Brent Council Cost of Care Exercise

Care Homes

1. Introduction

1.1 This report sets out Brent Council's report on the cost of care exercise for care homes conducted between June and September 2022. Councils have been required to complete a cost of care exercise to support the implementation of the government's reform of adult social care set out in the white paper "People at the Heart of Care", published in December 2021. The purpose of the white paper was to set out a 10-year vision that puts personalised care and support at the heart of adult social care, ensuring that people:

- have the choice, control and support they need to live independent lives
- can access outstanding quality and tailored care and support
- find adult social care fair and accessible

1.2 Implementation of the Market Sustainability and Cost of Care Fund is seen as one of the first steps in the journey to achieve the vision for care in England.

1.3 The cost of care exercise was designed to be a process of engagement between local authorities and care providers, where through data collection and analysis local authorities and care providers can arrive at a shared understanding of the local cost of providing care. The cost of care exercise has helped Brent to identify the lower quartile, median and upper quartile costs in the local area for a series of care categories, specifically residential and nursing care for the over 65s and homecare services.

2. Care Homes

2.1 In line with the guidance issued by DHSC, Brent's cost of care report on care homes sets out Brent's approach to the cost of care exercise, the steps taken to complete the work including engagement with care providers as well as information on the following areas, as required -

- the response rate of the cost of care exercise, as a percentage of those invited to participate
- an explanation of Brent's approach to return on capital and return on operations
- a clear statement of when the results were collected (the base price year) and how they will be uplifted in future for inflation.
- a full description of the questions asked/template used as part of the exercise
- a table for each service type, with each showing the count of observations, lower quartile, median and upper quartile (where relevant) of all items in Annex A, Section 3
- the full table in Annex A, Section 3 with one column of median values for each care type (i.e. the median cost of care for residential and nursing care)

3. Overview of Brent's approach to the care cost of care exercise

3.1 There are 17 older adult care homes in Brent, comprised of 11 registered nursing homes and six residential care homes that were in the scope of this exercise. Brent's care home market is relatively small, and dominated by homes owned and managed by national providers – 11 of the 17 homes are run by national companies; two are run by regional companies and four are owned and managed locally.

3.2 Before beginning the cost of care exercise, Brent considered the way that it was going to be able to complete the work, ensure that it was well placed to comply with the requirements of the exercise and submit data returns that were as accurate as possible to reflect Brent's care market. Whilst tools and resources were made available to councils to support their cost of care exercises, Brent was concerned about having the capacity and expertise to be able to collect, analyse and challenge the data from provider returns to ensure that the costs submitted were a true reflection of costs required to deliver care in the local market.

3.3 To support the work, Brent commissioned Care Analytics to undertake our cost of care surveys and analysis. Care Analytics have a wealth of knowledge of Brent's care market. The company has worked with Brent and other councils in the West London Alliance over a number of years to help produce the residential and nursing care price bands that are used annually to set care home placement prices. They worked on a homecare cost model for Brent Council in 2018, ahead of the re-tendering of homecare contracts. Care Analytics also completed a review of the council's approaches to commissioning care services in 2021, to help provide benchmarks on the number of care placements/packages, and the prices paid for care to help develop our approaches to commissioning.

Engagement with providers

3.4 Brent Council started its cost of care exercise with Care Homes in May 2022, and completed its work in September 2022. Engagement with providers was initially focused on the managers of the care homes. The first engagement opportunity was taken at Brent's Care Home Forum on 25th May, where care home managers were given a presentation of the cost of care work, and Brent's approach to this exercise. Brent's care home forum is a well-established group, chaired by a local care home manager, that is an essential group to engage on matters of strategic significance, such as the cost of care exercise.

3.5 This was followed up with two specific engagement meetings with care providers that took place on 17th June, with managers of Brent care homes and homecare providers. Two identical sessions were held with care home and homecare managers to explain the cost of care exercise, and for Care Analytics to talk through the cost of care surveys. The surveys were then sent to all 17 care home providers that day, with an original completion deadline of 8th July 2022.

3.6 The materials shared with providers at these engagement events are embedded at the end of this report for information.

3.7 A second follow up meeting was held with care providers a week after the surveys were sent out on 24th June. The purpose of this session was to answer any immediate queries from managers whilst completing the survey, and to do this relatively soon into the process to encourage providers to complete the survey by our initial 8th July deadline.

3.8 The meetings with care providers were followed up with individual phone calls and email communication with care home managers. Each service in Brent has a Provider Relationship Officer who was responsible for making sure that the cost of care exercise was addressed directly with each care home within scope, and that any questions about the survey directed to Care Analytics if necessary.

3.9 It became clear during the course of the exercise that some care home providers were not going to engage with Brent Council on this exercise. The fact that Brent's care home market is dominated by national and regional providers did not help in this regard, as our strong working relationships are with the care home managers rather than with finance staff in head offices, who were charged with completing returns. Our provider relationship officers attempted to engage with head offices, with limited success. The care home managers were supportive but were limited in how directly they could engage given the instructions many received from their parent companies.

3.11 In order to give providers the time needed to complete the return, the deadline was extended from 8th July to 1st August, and ultimately to allow for as many returns as possible Care Analytics accepted completed surveys up to 1st September 2022. Allowing over 10 weeks was reasonable, given that each survey would have taken in the region of two hours to complete.

4. The response rate of the exercise and sample clarifications

4.1 Five Brent care homes submitted surveys using the Care Analytics template. However, one survey could not be used as the content wasn't coherent, and attempts to clarify the data submitted with the provider were unsuccessful. Only four usable surveys were therefore submitted.

4.2 One further care home submitted usable data via the iESE survey tool. Although several other care homes signed-up to the iESE tool and so were included in Brent's downloaded data, they were either duplicates (as they had also submitted a Care Analytics survey) or they had not completed the survey in iESE (only registering).

4.3 The five usable surveys allow the reporting of four nursing homes and four residential. The four residential homes comprise one residential home and three nursing homes that also support residential clients. The nursing homes in Brent's sample take clients with enhanced needs.

4.4 One of the care homes did not submit usable accounts data (non- staff costs), so only their staffing can be included in the cost of care return.

4.5 The five usable surveys account for 304 registered beds in older adult care homes in Brent. This is 33% of the 929 total registered beds in older adult care homes in the borough. They also make up a larger proportion of council-funded residents.

4.6 It should be noted that four care homes in Brent managed by the same company made it clear to Brent Council that they would not be participating in the cost of care exercise. One care home in Brent is also closed and does not have any residents. It is still registered with CQC as a residential provider, but did not respond to the survey. As a consequence of these issues, of the 17 care homes in the borough, Brent would only have been able to receive responses from a maximum of 12 homes. Five of the 12 responded, or 41% of homes in scope.

Cost of Care Sample - combining Brent and Ealing

4.7 Both Brent and Ealing Council worked with Care Analytics on the cost of care exercise. Because of the relatively small size of the older adult care market in both boroughs, combining the cost of care returns makes sense in order to produce more meaningful results. Given Brent and Ealing have had the same pricing framework within the West London Alliance for some time, there are strong grounds for a joint submission given that residential and nursing care in the two boroughs effectively functions as one market. Previous Care Analytics analysis has indicated that the two markets are very similar, and therefore costs should not differ significantly on a like-for-like basis (where care homes operate similar staffing levels, in a similar type of building, and where the provider has a similar business structure).

4.8 Across the two boroughs, Care Analytics were able to make use of 13 returned surveys. This accounted for 648 registered beds in older adult care homes in both boroughs. This is 28% of the 2,333 total registered beds in older adult care homes in the boroughs (or 32% if excluding council-owned care homes in Ealing). It is also worth noting that the care homes in the sample represent a much higher proportion of council-funded placements than self-funded placements in the respective boroughs.

4.9 Despite combining surveys from each borough, the sample sizes remain small (six for residential and seven for nursing). With these types of sample size, the median results could markedly move with the addition of only one or two more care homes.

4.10 Median care worker costs are relatively high in the survey sample, as the daytime care staff to resident ratio is a little above 1-to-5 at the median (i.e. closer to 1:4). This is an area Brent has addressed in our Market Sustainability Plan, as something the council plans to address with providers to help improve quality in care provision. However, in general, most of the homes in the sample have lean home-based supplies and services, lean ancillary staffing, low repair and maintenance spend, and middling central overheads (£40-60 per resident week).

4.11 The reason the combined sample has these types of cost profile is that most of the surveys are from care homes that near exclusively support public-sector funded residents. There are few homes in the survey sample that support significant numbers of self-funders. If the sample was extended to include more self-funder-orientated homes, the median costs might increase (higher spend on ancillary staffing, repairs and maintenance, food, etc., and likely higher freehold capital values).

4.12 However, the return is an accurate reflection of the responses from the homes that participated in this exercise, and Brent Council gave ample opportunity and support to all providers to participate in the exercise. There are care homes in Brent that are able to deliver good quality care at the costs that have been submitted to support this exercise, although it is acknowledged that the providers that responded, in the main, take most of their placements from local authorities rather than self-funders.

Weighting the returns

4.13 Within the data returns, there are two potential options for cost of care reporting -

- Option 1: Counting each care home once (equal weighting)
- Option 2: Weighting the results by the number of residents in each home/category

4.14 Option 1 and option 2 produce different results, as weighting the data is £90 higher than treating all care homes equally for residential, and £80 lower for nursing.

4.15 The fact that residential costs increase and nursing costs decrease with the weighted sample, illustrates some of issues of comparing care homes with different staffing levels, as well as the volatility of results that are likely with small sample sizes.

4.16 It is generally better with small samples to use equal weighting unless there are good reasons for weighting. This is because equal weighting reduces the impact of errors in individual surveys. As a consequence, Brent has used an equal weighting with the returns to inform our median figures.

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

5.1 There is a large amount of discretion around both return on operations and return on capital. There has not been much guidance from DHSC on how to approach this complex area for cost of care reporting.

5.2 Brent has used 5% for a return on operations. Working with Care Analytics, it is our view that this is the minimum plausible mark-up. Return on operations is a mark-up on operating costs. It is calculated by applying X% to the sum of operating costs. For example, a care home with operating costs of £500 per resident week calculates as £25 return on operations (£500 x 5% = £25).

5.3 Return on capital is a different type of calculation. You take the capital value of the care home, multiply it 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.

5.4 It is 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 is 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.

5.5 As a starting calculation, Brent has applied a 6% return on capital of the median reported capital value of the care home. We have also added an assumed £15,000 for the value of equipment, furniture, etc. within the care home (essentially depreciation). We have also adjusted to an assumed 90% occupancy as an average vacancy factor. It is possible to use a lower return on capital (down to 5%) but only if this is accompanied with a higher return on operations. Brent has opted not to do that for the reasons set out above.

5.6 Finally, it should be noted that real-world return on operations and return on capital are a matter of market forces. The care home market has high barriers to entry, so many care homes can achieve very high returns on capital. However, we have used 6% for the purposes of this exercise.

6. When the results were collected (the base price year) and how they will be uplifted in future for inflation

6.1 The data from providers was collected during July and August 2022. The financial year was 2022-23. Historic cost data was used for non-staff cost categories based on the providers most recent completed accounts. Each cost was uplifted to a 2022-23 baseline using an appropriate CPI index. This was done at the most granular level possible so that inflation adjustments are as accurate as possible. Each cost line was updated from the middle of their respective financial year to May 2022 (close to the start of the 2022-23 financial year).

6.2 Providers were 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.

6.3 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. In future years, if the council is required to update the cost of care cost models non-staff costs will be uplifted using a using an appropriate CPI index. Staffing will be uplifted using a combination of the National Living Wage (for lower paid staff) and any other reasonable method (for higher paid staff). Any inflation methodology will take into account structural changes relevant to care home costs.

7. A full description of the questions asked/template used as part of the exercise

7.1 The Brent cost of care survey was designed by Care Analytics. It is an adapted version of the survey that they used to conduct their market review service. As Care Analytics market reviews have a wider scope than the cost of care exercise required by the DHSC, the survey includes a wider set of questions to enable a thorough analysis of the marketplace. It also has the added benefit of allowing scrutiny of financial figures supplied by care homes for coherency, which in turn allows irrational figures to be challenged or excluded with confidence.

7.2 The survey asks detailed questions about the care homes 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.

7.3 To promote engagement, providers were offered the opportunity to submit financial information in whatever format is exported from their finance system or is 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 can save considerable time.

7.4 Providers were also able to use the iESE tool if they wished, and results (where possible) were included in Brent's sample.

8. Comments on the exercise

8.1 There are a number of limitations to the cost of care exercise in Brent's view, having now completed this work. It is questionable whether an exercise of this nature is an appropriate way to inform council commissioning without very careful interpretation. There are so many confounding variables in the data collected that brings serious doubt to the notion that the median reported costs from a sample of care homes represents a 'fair' cost of care. There are a number of reasons for this view –

- Owing to the small sample size, Brent has not excluded any homes because of low occupancy, where unit costs are sometimes much higher. There is also no clear cut-off point for the cost of care exercise, especially given that occupancy in some residential homes is lower than usual owing to the Covid-19 pandemic. In most cases, the lower the homes occupancy, the more unreliable their staffing unit costs (as some homes can manage without backfilling staff, so there is a risk that staff costs are overstated if allowances are made for holidays, etc. in the usual way).
- Brent has not excluded costs as being outliers unless the costs are inconsistent with other data or impossible to be believable. There is no assumption that homes should be reasonably efficient (as there should be when configuring council usual-rate cost models). Whilst the DHSC recommends that outliers should be queried with care homes, there is no clear dividing line between a cost being inefficient or being an outlier.
- Staffing costs are whole home/unit staffing, and we have only excluded care workers explicitly identified as providing one-to-one support to residents. Some of the staff costs included within the cost of care results will be covered by higher fees (or enhancements) paid by the council, CCGs (in particular) and other residents for need-based and other reasons. There is no way of stripping these costs out for the cost of care return (which is why care staffing in costs models must be standardised to be meaningful).
- Staffing levels vary enormously between homes, and it is not just for need-based reasons. Many homes include a level of ancillary staffing that is aimed at self-funders, who pay higher prices, and is not necessary for safe and legally compliant care. Even if these homes all have costs that are above the median, the resulting median can be dragged up to be in the higher end of costs for standard-rated care (especially in small samples).

- Some homes have very high agency usage. This can be either temporary or a long-term way of staffing for some care homes. These costs are included in full in the cost of care analysis. This is not an appropriate basis on which to set council usual rates, as homes with high agency usage are operating inefficiently (even if it may be unavoidable in the short term to ensure safe staffing levels).
- Some cost categories are highly variable. The median can therefore be somewhat arbitrary and easily moved. This is especially true of head-office costs (or equivalent), which vary from £5 to £200+ per resident week. There is no practical way of scrutinising central overheads of groups for these types of exercises. It is also not in the council's long-term interest to report 'limits' for such cost categories, as it may distort future exercises of a similar nature.
- Above all, a sound rule of thumb is to assume that councils commission the majority of the least attractive rooms in any care home market. Even in the same care home, room standards can vary to such an extent (size, location, aspect, facilities) that the difference in relative value can be substantial (if such a thing could be objectively quantified). The median capital value of rooms bought by any council will invariably be substantially lower than the median capital value of all rooms in the market, and indeed, the median capital value in homes with rooms of varying standards.

8.2 Given all the above, the policy objective that the Brent's view that using this information to start to move towards paying the cost of care needs to be carefully interpreted.

9. Median Figures based on responses received in Brent's cost of care exercise

65+ care homes without nursing	65+ care homes without nursing (enhanced needs)	65+ care homes with nursing	65+ care homes with nursing (enhanced needs)
£785	£836	£837 £1,046 (with FNC)	£889 £1,098 (with FNC)

Appendix 1

Provider Engagement documents

220615 - Cost of Care Meeting Launch

220617 - Care Analytics slides for co