Annex B
Fair Cost of Care
Care Homes for Older People (65+)

Results and Analysis from FCoC Toolkits submitted by Luton Providers

FINAL REPORT 14 October 2022

Prepared for Luton Council by LaingBuisson

LaingBuisson

Luton

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1 EXECUTIVE SUMMARY

LaingBuisson was commissioned by Luton Council in May 2022 to undertake a Fair Cost of Care (FCoC) exercise covering registered care homes for older people (65+), as described and specified in government guidance[1].

This report is based on validated submissions relating to individual, 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.

This report was prepared using detailed responses from all providers who submitted a validated response with a range of data points covering:

- 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, calculated from benchmarks determined by the council on the basis of the best available evidence. The benchmarks are: 5% per annum return on capital and 5% mark-up on operating costs for return on operations. In line with DHSC guidance, these benchmarks have superseded the return on capital and return on operations figures stated by providers in their toolkit submissions;
- Key characteristics of each care home which may assist in analysis related to market sustainability, such as scale, sector, group ownership, etc. This data is sourced from CQC and LaingBuisson's data warehouse; and
- Other ratios derived from the toolkit submissions, which may assist in understanding drivers of costs.

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

1.1 Headline results

As a condition of receiving future funding, Luton Council undertook cost of care exercises for 65+ care homes and 18+ domiciliary care using the national toolkits that were available. From the outset, we acknowledge that the exercises haven't achieved what we would have hoped due to the subjective methodology of the toolkits and the output providing results that are inconsistent with local market intelligence and recent tendering financial due diligence activity. In line with the guidance, median figures are published within this report. However, this is with the government recognising that 'this may oversimplify what is a complex picture of care and support needs. But for data collection purposes it is necessary to find a way of standardising cost reporting.'

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 4[2].

Table 1 Median total costs[1] calculated from wholly or partly validated FCoC toolkit submissions by providers (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+)	1,030	1,030	2	0	4	50
Residential homes (65+)	840	842	4	1	14	36

The calculated values incorporate the following council-determined benchmarks, which supersede median values from toolkit responses:

- Return on capital 5% pa applied to median freehold valuation per resident[2]
- Return on operations 5% mark-up on median operating costs derived from validated toolkit responses

1. Derived from Table 4
2. Care home valuation per resident may be capped to exclude costs of high specification assets aimed at the private pay market, see Section 2.11.1.

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.

1.2 Response rates

The LaingBuisson team fully validated six toolkit submissions and partially validated one toolkit submissions, the latter being those for which one or more (but not all) of the cost lines had been validated. Adding these together, the seven fully or partially validated toolkits represents a response rate of 39% of care homes in scope (50% for nursing homes and 36% for residential homes). For some individual cost lines the effective response rate was higher and for others it was lower, see Table 4 for the number of respondents (in brackets) for each individual cost line.

The overall validated and partially validated response rate was higher than the 32%[3] achieved across all local authorities in England in the summer 2022 FCoC exercise. See Section 2.7 for contributory factors to non-response.

1.3 Methodology - validation, correction of anomalies, outlier exclusions and calculation of medians

The methodology for calculating median costs from the submitted toolkits is described in Sections 2.4 to 2.6.

1.4 Sensitivity analysis

The median total costs summarised in Table 1 and broken down by cost line in Table 4 are sensitive to the following factors, see Section 2.11:

- The efficacy of the validation process in eliminating implausible and incorrect toolkit submissions for individual cost lines;
- The validity of the rules adopted for elimination of outliers before calculating the medians for each cost line;
- The return on capital and return on operations benchmarks;
- Calculation of capital cost per occupied bed, to which the return on capital benchmark is applied;
- Adjustment for occupancy, if any;
- The approach to calculating confidence intervals for the median total costs; and
- Special local factors, if any.

3. Data from the Care Providers Alliance at September 2022

1.5 Confidence intervals

While there is no reason to believe that the toolkit responses were biased in any systematic way[4], the number of respondents in any given council area was limited and there was a high degree of variance in many of the cost lines submitted by respondents. This may give rise to concerns about the statistical validity of the calculated medians. This concern is best addressed by calculating margins of error (confidence intervals) around the calculated medians, as illustrated by Figure 2 of Section 2.12.

1.6 Special local factors

There are no special features of the Luton market which justify variation of the analytical approach adopted for other councils that LaingBuisson has supported in the national FCoC exercise.

1.7 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 within the resources available, Section 2.14.

4. Data from the Care Providers Alliance at September 2022

Despite the small number of respondents and the wide margins of error, it can be stated with confidence that the fees currently paid by Luton council are lower than the median costs of local care homes set out in this exercise. But the quantum of the fee gap cannot be determined with any certainty from the FCoC results.

The council are very concerned that the returns have shown such high costs per bed compared with current rates. The percentage increase and the weekly rate appears to be substantially higher than in some other local councils. In the council's view if providers had been working with such a significant gap this would have resulted in very severe financial issues for them. The council will continue to work with providers to ensure that the prices have been accurately assessed. We are currently working with local homes to discuss their and our future plans as part of the Market Sustainability Plan process and will undertake a procurement in 2023/24 which will include open book exercises to fully understand costs.

It has been made explicit that the outcome of exercises is not intended to be a replacement for the fee-setting element of our commissioning processes and the information from this exercise will be used as part of the process of informing our fee setting. Luton council will continue to work with providers to ensure that they are properly remunerated for the support that they provide within the resources that are available. Luton council appreciate the grant support that has been made available to support providers but this is coupled with concerns that the funding is not sufficient.

Luton council will continue to engage with our providers to further build on the data gathered in this exercise in order to establish the costs of local providers with greater certainty including through upcoming procurements.

During the last two years the council have procured a number of care homes to provide beds to assist with winter pressures. As part of this exercise a number of care homes have agreed to work with us at our current costs. The council will be undertaking a procurement of Nursing and Care Home beds in 2023/24 and again we anticipate that we will receive a good response from potential providers at rates which are fair and affordable.

The council have used the support Grant to provide above inflation uplifts to our Care Home providers. We will focus a percentage of any new investment on continuing to make more progress in this area.

2 FAIR COST OF CARE RESULTS FOR SUBMISSION TO DHSC

2.1 The IESE toolkit

Under the instructions of Luton council, LaingBuisson registered with the IESE CareCubed portal to use their toolkit, with comprehensive support, as recommended by the Local Government Association and DHSC. The CareCubed platform takes the form of a multi-page survey seeking general information about the care home to which a submission refers, general expenditure, return on operations and return on capital, occupancy rates, staffing hours, and direct staffing costs.

2.2 Services in scope

There were 18 registered care homes in scope (predominantly for older people, aged 65+) within the boundaries of Luton 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 older people's care homes have at least one council-funded resident, predominantly privately funded homes were interpreted as being in scope as well.

2.3 Engagement with providers

LaingBuisson worked with the council over July and August 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 the process of completing their submissions. Over the course of the project, a total of 110 calls were made to care home providers in Luton and validating completed toolkits (including querying anomalies via CareCubed) took place in parallel.

2.4 Quality of toolkit submissions

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 or incorrectly answered. Consequently, it is necessary to apply a robust validation process, including querying anomalous submissions with respondents and assisting them to provide the appropriate data.

2.5 Validation

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 dataset[5]. 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, such as staffing.

A facility to query submissions was made available through the Local Authority user interface of the CareCubed 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.

2.6 Incomplete toolkit submissions

2.6.1 Interpolation vs outlier exclusion

There are two basic approaches to optimising value from survey results where, even after a robust validation process, some cost lines in any given toolkit submission may be zero or empty (null), and some may be outside a reasonable range:

- **Interpolation** is one approach, in which null, zero or extreme outlier data for any individual cost line in any given toolkit submission is substituted by the median (or mean) value among those toolkits that submitted valid, in range data for that cost line. By this means, otherwise valid toolkits can avoid being discarded due to the absence of minor cost items. In this approach it is reasonable to interpolate values for minor cost lines, though not for major cost lines, such as staffing costs, which are major drivers of total costs; Interpolation maximises the number of valid toolkit responses, from which the median numbers for each individual cost line, as well as the median total cost for all validated toolkits can be calculated. A downside of the interpolation approach, however, is that the nature of medians (the DHSC's preferred measure of central tendency) means that the individual cost line medians do not add to the subtotal medians and the subtotal medians do not add to the total cost median.

5. 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.

- **Outlier exclusion** is another approach, in which median values are calculated separately for each cost line, using all submitted toolkits where that particular cost line was validated, and excluding all 'outliers' whether they be null or zero values or outside a defined range. The full output required by DHSC can then be built-up from individual cost line medians. A bonus from this method is that each of the four median total costs required by DHSC (for residential, residential enhanced, nursing and nursing enhanced care) are equal to the sum of the median subtotals and the median subtotals are equal to the sums of the relevant individual cost lines.

We have opted to use the **outlier exclusion approach**, and we 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.

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

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.

2.7 Response rates

The LaingBuisson team fully validated six toolkit submissions and partially validated one toolkit submissions, the latter being a care home for which some (but not all) of the cost lines had been validated. Adding the two together, the seven fully or partially validated toolkits represents a response rate of 36% of care homes in scope (50% for nursing homes and 36% for residential homes). 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.

The overall validated and partially validated response rate was higher than the 32%[6] achieved across all local authorities in England in the summer 2022 FCoC exercise.

Table 2 segments response rates according to key care home characteristics which might have a bearing on costs. Segments which are over-represented include strategic providers, large and medium corporate groups and large and medium scale homes. Conversely, independent and small-scale homes are under-represented.

[6]. Data from the Care Providers Alliance at September 2022

Table 2 – 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 fully or partially validated	2	4	50	5	14	36
Strategic providers	2	3	67	4	6	67
Provider sector						
For-profit	2	4	50	5	12	42
Not-for-profit	0	0	0	0	2	0
Build status						
Purpose built	1	3	33	4	6	67
Not purpose built	1	1	100	1	8	13
Operator scale						
Large corporate group [8]	2	3	67	2	2	100
Medium group [9]	0	0	0	1	3	33
Small group or Independent [10]	0	1	0	2	9	22

Service scale						
Large service scale(50+ beds)	2	3	67	2	4	50
Medium service scale(20-49 beds)	0	1	0	3	10	30
Small service scale (<20 beds)	0	0	0	0	0	0
CQC ratings						
Good or Outstanding	2	4	50	4	9	44
Requires Improvement or inadequate	0	0	0	1	5	20

Feedback received from providers during the engagement process identified some of their reasons for non-respondents' hesitancy to respond:

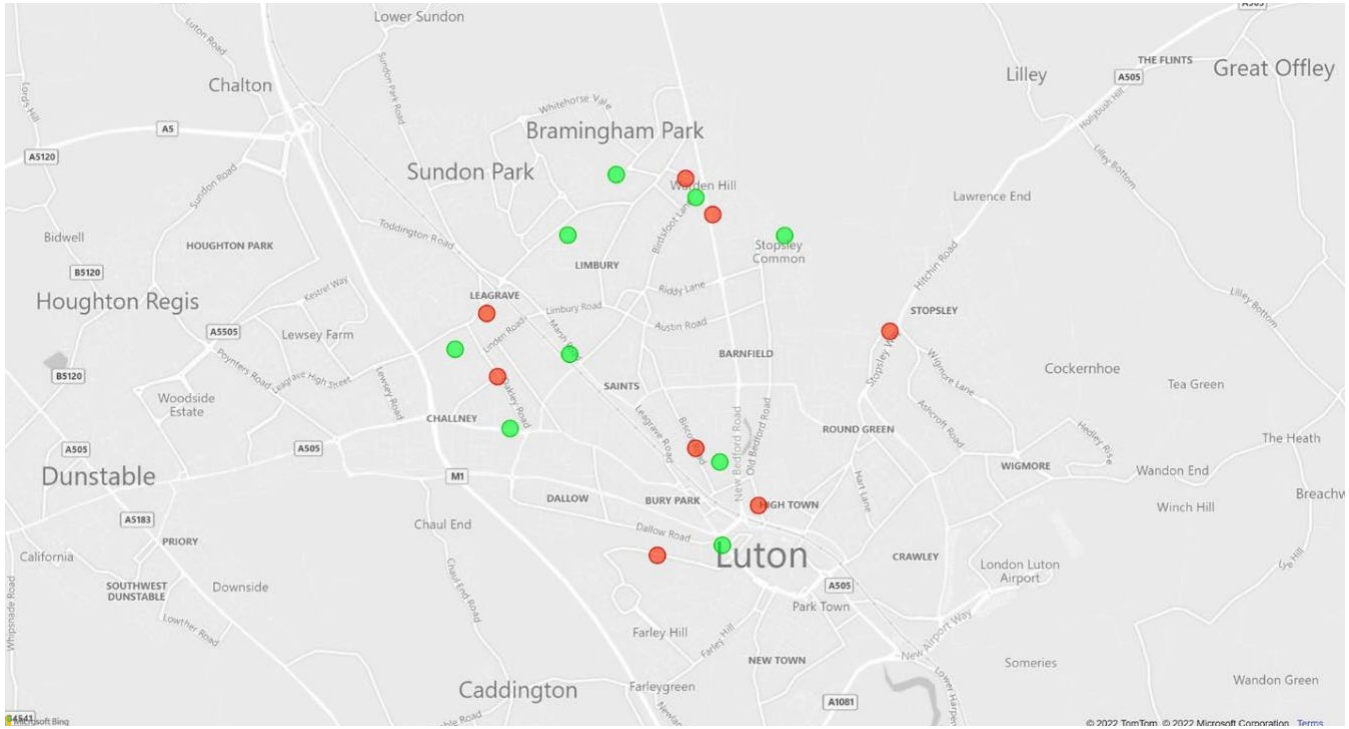
- Demanding toolkit and insufficient time to complete it (may have been exacerbated by current staffing challenges);
- Concern about confidentiality, since local authorities are able to inspect individual respondents' data (previous LaingBuisson exercises have guaranteed confidentiality);
- Lack of confidence that the exercise would lead to financial benefits for providers, in the light of the perceived absence of benefits from earlier cost of care exercises.

8. 40 or more care homes for older people across the UK
9. 3 - 39 care homes for older people across the UK
10. Fewer than 3 care homes for older people across the UK

2.7.1 Geographical spread of care homes

The geographical spread of respondent and non-respondent care homes in Luton is illustrated in Figure 1.

Figure 1 Map of care homes in Luton



- Respondents
- Non-respondents

2.8 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 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. To assist in addressing these pressures the council have used the support Grant to provide above inflation uplifts including to our Care Home providers. The council is concerned that providers may have using different methodologies for calculating inflation which may result in higher than anticipated figures and inconsistent results.

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 2022[7]. These figures have been chosen on a point-by-point basis, where appropriate figures have been identified to account for relative price effects[8], with overall CPI inflation figures used where no appropriate, goods/services-specific CPI figure has been identified. Uplift figures with CPI codes for each cost heading can be found in Table 3.

7. Table 22, https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation
8. Our 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

Table 3 – Uplifts from 2021/22 to 2022/23

	CPI Code	CPI Item	12 Month % change to April 2022
Low paid staff (carers and domestic staff)	-	National Living Wage % increase, April - April[9]	6.6
Other staff (nurses and back office)	-	Average earnings index, April – April	4.1
Fixtures and fittings	D7GW	05.3 Household appliances, fitting, and repairs	9.9
Repairs and maintenance	D7GR	04.3 Regular maintenance and repair of the dwelling	7.6
Furniture, furnishings, and equipment	D7GU	05.1 Furniture, furnishings, and carpets	15.0
Other care home premises costs	D7G7	CPI (overall index)	*9.0*
Food supplies	D7G8	01 Food and non-alcoholic beverages	6.7
Domestic and cleaning supplies	D7GZ	05.6 Goods and services for routine maintenance	6.8
Medical supplies (excluding PPE)	D7NO	06.1 Medical products, appliances, and equipment	1.3
PPE	D7NO	06.1 Medical products, appliances, and equipment	1.3
Office Supplies	D7IH	05.6.1 Non-durable household goods	10.3
Insurance (all risks)	D7HF	12.5 Insurance	11.7
Registration fees	D7G7	CPI (overall index)	9.0
Telephone and internet	D7GF	08 Communication	2.8
Council tax / rates	CRQT	Council tax and rates (CPIH)[10]	7.9
Electricity, Gas & Water	D7GB	04 Housing, water, electricity, gas and other fuels	19.2
Trade and clinical waste	D7G7	CPI (overall index)	9.0
Transport and Activities	D7GG	09 Recreation and Culture	5.9
Other care home supplies and services costs	D7G7	CPI (overall index)	9.0
Central / Regional Management	D7NN	All services	4.7
Support Services (finance / HR / legal / marketing etc.)	D7NN	All services	4.7
Recruitment, Training and Vetting (incl. DBS checks)	D7NN	All services	4.7
Other head office costs (please specify)	D7OB	12.7 Other services (NEC)	-3.1

Source: Office for National Statistics for different CPI series

9. https://www.gov.uk/government/news/national-living-wage-increase-boosts-pay-of-low-paid-workers#:~:text=The%20improvement%20in%20the%20economic,2.2%20per%20cent)%20in%202021.
10. Tables 8 and 22, https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation

2.9 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 recommended by LaingBuisson are:

a) Return on capital 6% per annum

b) Return on operations 10% mark-up on operating costs

Luton council asked for the following rates to be applied:

a) Return on capital 5% per annum

b) Return on operations 5% mark-up on operating costs, based on validated toolkit submissions

The council decided that a level of 5% should apply for return on capital and 5% for return on investment for the following reasons:

1. Although the property values were not validated as part of this exercise, the value of land and property in residential areas of Luton is at a premium so to apply a lower percentage still yields a reasonable return on assets (excluding any future capital gain) for providers, and
2. The care home market in Luton is fairly stable and have potential for growth so applying a 5% return on operations is considered to be reasonable in addition to the 5% on return on assets.

The council felt that the cumulative return on both amounts is considered to be a fair reflection of the market's return and a fair balance of reward for people providing services in Luton and stewardship of the public purse.

In order to determine the £ value of return on capital, it is necessary to apply the rate of return (5%) 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 Luton based on validated toolkit submissions at the date of this report is: 5% TIMES £55,231 DIVIDED BY 91.3% TIMES 7/365 = £58.03 per resident per week, see Table 4.

2.10 Analysis and results

Summary results for care homes in Luton 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 in Section 2.6. Return on capital and return on operations are based on the benchmarks set out in Section 2.9, being 5% per annum for return on capital and a 5% mark-up on operating costs for the return on operations.

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.

We have used LaingBuisson's Care Cost Benchmarks model as a broad check on the plausibility of the FCoC results in Table 4. We would 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, plus some additional non-nurse carer staff input. We would 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 we would not expect any differential between enhanced and non-enhanced nursing care.

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, see Section 2.12.

These 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+) in Luton, £ per week at 2022/23 prices

Cost of Care exercise results - £ per resident per week	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
	(The numbers in brackets represent the number of fully or partially validated toolkits from which the given cost line median was derived)			
Staffing	486.92	488.61	667.37	667.37
Nursing Staff	-	-	216.04 (2)	216.04 (2)
Care Staff	313.29 (5)	314.98 (4)	277.7 (2)	277.7 (2)
Therapy Staff	0 (0)	0 (0)	0 (0)	0 (0)
Activity Coordinators	10.71 (4)	10.71 (4)	10.71 (4)	10.71 (4)
Service Management	62.56 (6)	62.56 (6)	62.56 (6)	62.56 (6)
Reception and Admin	12.09 (7)	12.09 (7)	12.09 (7)	12.09 (7)
Chefs / Cooks	30.98 (6)	30.98 (6)	30.98 (6)	30.98 (6)
Domestic Staff	37.58 (5)	37.58 (5)	37.58 (5)	37.58 (5)
Maintenance & Gardening	15.5 (6)	15.5 (6)	15.5 (6)	15.5 (6)
Other Care Home Staff	4.21 (2)	4.21 (2)	4.21 (2)	4.21 (2)
Care Home Premises	92.50	92.50	92.50	92.50
Fixtures and Fittings	24.47 (2)	24.47 (2)	24.47 (2)	24.47 (2)
Repairs and Maintenance	27.18 (6)	27.18 (6)	27.18 (6)	27.18 (6)
Furniture, Furnishings and Equipment	0.6 (3)	0.6 (3)	0.6 (3)	0.6 (3)
Other Care Home Premise Costs	40.25 (3)	40.25 (3)	40.25 (3)	40.25 (3)
Care Home Supplies and Services	75.73	75.73	75.73	75.73
Food	26.56 (7)	26.56 (7)	26.56 (7)	26.56 (7)
Domestic & Cleaning	5.87 (5)	5.87 (5)	5.87 (5)	5.87 (5)
Medical Supplies	3.76 (6)	3.76 (6)	3.76 (6)	3.76 (6)
PPE	2.61 (4)	2.61 (4)	2.61 (4)	2.61 (4)
Office Supplies	4.1 (5)	4.1 (5)	4.1 (5)	4.1 (5)
Insurance	5.14 (5)	5.14 (5)	5.14 (5)	5.14 (5)
Registration Fees	3.39 (5)	3.39 (5)	3.39 (5)	3.39 (5)

Telephone & Internet	1.11	(4)	1.11	(4)	1.11	(4)	1.11 (4)
Council Tax / rates	0.95	(5)	0.95	(5)	0.95	(5)	0.95 (5)
Electricity, Gas and Water	15.24	(5)	15.24	(5)	15.24	(5)	15.24 (5)
Trade and Clinical Waste	4.05	(5)	4.05	(5)	4.05	(5)	4.05 (5)
Transport and Activities	2.05	(5)	2.05	(5)	2.05	(5)	2.05 (5)
Other Care Home	0.9	(6)	0.9	(6)	0.9	(6)	0.9 (6)
Head Office	89.85		89.85		89.85		89.85
Central / Regional Management	45.72	(3)	45.72	(3)	45.72	(3)	45.72 (3)
Support Services	29.6	(6)	29.6	(6)	29.6	(6)	29.6 (6)
Recruitment, training & vetting	4.04	(6)	4.04	(6)	4.04	(6)	4.04 (6)
Other head office costs	10.49	(2)	10.49	(2)	10.49	(2)	10.49 (2)
Sub-total Operating Costs	745.00		746.69		925.45		925.45
Return on Operations (@ 5% of operating costs)	37.25		37.33		46.27		46.27
Return on Capital	58.03		58.03		58.03		58.03
Total	840.28		842.05		1,029.75		1,029.75
Supporting information on important cost drivers used in the calculations:	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
Number of fully or partially verified location level survey responses received	1		4		0		2
Number of locations eligible to fill in the survey (excluding those found to be ineligible)[11]	14		14		4		4
Number of residents covered by the responses	194		114		150		150
Number of carer hours per resident per week	22		22		21		21
Number of nursing hours per resident per week	-		-		8		8

11. For both residential and nursing care, numbers given for standard and enhanced locations eligible to fill in the survey are equal. This is a result of this information not being made available through care cubed for in-scope locations that did not make a submission.

Average carer basic pay per hour	£10.76	£10.94	£11.08	£11.08
Average nurse basic pay per hour	-	-	£18.11	£18.11
Average occupancy as a percentage of active beds	91.3%	91.3%	91.3%	91.3%
Freehold valuation per bed	£55,231	£55,231	£55,231	£55,231

Table 4.1 Lower Quartiles of care homes (65+) in Luton, £ per week at 2022/23 prices

Cost of Care exercise results - all cells should be £ per resident per week	Non-Nursing (Q1)	Non-Nursing with enhancement (Q1)	Nursing (Q1)	Nursing with enhancement (Q1)
Staffing	**397.58**	**321.01**	**592.50**	**592.50**
Nursing Staff	-	-	212.33 (2)	212.33 (2)
Care Staff	289.52 (5)	212.95 (4)	272.11 (2)	272.11 (2)
Therapy Staff	0 (0)	0 (0)	0 (0)	0 (0)
Activity Coordinators	9.36 (4)	9.36 (4)	9.36 (4)	9.36 (4)
Service Management	31.93 (6)	31.93 (6)	31.93 (6)	31.93 (6)
Reception and Admin	9.68 (7)	9.68 (7)	9.68 (7)	9.68 (7)
Chefs / Cooks	19.37 (6)	19.37 (6)	19.37 (6)	19.37 (6)
Domestic Staff	25.01 (5)	25.01 (5)	25.01 (5)	25.01 (5)
Maintenance and Gardening	10.6 (6)	10.6 (6)	10.6 (6)	10.6 (6)
Other Care Home Staff	2.11 (2)	2.11 (2)	2.11 (2)	2.11 (2)
Care Home Premises	**67.30**	**67.30**	**67.30**	**67.30**
Fixtures and Fittings	19.89 (2)	19.89 (2)	19.89 (2)	19.89 (2)
Repairs and Maintenance	18.44 (6)	18.44 (6)	18.44 (6)	18.44 (6)
Furniture, Furnishings and Equipment	0.51 (3)	0.51 (3)	0.51 (3)	0.51 (3)
Other Care Home Premise Costs	28.46 (3)	28.46 (3)	28.46 (3)	28.46 (3)
Care Home Supplies and Services	**58.59**	**58.59**	**58.59**	**58.59**
Food	20.32 (7)	20.32 (7)	20.32 (7)	20.32 (7)
Domestic and Cleaning	5.28 (5)	5.28 (5)	5.28 (5)	5.28 (5)
Medical Supplies	0.66 (6)	0.66 (6)	0.66 (6)	0.66 (6)
PPE	1.73 (4)	1.73 (4)	1.73 (4)	1.73 (4)

Office Supplies	1.52	(5)	1.52	(5)	1.52	(5)	1.52	(5)
Insurance	4.67	(5)	4.67	(5)	4.67	(5)	4.67	(5)
Registration Fees	3.1	(5)	3.1	(5)	3.1	(5)	3.1	(5)
Telephone & Internet	0.87	(4)	0.87	(4)	0.87	(4)	0.87	(4)
Council Tax / rates	0.64	(5)	0.64	(5)	0.64	(5)	0.64	(5)
Electricity, Gas & Water	13.67	(5)	13.67	(5)	13.67	(5)	13.67	(5)
Trade and Clinical Waste	3.54	(5)	3.54	(5)	3.54	(5)	3.54	(5)
Transport & Activities	1.94	(5)	1.94	(5)	1.94	(5)	1.94	(5)
Other Care Home	0.65	(6)	0.65	(6)	0.65	(6)	0.65	(6)
Head Office	**57.62**		**57.62**		**57.62**		**57.62**	
Central / Regional Management	26.67	(3)	26.67	(3)	26.67	(3)	26.67	(3)
Support Services	21.75	(6)	21.75	(6)	21.75	(6)	21.75	(6)
Recruitment, training & vetting	2.16	(6)	2.16	(6)	2.16	(6)	2.16	(6)
Other head office costs	7.04	(2)	7.04	(2)	7.04	(2)	7.04	(2)
Sub-total Operating Costs	**581.09**		**504.52**		**776.01**		**776.01**	
Return on Operations	**29.05**		**25.23**		**38.80**		**38.80**	
Return on Capital	**58.03**		**58.03**		**58.03**		**58.03**	
Total	**668.17**		**587.77**		**872.84**		**872.84**	

Table 4.2 Upper Quartiles of care homes (65+) in Luton, £ per week at 2022/23 prices

Cost of Care exercise results - all cells should be £ per resident per week	Non-Nursing (Q3)	Non-Nursing with enhancement (Q3)	Nursing (Q3)	Nursing with enhancement (=Q3)
Staffing	540.88	541.24	727.24	727.24
Nursing Staff	-	-	219.75 (2)	219.75 (2)
Care Staff	316.68 (5)	317.04 (4)	283.29 (2)	283.29 (2)
Therapy Staff	0 (0)	0 (0)	0 (0)	0 (0)
Activity Coordinators	11.87 (4)	11.87 (4)	11.87 (4)	11.87 (4)
Service Management	84.17 (6)	84.17 (6)	84.17 (6)	84.17 (6)
Reception and Admin	23.68 (7)	23.68 (7)	23.68 (7)	23.68 (7)
Chefs / Cooks	38.96 (6)	38.96 (6)	38.96 (6)	38.96 (6)
Domestic Staff	38.64 (5)	38.64 (5)	38.64 (5)	38.64 (5)
Maintenance & Gardening	20.58 (6)	20.58 (6)	20.58 (6)	20.58 (6)
Other Care Home Staff	6.3 (2)	6.3 (2)	6.3 (2)	6.3 (2)
Care Home Premises	112.93	112.93	112.93	112.93
Fixtures and Fittings	29.06 (2)	29.06 (2)	29.06 (2)	29.06 (2)
Repairs and Maintenance	31.53 (6)	31.53 (6)	31.53 (6)	31.53 (6)
Furniture, Furnishings and Equipment	2.69 (3)	2.69 (3)	2.69 (3)	2.69 (3)
Other Care Home Premise Costs	49.65 (3)	49.65 (3)	49.65 (3)	49.65 (3)
Care Home Supplies and Services	98.27	98.27	98.27	98.27
Food	35.25 (7)	35.25 (7)	35.25 (7)	35.25 (7)
Domestic and Cleaning	7.08 (5)	7.08 (5)	7.08 (5)	7.08 (5)
Medical Supplies	7.69 (6)	7.69 (6)	7.69 (6)	7.69 (6)
PPE	4.53 (4)	4.53 (4)	4.53 (4)	4.53 (4)
Office Supplies	5.61 (5)	5.61 (5)	5.61 (5)	5.61 (5)
Insurance	5.27 (5)	5.27 (5)	5.27 (5)	5.27 (5)
Registration Fees	3.5 (5)	3.5 (5)	3.5 (5)	3.5 (5)
Telephone & Internet	1.35 (4)	1.35 (4)	1.35 (4)	1.35 (4)

Council Tax / rates	1.39	(5)	1.39	(5)	1.39	(5)	1.39	(5)
Electricity, Gas & Water	15.44	(5)	15.44	(5)	15.44	(5)	15.44	(5)
Trade and Clinical Waste	5.43	(5)	5.43	(5)	5.43	(5)	5.43	(5)
Transport and Activities	2.51	(5)	2.51	(5)	2.51	(5)	2.51	(5)
Other Care Home	3.22	(6)	3.22	(6)	3.22	(6)	3.22	(6)
Head Office	112.99		112.99		112.99		112.99	
Central / Regional Management	51.87	(3)	51.87	(3)	51.87	(3)	51.87	(3)
Support Services	40.84	(6)	40.84	(6)	40.84	(6)	40.84	(6)
Recruitment, training & vetting	6.34	(6)	6.34	(6)	6.34	(6)	6.34	(6)
Other head office costs	13.94	(2)	13.94	(2)	13.94	(2)	13.94	(2)
Sub-total Operating Costs	865.07		865.43		1,051.43		1,051.43	
Return on Operations	43.25		43.27		52.57		52.57	
Return on Capital	58.03		58.03		58.03		58.03	
Total	966.35		966.73		1,162.03		1,162.03	

2.11 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 in Section 2.5, was effective
- The validity of the rules adopted for elimination of outliers before calculating the medians for each cost line. Outlier exclusion was limited and we believe the rules adopted, as described in Section 2.6, were appropriate
- The return on capital and return on operations benchmarks. The values which have been adopted are set out in Section 2.9 and the evidence is presented in Appendix 1
- Calculation of capital cost per occupied bed, to which the return on capital benchmark is applied, see Section 2.11.1
- Adjustment for occupancy, if any, see Section 2.11.2
- The approach to calculating confidence intervals for the median total costs, see Section 2.12
- Special local factors, if any, see Section 2.13.

2.11.1 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.

Our recommendation is 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 and 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. The cap does not apply to Luton, where the median freehold valuation per occupied bed from submitted toolkits was £55,231, Table 4.

2.11.2 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, we 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?

The potential impact of adjusting calculated median costs, to reflect a benchmark occupancy rate of 90%, is set out in Table 5, though it requires an assumption on fixed and variable costs. For illustration, we have arbitrarily assumed that 70% of average care home operating costs would remain fixed as occupancy changed within the observed rate and the selected benchmark, and that 30% 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	Non-Nursing	Non-Nursing with enhancement
Calculated value of the occupancy adjustment (£ pw)	£3	£3	£4	£4

While there is no reason to believe that the toolkit responses were biased in any systematic way[12], the number of respondents in any given council area was limited and 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 considered.[13]

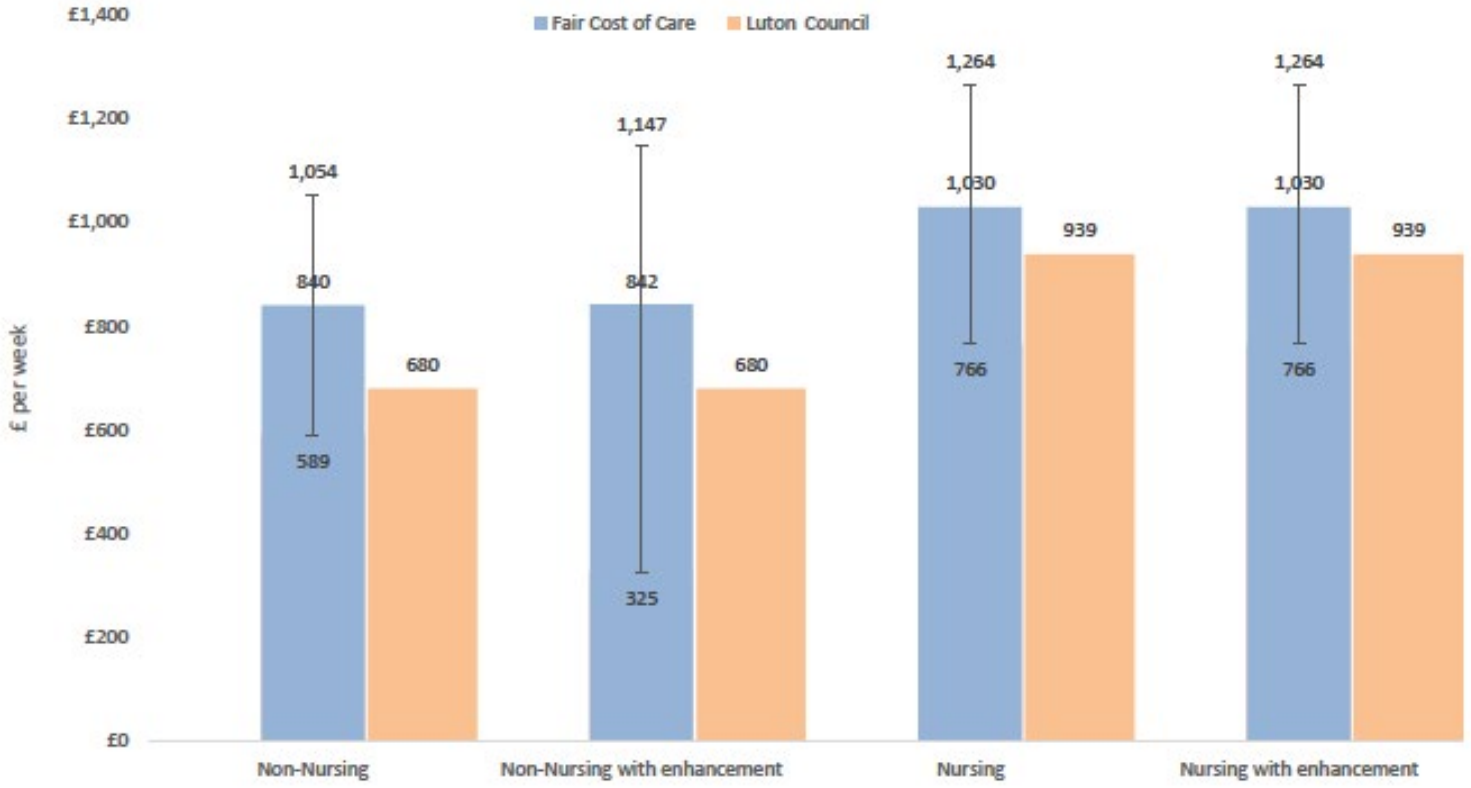
12. We cannot, however, rule out the possibility that providers may have overstated their costs, and it was not practicable within the timescale available to carry out a range of checks applied by LaingBuisson in other cost of care exercises, including requesting evidence of staff costs from payroll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

13. 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

DHSC guidance does not ask for any assessment of the statistical reliability of the FCoC results. However, councils will wish to have some indication of margins of error in the light of incomplete response and the high degree of variance observed among the sample of toolkits in most of the cost lines. In particular, councils will wish to know whether the confidence limits for the FCoC medians overlap with average fees currently being paid in the 2022/23 financial year. Calculations are set out in Figure 2.

2.12 Confidence intervals

Figure 2 Fair Cost of Care median costs for April 2022 with 95% confidence intervals, and comparison with fee rates paid by Luton Council to independent sector providers in financial year 2022/23 to date



Note: The LA nursing care rates include £209.19 per week funding contribution from NHS FNC

2.13 Special local factors

Every local care economy is different, but there are no special features of the Luton market which justify variation of the analytical approach adopted for other councils that LaingBuisson has supported in the national FCoC exercise.

2.14 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 a substantial fee gap 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 Luton council, range from £91 per week for nursing care to £162 for residential care[14].

The FCoC medians, however, are subject to margins of error, which are amplified by the low number of respondents in Luton. The 95% confidence intervals around the FCoC medians are so wide that Luton's fee rates are positioned above the lower bounds of the confidence intervals. This means that we cannot be 95% confident that there is any fee gap at all.

We are forced to conclude that the very small number of FCoC responses in Luton stretches the credibility of the calculated medians to the limit. It may, therefore, be necessary for Luton Council to engage again with its providers, and to build further on the data gathered in the FCoC exercise in order to establish the costs of local providers with greater certainty.

14. The absence of any difference between standard and enhanced FCoC medians for nursing care, is due to small numbers and the way in which the CareCubed costing tool worked for mixed services.

2.14.1 Segmentation into standard and enhanced care

In many ways, the segmentation into standard and enhanced care in the DHSC reporting template is unhelpful. There is no clear definition of 'enhanced' in the CareCubed cost collection tool (though it was widely interpreted as dementia). Second, the segmentation is not necessarily aligned with the tiered fee rates that local authorities have adopted to recognise the variability of needs that they are purchasing care for. Third, the segmentation means that FCoC medians must be calculated on smaller numbers of respondents than otherwise, meaning that the margins of error are wider and anomalies such as enhanced care medians turning out higher than standard care are more likely to occur.

The conclusions from the FCoC exercise may have been more readily actionable if segmentation had been simplified to nursing and residential care only. This would have led to greater certainty (lower margins of error) in the calculated medians, and greater certainty on the 'fee gap' (if any), leaving local authorities with a simpler target of setting locally appropriate tiers of fee rates such as to move the overall average fees they pay towards the single target median (one for nursing and one for residential), subject to the availability of resources.

The latest DHSC guidance, dated 25 August 2022, effectively recognises that market segmentation is best left to local discretion: *'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.' …' As many local authorities move towards paying the fair cost of care, it is expected that actual fee rates paid may differ due to such factors as rurality, personalisation of care, quality of provision and wider market circumstances.'*

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