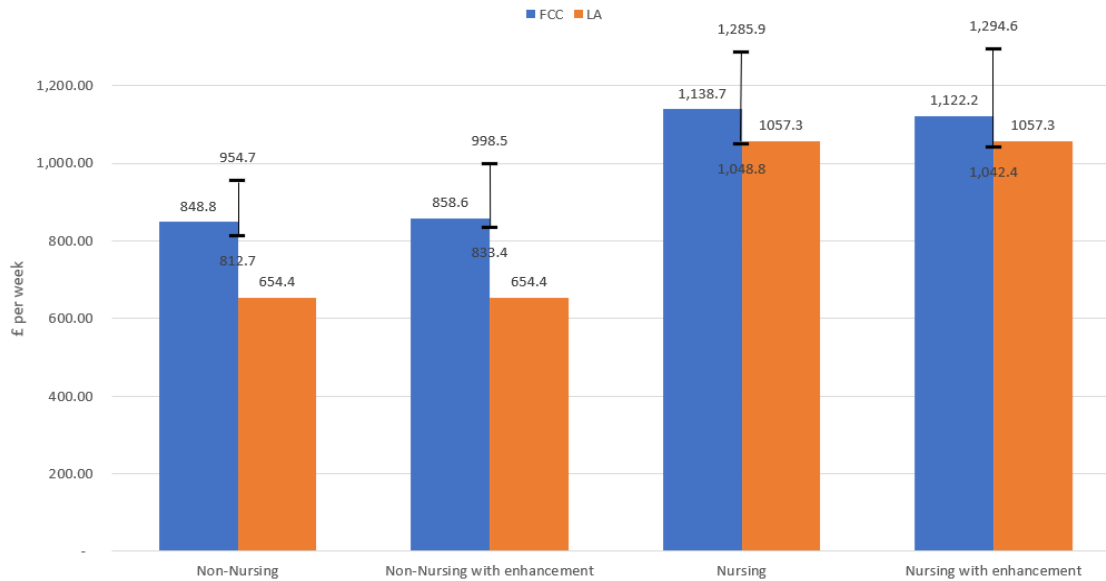
While we have no reason to believe that the toolkit responses were biased in any systematic way⁷, there was a high degree of variance in many of the cost lines submitted by respondents. In particular staff input per resident per week, which is the largest single driver of costs, was highly variable across homes within each of the four modalities of care considered⁸.

The Council recognise that because of the number of validated responses, and the high degree of variance among the sample of toolkits in most of the cost lines, and LaingBuisson have provided some indication of confidence limits, and particularly whether confidence limits for the FCoC medians do or do not overlap with average fees currently being paid by councils in financial year 2022/23.

Figure 2. Graph showing the gaps between current rates and confidence intervals with this exercise

⁷ We cannot, however, rule out the possibility that providers may have overstated their costs, and it was not practicable within the timescale available to carry out a range of checks applied by LaingBuisson in other cost of care exercises, including requesting evidence of staff costs from payroll records.

⁸ Variability in staff input is consistent with all previous cost of care exercises carried out by LaingBuisson. It may be attributed to a number of factors including the dependency levels of residents, the capacity of staff to cater of difference levels of need and the scale and physical layout of homes. The absence of homogeneity means that cost of care exercises cannot aspire to identifying a single ‘true’ cost of care for all efficient providers, not even when segmented into the four modalities of residential / nursing / enhanced / not enhanced. In the absence of any more developed needs matrix than exists at present, cost of care exercises can only aspire to identifying a reasonable sector wide average, or median, around which the costs of individual homes inevitable vary.



Essex County Council future application of Fair Cost of Care exercise

Results vs Current Method

The results from this exercise have indicated that our current cost of care models is in line with the results found here. However, due to funding and other factors, Essex have managed to source care at lower rates than this via our Residential and Nursing frameworks. Therefore, the existing fee rate setting will continue until future funding is more certain.

Inflation

Using the Fair cost of care results, Essex’s aim is to continue to use the basis of this cost of care and apply a combination of inflationary factors when reassessing fee rates within residential and nursing care for Essex. This will be a combination of calculations due to National Living Wage increases; average earnings increases and a CPI % on non-staff costs.

Impact on rates from applying minimum occupancy rates

Essex is aiming to apply a minimum occupancy rate of at least 90%. As such, the Council expects the cost of care rate to alter as per the statements above to those contained within Table 6. However, the Council would expect higher occupancy rates in future in line with our pre-Covid rates of 93% with the Council’s ideal target at 95%.

Table 6 Blended median total costs⁹ calculated from wholly or partly validated FCoC toolkit submissions by providers located in Essex (including return on capital and operating profit) at 2022/23 prices based on 90% occupancy

	Standard	Enhanced Care
	£ per week	£ per week
Nursing homes (65+)	1,135.66	1,119.17
Residential homes (65+)	846.81	855.56

Conclusions

The key item of data that the national FCoC exercise has sought to reveal is the ‘fee gap’ (if any) between the calculated median cost of care and the fee rates currently being paid by councils, in order to inform policy decisions on the quantum of the gap to fill (if any) and the pace at which it can be filled with the resources available.

The results summarised in Figure 2 indicate that there is currently a fee gap in Essex for all four care modalities. The fee gaps, as measured by the differences between the FCoC medians and the average fees currently paid to independent sector providers by Essex County Council, range from £65 to £204 per week.

The FCoC medians, however, are subject to margins of error, and the fee gaps are smaller when measured by the differences between the lower 95% confidence bounds of the FCoC medians and the average fees currently paid by Essex, with fee gaps ranging from £21 to £215 per week.

The concern remains that the response rates for the smaller organisations was extremely low – 26% of the small organisations in Nursing and 17% in Residential. This impacts the confidence levels and previous experience within this sector indicates that smaller organisations have higher fixed and back-office costs as they do not benefit from the efficiencies larger organisations benefit from. However, there is also some testing to be done with this as, conversely, there would not be larger corporate overheads.

In order to boost the confidence in these results further, Essex will analyse the results per provider and continue to test the accuracy by way of comparison to annual accounts and/or previous cost of care exercise submissions.

However, Essex County Council can be confident that real fee gaps do exist, and that the minimum quantum of these fee gaps are £158 for Residential, £179 for Residential with enhancement, -£8 for Nursing, and -£15 for Nursing with enhancement, these being the gaps between the rates the council is currently paying and the lower bounds of the 95% confidence limits of the calculated FCoC medians.

These numbers can be viewed as the minimum fee gaps for Essex County Council to seek to bridge, with the pace of bridging subject to funding availability.

⁹ Taken from DHSC sample template calculations for Annex A
Version 1 – Draft for Government

DRAFT¹⁰ Appendix 1 of Annex B – Cost of Care Report – Care Home

Tables showing median, lower and upper quartile information by service type

	Non-Nursing			Non-Nursing with enhancement			Nursing			Nursing with enhancement		
	Median	Q1	Q3	Median	Q1	Q3	Median	Q1	Q3	Median	Q1	Q3
Staffing	496.77	391.68	531.39	506.05	450.41	574.80	512.72	488.59	472.87	528.42	488.59	472.87
Nursing Staff	-	-	-	-	-	-	260.09	173.19	323.63	228.69	166.40	292.18
Care Staff	333.71	282.76	380.89	342.99	338.09	322.37	349.66	338.09	322.37	365.36	338.09	322.37
Therapy Staff*	1.39	-	-	1.39	-	-	1.39	-	-	1.39	-	-
Activity Coordinators	9.52	7.43	9.81	9.52	7.43	9.81	9.52	7.43	9.81	9.52	7.43	9.81
Service Management	44.32	34.15	45.33	44.32	34.15	45.33	44.32	34.15	45.33	44.32	34.15	45.33
Reception & Admin	11.55	7.38	12.29	11.55	7.38	12.29	11.55	7.38	12.29	11.55	7.38	12.29
Chefs / Cooks	25.19	14.97	29.26	25.19	14.97	29.26	25.19	14.97	29.26	25.19	14.97	29.26
Domestic Staff	44.78	35.87	36.96	44.78	35.87	36.96	44.78	35.87	36.96	44.78	35.87	36.96
Maintenance & Gardening	10.74	6.37	11.27	10.74	6.37	11.27	10.74	6.37	11.27	10.74	6.37	11.27
Other Care Home Staff	15.57	2.75	5.58	15.57	2.75	5.58	15.57	2.75	5.58	15.57	2.75	5.58
Care Home Premises	36.49	23.77	77.93	36.49	23.77	77.93	36.49	23.77	77.93	36.49	23.77	77.93
Fixtures & Fittings	5.38	1.08	8.57	5.38	1.08	8.57	5.38	1.08	8.57	5.38	1.08	8.57
Repairs and Maintenance	20.41	16.91	32.02	20.41	16.91	32.02	20.41	16.91	32.02	20.41	16.91	32.02
Furniture, Furnishings and Equipment	6.68	3.88	12.39	6.68	3.88	12.39	6.68	3.88	12.39	6.68	3.88	12.39
Other Care Home Premise Costs	4.02	1.90	24.95	4.02	1.90	24.95	4.02	1.90	24.95	4.02	1.90	24.95
Care Home Supplies and Services	106.29	79.10	153.05	106.29	79.10	153.05	106.29	79.10	153.05	106.29	79.10	153.05
Food	36.50	31.36	41.91	36.50	31.36	41.91	36.50	31.36	41.91	36.50	31.36	41.91
Domestic & Cleaning	7.06	5.61	10.47	7.06	5.61	10.47	7.06	5.61	10.47	7.06	5.61	10.47

¹⁰ Awaiting confirmation from LaingBuisson
Version 1 – Draft for Government

Medical Supplies	2.18	0.37	6.67	2.18	0.37	6.67	2.18	0.37	6.67	2.18	0.37	6.67
PPE	1.92	0.79	4.31	1.92	0.79	4.31	1.92	0.79	4.31	1.92	0.79	4.31
Office Supplies	2.16	1.22	3.20	2.16	1.22	3.20	2.16	1.22	3.20	2.16	1.22	3.20
Insurance	6.05	4.93	7.36	6.05	4.93	7.36	6.05	4.93	7.36	6.05	4.93	7.36
Registration Fees	3.59	3.32	3.84	3.59	3.32	3.84	3.59	3.32	3.84	3.59	3.32	3.84
Telephone & Internet	1.51	0.66	2.51	1.51	0.66	2.51	1.51	0.66	2.51	1.51	0.66	2.51
Council Tax / rates	0.91	0.51	1.24	0.91	0.51	1.24	0.91	0.51	1.24	0.91	0.51	1.24
Electricity, Gas & Water	29.24	24.26	40.52	29.24	24.26	40.52	29.24	24.26	40.52	29.24	24.26	40.52
Trade and Clinical Waste	4.47	3.62	5.35	4.47	3.62	5.35	4.47	3.62	5.35	4.47	3.62	5.35
Transport & Activities	1.11	0.07	2.46	1.11	0.07	2.46	1.11	0.07	2.46	1.11	0.07	2.46
Other Care Home	9.59	2.38	23.21	9.59	2.38	23.21	9.59	2.38	23.21	9.59	2.38	23.21
Head Office	74.64	36.09	116.22	74.64	36.09	116.22	74.64	36.09	116.22	74.64	36.09	116.22
Central / Regional Management	43.98	22.59	59.93	43.98	22.59	59.93	43.98	22.59	59.93	43.98	22.59	59.93
Support Services	11.28	2.43	31.67	11.28	2.43	31.67	11.28	2.43	31.67	11.28	2.43	31.67
Recruitment, training & vetting	6.07	3.43	8.35	6.07	3.43	8.35	6.07	3.43	8.35	6.07	3.43	8.35
Other head office costs	13.31	7.64	16.27	13.31	7.64	16.27	13.31	7.64	16.27	13.31	7.64	16.27
Sub-total Operating Costs	714.19	530.64	878.59	723.47	547.78	922.00	990.23	744.71	1,226.33	974.53	755.39	1,258.06
Return on Operations	35.71	35.71	35.71	36.17	36.17	36.17	49.51	49.51	49.51	48.73	48.73	48.73
Return on Capital	98.91	98.91	98.91	98.91	98.91	98.91	98.91	98.91	98.91	98.91	98.91	98.91
Total	848.81	665.26	1,013.22	858.56	682.87	1,057.08	1,138.66	893.14	1,374.75	1,122.17	903.03	1,405.70

*As there was only 2 returns, no quartiles are available for Therapy staff