

## Fair Cost of Care, Annex B

### The cost of providing residential for older people in Gloucestershire

The Department of Health and Social Care (DHSC) requires us to report on the cost of care for its social care reform programme. This report describes an exercise, between March and October 2022, to find the cost of providing residential care to older people in Gloucestershire's care homes.

We submitted this report in draft to the Department of Health and Social Care on 14 October 2022.

This revised edition contains the same statistical information. It fixes typographical errors and improves sense and clarity. To avoid doubt, our cost of care results, which can be found at the end of this report, are unchanged since October.

This report does not comment on the state of the care home market nor is it a commissioning plan. Gloucestershire's Market Sustainability Plan (Cost of Care Annex C) will be published on 27 March 2023, as required by DHSC. It explains the Council's response to the findings in this report, and to the Government's social care reform programme.

The Council and NHS Gloucestershire aims to publish a long-term plan for care and support, Gloucestershire's "Market Position Statement" in the next financial year (2023-4). Providers will be invited to contribute to the development of this.

## Scope and reference period

### Scope

We invited cost of care returns from organisations registered with the Care Quality Commission (CQC) to provide residential care to older people, according to the Health and Social Care Act (HSCA) "Active Locations" database on 3 August 2022. You can read more about CQC's Active Locations data here [Using CQC data - Care Quality Commission](#)

We found

- 141 homes supplying care with or without nursing for older people and dementia in Gloucestershire, with 4500 beds between them (Source: HSCA Active Locations)
- At the time, they were home to about 3600 residents on any day (Source: NHS Capacity Tracker, August 2022)
- One home opted-out of scope because, although registered with the CQC to support older people, its residents were mostly of working-age people
- 70 homes registered to participate in the cost of care exercise
- 50 homes, with 2510 beds between them, submitted returns between July and September 2022

### Data Collection Tool

- Gloucestershire used iESE's CareCubed online cost of care tool, commissioned by the Local Government Association. For more information, see [Fair Cost of Care Tool - iESE Local Government and Public Sector Consultants](#)

- One provider sent a narrative submission with a total cost of care per week without detailed data about costs and activity. We were unable to include their unit cost in Annex A, nor the table of responses at the end of this document. The home's unit cost, and the accompanying narrative, informed our overall assessment of the quality of, and risks in, the collection at large. Their submission was gratefully received.

## Reference period

The Council began engagement about Fair Cost of Care with the County's care sector in mid-April 2022 when parts of the national guidance, the period for which DHSC wanted unit costs in particular, were uncertain.

At that time, energy, food, wages and insurance costs were increasing. We wanted Gloucestershire's results to account for these recent cost pressures and suggested that providers use the most recent 12-month period for which they had reliable accounts. CareCubed facilitated this specifying information for the 2021-22 fiscal year and allowing providers to specify an "uplift" for each type of cost, in April 2022. We expect coincidence with the 2021-22 fiscal year within the limits of providers' varying statutory and management accounting periods.

## Provider engagement and support

In Spring and Summer of 2022, the Council, the Gloucestershire Care Provider Association (GCPA), and our technical consultant Sphere Advisory Limited, held face-to-face engagement events about Fair Cost of Care. We held two in each of Gloucestershire's six districts, one each for care homes and home care sites.

GCPA and Sphere Advisory also hosted numerous on-line events for providers that could not attend the district seminars. The Council also provided a dedicated help line and hosted [Frequently Asked Questions](#) on its Provider Portal.

Sphere Advisory gave approximately 12 1:1 support sessions for care homes with specific questions.

Participants in all these events represent homes that operate about 60% of care home beds for older people in the County.

We were keen to engage the whole market to ensure that our results represented the costs of providers of all sizes and operating models, and to include providers whose custom is predominantly private. In our engagement events, and in all our communications, we encouraged small providers to participate. We wanted to be sure that our median unit cost of residential care was not unduly biased by the economies of scale enjoyed by larger homes, and homes that are part of large groups. The largest participant neared 100 rooms, the smallest fewer than 10.

In our results we found

- larger homes were overrepresented: homes with more than the median number of bed (45) are 67% of the sample.
- scale does not appear to determine unit costs. Numbers of beds and unit costs do not correlate.

Some providers told us that they were reluctant to send the Council so much commercially sensitive data. Concerned that this might reduce participation, the Council appointed an intermediary, Sphere Advisory Limited, to collect and process providers' data and to produce drafts of Annexes A and B.

Our contract with Sphere Advisory includes a Confidentiality Agreement that limits the Council's access only to the providers' results. The Council has no access to CareCubed, only to the unit costs and measures of activity that calculated from the data they entered in CareCubed. Sphere identifies each home to the Council with a pseudonym. The home it refers to is known only to the provider and to Sphere Advisory.

The Council offered £500 compensation for each home that submitted usable data. Providers with more than one site received a payment for each.

## Response rates

	Standard residential care	Enhanced residential care	Standard nursing care	Enhanced nursing care
Surveys received*	39	39	30	29
Locations Eligible	73	46	65	50
Residents in those homes	532	429	531	291

\*homes appear once in each specialism. The total of this row is therefore more than the number of homes that participated.

## Risks and Issues in submissions

### Self-selection and sample-bias

Providers' participation in the exercise was voluntary. The sample was self-selected.

In Gloucestershire three providers operated 58% of the beds that count towards the County's median unit cost.

We estimated the extent to which large providers might bias the overall result. We compared the median unit cost per week for homes operated by the County's largest care home operator with

- (i) the County's total median cost per week, including the largest home
- (ii) the median cost per week for homes operated by all other providers, that is, participating homes that are not operated by the largest provider

We found that the largest provider's costs influence the County's total unit cost by approximately 5%. Our Confidentiality Agreement prevents a more detailed study in this document.

### Complexity, resource-intensity availability of detailed cost data

Providers reported that they found the exercise informative and useful. Many reported that they have not previously calculated a unit cost in this way and that it would help to set prices. Some said the exercise helped them plan for increasing employment, food and energy costs.

We heard that the detail required by CareCubed exceeded the capability of providers' information systems. Where providers did not have sufficient detail to report a line-item, they estimated. Our advice throughout was that it was better to include a cost using some suitable estimate than to omit it and under-report their costs.

We used a conservative approach to post-hoc adjustments of providers' data. We amended data unilaterally only due to calculation errors in CareCubed. (See below.) Otherwise, we made changes by agreement and only few.

## Effects of inflation: the difference between April 2022 costs from the Reference Year

- Staff costs were 5.2% higher: care worker wages 5.9%. ONS's estimated of year-on-year wage inflation of 5.7% over the same period.
- Supplies were 9.7% higher: electricity 45%, gas 52%. We heard anecdotes of renewal quotes for energy contracts at 700% of the previous contract.
- Returns on operations and on capital were unchanged and appeared unaffected by cost pressures

## Personal Protective Equipment

During the exercise the government funded PPE under COVID emergency arrangements. We anticipated that it would become a real cost to providers in due course. We therefore asked providers to impute PPE costs at an estimated normal market price per item. Our suggested prices can be found in Gloucestershire's Cost of Care [Frequently Asked Questions](#), Q13.

## Risks and Issues in computation

We took data from CareCubed using its data extraction tool, which supplies the data that providers entered, and a calculation of their unit-costs. We used these calculations unadjusted with one significant exception.

### Nil and null

In some instances, CareCubed reports a zero cost per hour where there was no activity. The result should be null, not zero. Zeros indicate an "event" and are therefore members of a distribution. Nulls are not events and are not counted in measures of distribution. "False zeros" increase the number of events that have no cost. Any N-Tile that includes them (a median or a quartile, for example) will be incorrect. In other words, if we count a zero where there should be nothing, our median unit cost will be too low.

In Annex A and the tables of responses, medians and quartiles (below), we distinguish genuine zeros from false zeros and replace the latter with nulls. This results in higher quartile and median unit costs than those produced from CareCubed.

## Return on Operations

CareCubed calculates a return on operations per resident week for the home as whole, not for each type of bed in each home. This is problematical because different types of bed have different operating costs. A home with a mixture of non-nursing and nursing beds, for example, typically spends more per week on people who need nursing care.

In this exercise return on operations is mark-up not a margin. It should vary in proportion to input-costs. In discussion with iESE, we agreed that CareCubed should calculate return on operations per bed-type but iESE did not produce a solution in time for publication on 14 October. We therefore use the per-resident values from their extract tool.

The median return on operations in CareCubed is £67/week. Our median cost per week for lower-intensity beds is therefore slightly overstated; and our median for higher-intensity beds is slightly understated. We estimate the error is less than 0.5%.

## Calculation of medians

Shortly before the October submission deadline, DHSC amended its guidance about the calculation of medians for subtotals and totals. Formerly, they required medians of line-items to sum to subtotals; and the medians of subtotals to sum the median total unit cost.

Their final guidance relaxed this rule, allowing Councils to choose their method of calculating medians for subtotals and totals.

This leaves with the question, which median is correct?

The sum of the staff cost line-items for general residential beds is £701.38 per week. The median staffing cost is £780.58 per week. And so on, as illustrated here.

resident-week	$\Sigma$ (line-item medians)	sub-total medians	Median of total cost
Staff costs	£ 701.38	£ 780.58	
Premises	£ 83.11	£ 49.14	
Supplies and Services	£ 132.18	£ 138.80	
Head Office	£ 99.76	£ 95.08	
Subtotals Return on Operations	£ 67.26	£ 67.26	
Return on Capital	£ 217.00	£ 217.00	
	<b>£1,300.68</b>	<b>£1,347.86</b>	<b>£1,248.58</b>

We resolve this by following established statistical convention and calculating medians of line-items, subtotals and totals independently. Our subtotals are medians of the cost for each subset of cost; not the sum of the medians of its members-items. Our totals are medians of all costs, not the sum of the medians of its subtotals.

## Calculation of Council and NHS actual fee rates

We confirm that we calculated Section 4 of Annex A using the Improved Better Care Fund rules, as required in DHSC's Fair Cost of Care guidance.

We report nursing beds fees net of FNC because we see in Annex A that the template adds FNC to fee-rate.

## Return on Capital

Combined returns on operations and on capital are between 13 – 23% of the total unit cost depending on the type of bed.

The median return on operations in CareCubed is £67/week. The median return on capital is £217/week.

Some providers, including for-profit providers, told us that a return on capital is not their motive for operating a care home; others did not have a recent valuation from which CareCubed could estimate it. Of the 35 homes that reported return on capital, the amount per resident week was between £20 and £518. Two providers reported a negative return.

The Council recognises that in a mixed economy of care providers, return on capital is an important motive to invest in, and sustain, a quality care home. For some, the building is an asset with other potential uses. In Annex A and in the table of response rates and quartiles (below) we follow the principle, agreed with providers from the outset, that we would make only minimal changes to providers' submissions and substantive change only by agreement.

The variability of providers' attitudes to, and expectations of, capital returns warranted more investigation. We wanted to compare providers' costs, including a cost of capital, using an independent standard.

At our engagement events with care homes, we referred DHSC's guidance [Annex E: further detail on return on capital and return on operations - GOV.UK \(www.gov.uk\)](#) on this question. This approach imputes a rental value to each room from uses the Local Housing Allowance of the home's Broad Rental Market Area. To find this, we

- found each home's Broad Rental Market Area from its post code
- found the Local Housing Allowance Category B rate for a 1-bed flat. (To avoid doubt, we used LHA Category B because it better fits the method in DHSC's guidance than Category A.)
- subtracted the cost of furnishing, premises and repairs per resident-week that the home reported in CareCubed (because these are costs born by the landlord in conventional assured short-term tenancy).

On this method, the median return on capital is £78/resident-week.

To avoid doubt, we did not use this LHA method in our Annex A submission, nor in the tables below. They help us compare operating costs and returns without the effect of widely varying costs of capital that we found in providers' submissions.

	65+ care home places without nursing				65+ care home places without nursing, enhanced needs			
	Number of Contributors	Lower quartile £/week	Median £/week	Upper quartile £/week	Number of Contributors	Lower quartile £/week	Median £/week	Upper quartile £/week
<b>Total Care Home Staffing</b>	<b>27</b>	<b>£667.48</b>	<b>£780.58</b>	<b>£892.71</b>	<b>20</b>	<b>£666.02</b>	<b>£695.12</b>	<b>£793.15</b>
Nursing Staff	-				-			
Care Staff	33	£386.27	£456.19	£511.97	32	£409.56	£458.34	£515.83
Therapy Staff (Occupational & Physio)	4	£11.35	£13.32	£14.00	4	£11.35	£13.32	£14.00
Activity Coordinators	39	£12.21	£17.82	£23.39	39	£12.21	£17.82	£23.39
Service Management (Registered Manager/Deputy)	40	£51.88	£60.45	£75.64	40	£51.88	£60.45	£75.64
Reception & Admin staff at the home	36	£14.21	£18.32	£24.48	36	£14.21	£18.32	£24.48
Chefs/Cooks	40	£27.13	£37.64	£61.03	40	£27.13	£37.64	£61.03
Domestic staff (cleaning, laundry & kitchen)	41	£48.64	£63.45	£89.24	41	£48.64	£63.45	£89.24
Maintenance & Gardening	41	£15.26	£18.59	£25.34	41	£15.26	£18.59	£25.34
Other care home staffing	20	£6.25	£15.61	£30.28	20	£6.25	£15.61	£30.28
<b>Total Care Home Premises</b>	<b>33</b>	<b>£38.09</b>	<b>£49.14</b>	<b>£71.01</b>	<b>32</b>	<b>£37.76</b>	<b>£50.07</b>	<b>£83.87</b>
Fixtures & fittings	30	£0.13	£1.14	£14.05	30	£0.13	£1.14	£14.05
Repairs and maintenance	41	£22.60	£30.08	£40.16	41	£22.60	£30.08	£40.16
Furniture, furnishings and equipment	35	£3.50	£6.28	£9.16	35	£3.50	£6.28	£9.16
Other care home premises costs	17	£16.10	£45.62	£73.44	17	£16.10	£45.62	£73.44
<b>Total Care Home Supplies and Services</b>	<b>33</b>	<b>£130.18</b>	<b>£138.80</b>	<b>£160.95</b>	<b>32</b>	<b>£129.77</b>	<b>£141.19</b>	<b>£167.71</b>
Food supplies	41	£34.03	£37.96	£44.12	41	£34.03	£37.96	£44.12
Domestic and cleaning supplies	41	£8.32	£9.45	£11.07	41	£8.32	£9.45	£11.07
Medical supplies (excluding PPE)	41	£1.97	£3.18	£5.28	41	£1.97	£3.18	£5.28
PPE	36	£2.03	£2.64	£5.99	36	£2.03	£2.64	£5.99
Office supplies (home specific)	41	£2.53	£3.48	£5.40	41	£2.53	£3.48	£5.40
Insurance (all risks)	41	£7.79	£10.79	£16.25	41	£7.79	£10.79	£16.25
Registration fees	40	£3.69	£3.99	£4.76	40	£3.69	£3.99	£4.76
Telephone & internet	41	£1.18	£1.96	£5.24	41	£1.18	£1.96	£5.24
Council tax/rates	41	£0.84	£1.10	£1.63	41	£0.84	£1.10	£1.63
Electricity, Gas & Water	41	£25.13	£31.06	£47.02	41	£25.13	£31.06	£47.02
Trade and clinical waste	39	£5.30	£6.39	£8.58	39	£5.30	£6.39	£8.58
Transport & Activities	41	£2.16	£3.28	£5.71	41	£2.16	£3.28	£5.71
Other care home supplies and services costs	39	£5.26	£16.90	£27.46	39	£5.26	£16.90	£27.46
<b>Total Head Office</b>	<b>33</b>	<b>£81.50</b>	<b>£95.08</b>	<b>£111.70</b>	<b>32</b>	<b>£81.24</b>	<b>£94.98</b>	<b>£114.37</b>

Central/Regional Management	34	£44.78	£68.01	£78.37	34	£44.78	£68.01	£78.37
Support Services (finance/HR/legal/marketing etc.)	39	£4.03	£15.90	£36.48	39	£4.03	£15.90	£36.48
Recruitment, Training & Vetting (incl. DBS checks)	39	£7.66	£11.29	£16.13	39	£7.66	£11.29	£16.13
Other head office costs	34	£1.84	£4.56	£21.21	34	£1.84	£4.56	£21.21
<b>Total Return on Operations</b>	<b>33</b>	<b>£56.71</b>	<b>£67.26</b>	<b>£137.96</b>	<b>33</b>	<b>£56.71</b>	<b>£67.26</b>	<b>£137.96</b>
<b>Total Return on Capital</b>	<b>33</b>	<b>£132.51</b>	<b>£217.00</b>	<b>£299.00</b>	<b>33</b>	<b>£132.51</b>	<b>£217.00</b>	<b>£299.00</b>
<b>TOTAL</b>	<b>31</b>	<b>£1,125.61</b>	<b>£1,248.58</b>	<b>£1,390.74</b>	<b>30</b>	<b>£1,128.66</b>	<b>£1,260.50</b>	<b>£1,398.59</b>

	65+ care home places with nursing				65+ care home places with nursing, enhanced needs			
	Number of Contributors	Lower quartile £/week	Median £/week	Upper quartile £/week	Number of Contributors	Lower quartile £/week	Median £/week	Upper quartile £/week
	20	£985.00	£1,146.92	£1,305.98	17	£840.02	£1,121.66	£1,247.34
<b>Total Care Home Staffing</b>								
Nursing Staff	25	£339.92	£453.77	£575.44	23	£253.30	£376.78	£558.00
Care Staff	25	£389.54	£453.07	£479.36	23	£395.65	£443.83	£463.60
Therapy Staff (Occupational & Physio)	4	£11.35	£13.32	£14.00	4	£11.35	£13.32	£14.00
Activity Coordinators	39	£12.21	£17.82	£23.39	39	£12.21	£17.82	£23.39
Service Management (Registered Manager/Deputy)	40	£51.88	£60.45	£75.64	40	£51.88	£60.45	£75.64
Reception & Admin staff at the home	36	£14.21	£18.32	£24.48	36	£14.21	£18.32	£24.48
Chefs/Cooks	40	£27.13	£37.64	£61.03	40	£27.13	£37.64	£61.03
Domestic staff (cleaning, laundry & kitchen)	41	£48.64	£63.45	£89.24	41	£48.64	£63.45	£89.24
Maintenance & Gardening	41	£15.26	£18.59	£25.34	41	£15.26	£18.59	£25.34
Other care home staffing	20	£6.25	£15.61	£30.28	20	£6.25	£15.61	£30.28
<b>Total Care Home Premises</b>	<b>25</b>	<b>£39.35</b>	<b>£51.00</b>	<b>£70.81</b>	<b>23</b>	<b>£39.51</b>	<b>£49.14</b>	<b>£70.91</b>
Fixtures & fittings	30	£0.13	£1.14	£14.05	30	£0.13	£1.14	£14.05
Repairs and maintenance	41	£22.60	£30.08	£40.16	41	£22.60	£30.08	£40.16
Furniture, furnishings and equipment	35	£3.50	£6.28	£9.16	35	£3.50	£6.28	£9.16
Other care home premises costs	17	£16.10	£45.62	£73.44	17	£16.10	£45.62	£73.44
<b>Total Care Home Supplies and Services</b>	<b>25</b>	<b>£132.57</b>	<b>£143.83</b>	<b>£160.95</b>	<b>23</b>	<b>£133.17</b>	<b>£148.25</b>	<b>£164.76</b>
Food supplies	41	£34.03	£37.96	£44.12	41	£34.03	£37.96	£44.12
Domestic and cleaning supplies	41	£8.32	£9.45	£11.07	41	£8.32	£9.45	£11.07
Medical supplies (excluding PPE)	41	£1.97	£3.18	£5.28	41	£1.97	£3.18	£5.28
PPE	36	£2.03	£2.64	£5.99	36	£2.03	£2.64	£5.99
Office supplies (home specific)	41	£2.53	£3.48	£5.40	41	£2.53	£3.48	£5.40
Insurance (all risks)	41	£7.79	£10.79	£16.25	41	£7.79	£10.79	£16.25
Registration fees	40	£3.69	£3.99	£4.76	40	£3.69	£3.99	£4.76
Telephone & internet	41	£1.18	£1.96	£5.24	41	£1.18	£1.96	£5.24
Council tax/rates	41	£0.84	£1.10	£1.63	41	£0.84	£1.10	£1.63
Electricity, Gas & Water	41	£25.13	£31.06	£47.02	41	£25.13	£31.06	£47.02
Trade and clinical waste	39	£5.30	£6.39	£8.58	39	£5.30	£6.39	£8.58
Transport & Activities	41	£2.16	£3.28	£5.71	41	£2.16	£3.28	£5.71
Other care home supplies and services costs	39	£5.26	£16.90	£27.46	39	£5.26	£16.90	£27.46
<b>Total Head Office</b>	<b>25</b>	<b>£81.90</b>	<b>£94.88</b>	<b>£119.59</b>	<b>23</b>	<b>£81.11</b>	<b>£95.81</b>	<b>£132.40</b>

Central/Regional Management	34	£44.78	£68.01	£78.37	34	£44.78	£68.01	£78.37
Support Services (finance/HR/legal/marketing etc.)	39	£4.03	£15.90	£36.48	39	£4.03	£15.90	£36.48
Recruitment, Training & Vetting (incl. DBS checks)	39	£7.66	£11.29	£16.13	39	£7.66	£11.29	£16.13
Other head office costs	34	£1.84	£4.56	£21.21	34	£1.84	£4.56	£21.21
<b>Total Return on Operations</b>	<b>33</b>	<b>£56.71</b>	<b>£67.26</b>	<b>£137.96</b>	<b>33</b>	<b>£56.71</b>	<b>£67.26</b>	<b>£137.96</b>
<b>Total Return on Capital</b>	<b>33</b>	<b>£132.51</b>	<b>£217.00</b>	<b>£299.00</b>	<b>33</b>	<b>£132.51</b>	<b>£217.00</b>	<b>£299.00</b>
<b>TOTAL</b>	<b>23</b>	<b>£1,567.09</b>	<b>£1,724.29</b>	<b>£1,945.84</b>	<b>21</b>	<b>£1,487.37</b>	<b>£1,635.18</b>	<b>£1,878.04</b>