**Cost of Care (CoC)**

**Care Homes for Older People (65+)**

**Results and Analysis from Toolkits submitted by Providers located in**

**Oxfordshire County Council**

**EXECUTIVE SUMMARY**

LaingBuisson was commissioned by Oxfordshire County Council in June 2022 to undertake a Cost of Care (CoC) exercise covering registered care homes for older people (65+), as described, and specified in government guidance[[1]](#footnote-1).

This written 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.

The Council has carefully reviewed the cost of care analysis undertaken by LaingBuisson and share a number of their concerns and in doing so, have considered the following pieces of evidence to support its decision:

* The Cost of Care reports describe material flaws in the toolkit and the data received.
* The return rate of 50% of care homes does not provide adequate confidence that the medians derived are reasonable and reflective of the whole market.
* Smaller providers are under-represented in the exercise.
* One provider with multiple homes accounted for 29% of validated responses or sixteen care homes out of fifty-six submissions.
* There were no validated submissions from care homes located in South Oxfordshire.
* The confidence intervals illustrated in Figure 1, indicate the cost of care median is higher than the council’s current median of fees paid, however the range is wide on each type of placement. Due to the wide variation in most cost lines among the sample of submissions, there are confidence limits related to the medians produced. The detail is set out in paragraph 2.11.3
* The council is currently paying higher rates on new nursing home placements than suggested by the council median, which is skewed by the number of historic placements at lower rates.
* The council has noted the median nursing hours per resident are higher than those in other areas, which may reflect differences in delivery in Oxfordshire and would require further investigation.

**Recommendations**

It is the council’s intention to model on the basis of 90% occupancy. The council will engage with providers on the method of adjustment to take account of the fixed and variable costs. There is apparent over supply of care home beds across the county which the council is seeking to address in coming years. Achieving higher occupancy in homes is part of this approach.

On the balance of available evidence, Oxfordshire has determined the return on operations at a rate of 5%, which is the same as the median outcome from the Cost of Care exercise. This differs from the LaingBuisson assumption of 10% operating return. The rationale is set out in Appendix 1 of this care home report.

When the revised 5% on return on operations is applied this therefore leads the council to recommend the **cost of care figures in table 1 of this report.**

* 1. Headline results

A summary of median total costs derived from the CoC 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]](#footnote-2).

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Standard | Enhanced Care | 1. Fully validated submissions | 1. Partially validated submissions (with one or more validated cost lines) | 1. Services in scope | Response rate  (A+ B) / C \* 100 |
|  | £ per week | £ per week | Number | Number | Number | % |
| Nursing homes (65+) | 1,408 | 1,428 | 33 | 8 | 75 | 55% |
| Residential homes (65+) | 1,121 | 1,188 | 13 | 2 | 36 | 42% |

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

* Return on capital 6% pa applied to median freehold valuation per resident 2
* Return on operations 5% mark-up on median operating costs derived from validated toolkit responses

1 Derived from Table 4

2  Care home valuation per resident may be capped to excludes costs of high specification assets aimed at the private pay market, see Section 2.11.1.

3 One care home submitted twice, therefore only one submission is counted, meaning that total all in scope care home is 111.

1.2 Response rates

LaingBuisson validated fifty-six fully toolkits representing a response rate of 50% of care homes in scope (55% for nursing homes and 42% 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.

* 1. 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;
* The approach to calculating confidence intervals for the median total costs; and
* Special local factors;

1.5 Special local factors

The existence of several very high specification accommodation in care homes serving an affluent population is a special feature of the Oxfordshire market which justifies variation of the analytical approach adopted for other councils that LaingBuisson has supported in the national CoC exercise. This takes the form of a cap on the capital cost of care homes, which is taken into account when calculating a reasonable return on assets, see Section 2.11.1.

1. **COST OF CARE RESULTS FOR SUBMISSION TO DHSC**

2.1 The IESE toolkit

Oxfordshire County Council 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 111 registered care homes in scope (predominantly for older people, aged 65+) located within the boundaries of Oxfordshire County Council, after removing homes primarily for younger adults. DHSC guidance states that only older people’s care homes in contact with local authorities are in scope, but since nearly all care older people’s homes have at least one council-funded resident, predominantly privately funded homes were interpreted as being in scope as well.

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 process of completing their submissions. Over the course of the project, a total of 306 calls were made to care home providers in Oxfordshire, Validation of completed toolkits, including querying anomalies via CareCubed, took place in parallel.

2.4 Quality of toolkit submissions

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

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[[3]](#footnote-3). Toolkit submissions for individual cost lines were queried when they were found to be significantly outside of expected ranges, with particular attention paid to the plausibility of figures which contribute most notably towards total costs - most of which being costs related to staffing.

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

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

2.6 Incomplete toolkit submissions

2.6.1 Interpolation *vs* outlier exclusion

LaingBuisson applied two 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** was 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.
* **Outlier exclusion** was 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 benefit of 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.

LaingBuisson opted to use the **outlier exclusion** approach, and defined outliers to encompass:

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

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

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, LaingBuisson 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 for the setting of pertinent outlier thresholds taking into account skewness in the data sample. Finally, for each cost line, LaingBuisson 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 overall validated response rate stands at 50% for all care homes in scope (55% for nursing homes and 42% for residential homes). Table 2 segments response rates according to key care home characteristics which might have a bearing on costs. Response rates could have risen if more toolkits were validated. At present, the segments which are over-represented include nursing homes, for-profit organisations, and large corporate group providers. Conversely, residential homes and small group/independent providers are at present under-represented. There is variable representation of the constituent Districts of Oxfordshire County Council.

Table 2 - Segmented response rates (validated plus partially validated) by key characteristics

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Nursing Homes Respondents | Nursing Homes in scope with the relevant characteristic | Response rate (%) | Residential Homes Respondents | Residential Homes in scope with the relevant characteristic | Response rate (%) |
| Total | 41 | 75 | 55% | 15 | 36 | 42% |
| Strategic providers | 14 | 19 | 74% | 7 | 8 | 88% |
| **Provider sector** |  |  |  |  |  |  |
| For-profit | 27 | 57 | 47% | 2 | 18 | 11% |
| Not-for-profit | 14 | 18 | 78% | 13 | 18 | 72% |
| **Build status** |  |  |  |  |  |  |
| Purpose built | 23 | 42 | 55% | 11 | 11 | 100% |
| Not purpose built | 5 | 33 | 15% | 1 | 25 | 4% |
| **Operator scale** |  |  |  |  |  |  |
| Large corporate group 1 | 34 | 36 | 94% | 12 | 13 | 92% |
| Medium group 2 | 3 | 18 | 17% | 1 | 3 | 33% |
| Small group or independent 3 | 4 | 21 | 19% | 2 | 20 | 10% |
| **Service scale** |  |  |  |  |  |  |
| Large service scale  ( 50+ beds) | 30 | 47 | 64% | 2 | 4 | 50% |
| Medium service scale( 20-49 beds) | 10 | 27 | 37% | 12 | 27 | 44% |
| Small service scale (<20 beds) | 1 | 1 | 100% | 1 | 5 | 20% |
| **CQC ratings** |  |  |  |  |  |  |
| Good or Outstanding | 39 | 68 | 57% | 14 | 32 | 44% |
| Not Good or Outstanding | 1 | 3 | 33% | 1 | 4 | 25% |
| **District Council (Counties only)** |  |  |  |  |  |  |
| Cherwell District Council | 8 | 15 | 53% | 3 | 5 | 60% |
| Oxford City Council | 8 | 10 | 80% | 4 | 10 | 40% |
| South Oxfordshire District Council | 10 | 14 | 71% | 0 | 5 | 0 |
| Vale of White Horse District Council | 5 | 13 | 38% | 4 | 8 | 50% |
| West Oxfordshire District Council | 7 | 15 | 47% | 3 | 6 | 50% |

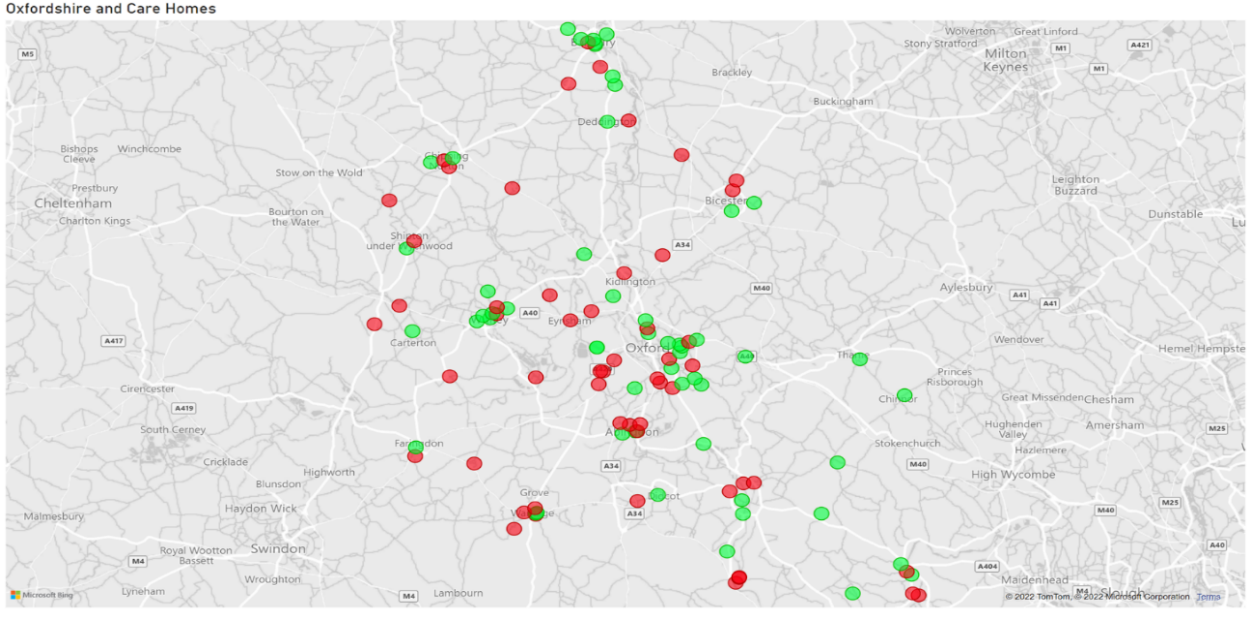
4 40 or more care homes for older people across the UK

5  3 - 39 care homes for older people across the UK

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

2.7.1 Figure 1 Map of care homes in Oxfordshire

Geographical spread of care homes in Oxfordshire (respondents in comparison to non-respondents). In should be noted that there were no responses received from care homes located in South Oxfordshire.



* Respondents
* Non-respondents

2.8 Base price year and uplifts

All of the CoC results cited in this report are expressed at April 2022 prices. They have been calculated by multiplying the ‘uplift’ factors entered in the toolkit submissions by the 2021/22 (base year) toolkit costs per resident, for each cost line, to arrive at costs per resident at April 2022 prices. In any normal year, costs at April (the beginning of the financial year) would be expected to prevail over the full financial year (April 2022 to March 2023) because staffing is the main driver of cost and pay rates are usually set at the beginning of the financial year for the whole year in the light of the National Living Wage settlement which is implemented in April. The surge of inflation in 2022/23, 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 in April 2022.

For submissions with a 2021/22 base price year and no uplifts entered in the toolkit submission, uplifts have been interpolated based on the National Living Wage for low-paid staff (care and domestic), the monthly earnings index for other staff, and CPI (Consumer Price Index) and CPIH (Consumer Price Index with Housing) percentage change figures for non-staffing costs for the 12 months up to April 2022[[4]](#footnote-4). These figures have been chosen on a point-by-point basis, where appropriate figures have been identified to account for relative price effects[[5]](#footnote-5), 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.

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[[6]](#footnote-6) | 6.6 |
| Other staff (nurses and back office) | - | Average earnings index, April – April | 4.1 |
| Fixtures & 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 & internet | D7GF | 08 Communication | 2.8 |
| Council tax / rates | CRQT | Council tax and rates (CPIH)[[7]](#footnote-7) | 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 & 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 & 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

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 CoC returns, and that these rates should be evidence based. The rates assumed by LaingBuisson are:

1. Return on capital 6% per annum
2. Return on operations 10% mark-up on operating costs

**The council has determined that the return on operations should be 5%**. The council’s rationale is set out below:

Return on operations based on validated toolkit submissions was calculated at 5% of the Operating cost subtotals in Table 4. The median return on operations entered in the toolkit submissions was also 5%.

The council has not adopted the assumption from LaingBuisson of a 10% operating return for the following reasons

* The Cost of Care report describe material flaws in the toolkit and the data received.
* The return rate of 50% of care homes does not provide adequate confidence that the medians derived are reasonable and reflective of the whole market.
* Smaller providers are under-represented in the exercise.
* There were no validated submissions from care homes located in South Oxfordshire.
* The confidence intervals illustrated in Figure 1 indicate the cost of care median is higher than the council’s current median of fees paid, however the range is wide on each type of placement.
* The council is currently paying higher rates on new placements than suggested by the council median, which is skewed by the number of historic placements at lower rates
* The council is responsible for good stewardship of public money, which supports targeting resources to greatest need to achieve high quality and stability in the market rather than necessarily allowing for higher profit margins by private companies – the current data do not give a clear enough picture of the expected profit by providers across the sector in Oxfordshire - there is a risk the providers which submitted returns are not representative of the wider market. The council understands most other local authorities have generally adopted a 5% operating return. Applying a 10% operating return would make Oxfordshire a distinct outlier on our already significantly higher than average rates. DHSC has indicated that councils already paying the Cost of Care would not receive additional funding to pay higher; DHSC’s initial studies implied Oxfordshire already pays above the Cost of Care.

Laing Buisson’s approach is set out in the following paragraphs and in Appendix 1 of this care home report.

**The Council has determined that the return on capital should be 6%**

In order to determine the £ value of return on capital, it is necessary to apply the rate of return to a capital value per resident. The capital value per resident can usually 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 Oxfordshire County Council based on validated toolkit submissions at the date of this report is: 6% TIMES £136,678 DIVIDED BY 83.8% TIMES 7/365 = £187.68 per resident per week, reflecting the high capital costs of many Oxfordshire care homes targeted at private payers. However, following the rationale described in Section 2.11.1. a cap of £122,000 has been applied per occupied bed, being the new-build construction and land cost for a care home built to a local authority rather than private pay specification. Therefore, 6% has been applied to £122,000 to give a Return on Capital figure of £140.38 per week at the foot of Table 4.

2.10 Analysis and results

Summary results for care homes located in Oxfordshire County 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.

Laing Buisson’s used their *Care Cost Benchmarks* model as a broad check on the plausibility of the CoC results in Table 4. LaingBuisson 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. It should be noted that in Oxfordshire the median non-enhanced nursing care costs are £286 higher than the median non-enhanced residential care costs, see Table 4.

LaingBuisson 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 LaingBuisson 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 2.11.3.

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+) located in Oxfordshire, £ per week at 2022/23 prices and the number of returns taken into account.

*(The numbers in brackets represent the number of fully or partially validated toolkits from which the given cost line median was derived)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 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 |
| **Staffing** | 665.50 | 729.20 | 938.76 | 957.78 |
| Nursing Staff | - | - | 264.84 (30) | 263.77 (13) |
| Care Staff | 414.67 (33) | 478.37 (25) | 423.09 (29) | 443.18 (12) |
| Therapy Staff | 12.84 (4) | 12.84 (4) | 12.84 (4) | 12.84 (4) |
| Activity Coordinators | 14.03 (36) | 14.03 (36) | 14.03 (36) | 14.03 (36) |
| Service Management | 48.44 (43) | 48.44 (43) | 48.44 (43) | 48.44 (43) |
| Reception & Admin | 20.37 (40) | 20.37 (40) | 20.37 (40) | 20.37 (40) |
| Chefs / Cooks | 34.51 (47) | 34.51 (47) | 34.51 (47) | 34.51 (47) |
| Domestic Staff | 65.44 (44) | 65.44 (44) | 65.44 (44) | 65.44 (44) |
| Maintenance & Gardening | 11.48 (34) | 11.48 (34) | 11.48 (34) | 11.48 (34) |
| Other Care Home Staff | 43.72(15) | 43.72(15) | 43.72 (15) | 43.72 (15) |
| **Care Home Premises** | 41.16 | 41.16 | 41.16 | 41.16 |
| Fixtures & Fittings | 4.25(39) | 4.25 (39) | 4.25 (39) | 4.25 (39) |
| Repairs and Maintenance | 27.25 (38) | 27.25(38) | 27.25 (38) | 27.25(38) |
| Furniture, Furnishings and Equipment | 4.1 (42) | 4.1(42) | 4.1(42) | 4.1(42) |
| Other Care Home Premise Costs | 5.56 (18) | 5.56 (18) | 5.56 (18) | 5.56 (18) |
| **Care Home Supplies and Services** | 136.31 | 136.31 | 136.31 | 136.31 |
| Food | 39.84 (45) | 39.84 (45) | 39.84 (45) | 39.84 (45) |
| Domestic & Cleaning | 9.03 (37) | 9.03 (37) | 9.03 (37) | 9.03 (37) |
| Medical Supplies | 7.08 (45) | 7.08 (45) | 7.08 (45) | 7.08 (45) |
| PPE | 0.9 (24) | 0.9 (24) | 0.9 (24) | 0.9 (24) |
| Office Supplies | 2.83 (39) | 2.83 (39) | 2.83 (39) | 2.83 (39) |
| Insurance | 9.93 (38) | 9.93 (38) | 9.93 (38) | 9.93 (38) |
| Registration Fees | 3.84 (33) | 3.84 (33) | 3.84 (33) | 3.84 (33) |
| Telephone & Internet | 1.13 (45) | 1.13 (45) | 1.13 (45) | 1.13 (45) |
| Council Tax / rates | 1.18 (43) | 1.18 (43) | 1.18 (43) | 1.18 (43) |
| Electricity, Gas & Water | 31.3 (45) | 31.3 (45) | 31.3 (45) | 31.3 (45) |
| Trade and Clinical Waste | 5.87 (36) | 5.87 (36) | 5.87 (36) | 5.87 (36) |
| Transport & Activities | 2.21 (35) | 2.21 (35) | 2.21 (35) | 2.21 (35) |
| Other Care Home | 21.17 (45) | 21.17 (45) | 21.17 (45) | 21.17 (45) |
| **Head Office** | 91.02 | 91.02 | 91.02 | 91.02 |
| Central / Regional Management | 58.79 (39) | 58.79 (39) | 58.79 (39) | 58.79 (39) |
| Support Services | 19.77 (44) | 19.77 (44) | 19.77 (44) | 19.77 (44) |
| Recruitment, training & vetting | 9.1 (35) | 9.1 (35) | 9.1 (35) | 9.1 (35) |
| Other head office costs | 3.36 (32) | 3.36 (32) | 3.36 (32) | 3.36 (32) |
| **Sub-total Operating Costs** | 933.99 | 997.69 | 1,207.25 | 1,226.27 |
| **Return on Operations** | 46.70 | 49.88 | 60.36 | 61.31 |
| **Return on Capital** | 140.38 | 140.38 | 140.38 | 140.38 |
| **Total** | **1,121.07** | **1,187.96** | **1,408.00** | **1,427.97** |
| **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 | 11 | 4 | 17 | 24 |
| Number of locations eligible to fill in the survey (excluding those found to be ineligible) | 36 | 36 | 75 | 75 |
| Number of residents covered by the responses | 431 | 126 | 1561 | 671 |
| Number of carer hours per resident per week | 23 | 35 | 29 | 31 |
| Number of nursing hours per resident per week | - | - | 12 | 12 |
| Average carer basic pay per hour | £12.35 | £11.99 | £11.85 | £11.43 |
| Average nurse basic pay per hour | - | - | £20.13 | £19.19 |
| Average occupancy as a percentage of active beds | 83.8% | 83.8% | 83.8% | 83.8% |
| Freehold valuation per bed (capped, see Section 2.11.1) | £110,000 | £110,000 | £110,000 | £110,000 |

* Number of fully or partially verified location level survey responses received equals to (standard + enhanced), (Residential: 11+4 = 15) and (Nursing: 17+24 = 41).
* 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.
* The nursing hours per resident per week calculated from LaingBuisson’s Care Cost Benchmark Subscription product is 8.4 hours per resident per week.
* All data derived from toolkit responses except for return on capital and return on operations, which have been superseded by the council based on a 6% annual return on capital for premises and a 5% mark-up on operating and head office costs for return on operations

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. LaingBuisson 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 restrictive, and LaingBuisson believe the rules adopted, as described in Section 2.6 were appropriate.
* Calculation of capital cost per occupied bed, including the Return on Capital benchmark adopted, 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 2.11.3
* Special local factors, including a breakdown of care homes by group providers, we found that the one provider accounted for 29% of the validated responses, which is sixteen care homes out of fifty-six submissions.
* the value of each of the benchmark rates (return on capital and return on operations) that councils may, in line with DHSC guidance, set at their own discretion, subject to being evidence based.

Laing Buisson’s advice (see Appendix 1of this care home report) is that there is strong evidence for setting the return on capital benchmark at 6% per annum and the return on operations benchmark at a 10% mark-up on operating costs. However, on the balance of wider evidence this has not been adopted by the council. The rationale for this is included in Appendix 1 of this care home report. The principal remaining sensitivity is around the capital value per occupied bed.

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

LaingBuisson’s recommendation is that, for the purposes of calculating a cost of care for council supported residents, the median freehold valuation per bed derived from toolkit submissions should be capped at a maximum of £110,000, being the estimated build+land cost of developing a new care home to a standard mid-market specification, and that freehold valuation per occupied bed should be capped at £122,000, assuming 90% occupancy. This cap applies in Oxfordshire, where the median freehold valuation per bed from toolkit submissions was £136,679, see 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, LaingBuisson do not recommend making any occupancy-based adjustments to the median costs set out in Table 4 for the purposes of CoC. Therefore, the council may take occupancy rates into account although it has been noted that there are arguments no to do so, for the following reasons:

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

For illustration, however, the potential impact of adjusting calculated median costs, to reflect a benchmark occupancy rate of 90%, is set out in Table 5, though it requires an assumption on fixed and variable costs. It requires an assumption on fixed and variable costs. For illustration LaingBuisson 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, LaingBuisson recommend the council consult with providers regarding the appropriate method of adjustment.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Non-Nursing | Non-Nursing with enhancement | Nursing | Nursing with enhancement |
| Median toolkit total costs (£pw) | £1,121 | £1,188 | £1,408 | £1,428 |
| Median toolkit operating costs (£ pw) | £934 | £998 | £1,207 | £1,226 |
| Median toolkit occupancy rate | 83.8% | 83.8% | 83.8% | 83.8% |
| Occupancy benchmark | 90% | 90% | 90% | 90% |
| Variable costs as % all operating costs | 30% | 30% | 30% | 30% |
| Adjusted operating costs at benchmark occupancy rate (£ pw) 1 | £913 | £976 | £1,180 | £1,199 |
| Adjusted return on operations @ 5% mark-up (£ pw) | £46 | £49 | £59 | £60 |
| Return on capital @ 6% per annum | £140 | £140 | £140 | £140 |
| Median total costs adjusted for occupancy | £1,099 | £1,165 | £1,380 | £1,399 |
| **Calculated value of the occupancy adjustment (£ pw)** | **-£22** | **-£23** | **-£28** | **-£29** |

It is the council’s intention to model on the basis of 90% occupancy as part of the market sustainability plan, which remains in draft form. The council will engage with providers on the method of adjustment to take account of the fixed and variable costs, as highlighted. There is apparent over supply of care home beds across the county which the council is seeking to address in coming years. Achieving higher occupancy in the more viable homes is part of this approach.

2.11.3 Confidence intervals

While LaingBuisson have no reason to believe that the toolkit responses were biased in any systematic way[[8]](#footnote-8), 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[[9]](#footnote-9). The council has noted the median nursing hours per resident appear to be higher than those in other areas, which may reflect differences in delivery in Oxfordshire which would require further investigation. This element of the returns may also reflect flaws in the data, based on the low return rate and other factors. The council is aware the base rates for nursing care placements in Oxfordshire are higher than in neighbouring authorities, making this a significant area for further information gathering and analysis, in direct communication with more of the providers in the county. This will inform an ongoing dialogue on the Cost of Care and support the council’s approach to moving towards it, as guided by DHSC.

DHSC guidance does not ask for any assessment of the reliability of the CoC results. However, in recognition of the relatively low number of validated responses, and the high degree of variance among the sample of toolkits in most of the cost lines, LaingBuisson set out an indication of confidence limits, the calculations for which can be seen in Figure 2.

Figure 2 - Cost of Care median costs for April 2022 with 95% confidence intervals, and comparison with fee rates paid by councils 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

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. 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.

2.12 Conclusions

The median results presented in Tables 1 and 4 are derived from a response rate of completed and validated toolkits which for some councils was lower than usually achieved in cost of care exercises carried out by LaingBuisson over the last decade. One reason was the challenging timescale for the national CoC programme. Feedback received from providers during the engagement process identified some of their reasons for 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.
* The results summarised in Figure 2 imply that there is currently a substantial fee gap in Oxfordshire for all four care modalities. The fee gaps, as measured by the differences between the CoC medians and the average fees currently paid to independent sector providers by Oxfordshire County Council, range from £223 to £290 per week.
* The CoC medians, however, are subject to margins of error, and the fee gaps are smaller when measured by the differences between the lower 95% confidence bounds of the CoC medians and the average fees currently paid by Oxfordshire, with fee gaps ranging from £154 to £222 per week.
* The Council recognises that fee gaps do exist, and that these appear to be at least £154 for residential, £222 for residential with enhancement, £156 for nursing, and £144 for nursing with enhancement, these being the gaps between the rates the council is currently paying and the lower bounds of the 95% confidence limits of the calculated CoC medians.

It is also important to emphasise that the four modalities of care specified by DHSC represent a basic segmentation only, masking what would be a wider range of costs if further sub-segmented. The latest DHSC guidance, dated 25 August 2022, recognises this as follows: ‘*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 fare 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*.’

**APPENDIX 1** **of the Care Home Report**

EVIDENCE BASE FOR RETURN ON CAPITAL AND OPERATING PROFIT PARAMETERS

A1.1 Introduction

Total costs of care services are made up of Operating Costs, derived from responses to validated toolkits, plus the following two items, which DHSC advises may be determined by councils based on available evidence:

1. Return on Capital invested in accommodation assets PLUS return on operations, for care homes (65+); and
2. Return on Operations only for domiciliary care (18+)

After staffing, return on capital is the second largest cost line for care homes and return on operations is the third largest.

DHSC guidance on return on capital, published on June 29, 2022, is reproduced in Box 1. Guidance on return on operations is reproduced in Box 2. DHSC guidance is fully consistent with the framework adopted in Laing Buisson’s Care Cost Benchmarks model, allowing the latter to be adduced in evidence in the commentary which follows.

|  |
| --- |
| **Box 1 Return on Capital (care homes only)**  Care home cost of care exercises will require local authorities to specify the amounts that they have allowed for both returns on capital and return on operations (expressed as pounds per resident per week, or pounds per contact hour). This is different from a 'whole business return on capital, which includes the return on operations within the return on capital.  Return on capital is a judgement rather than hard science, and as described below, the local authority should retain the flexibility to vary the return on capital paid to any individual provider, but the following overarching principles are relevant.   * Investment by nature involves risk. The cost of capital is the return that investors require to invest in a business. Within the care home market, return on capital payments within the care fee encourages new investors to invest in care home land and buildings and keep existing capital invested in social care rather than investing in another business with similar risk. They may cover payments such as rent and mortgages. They are an important consideration for the full economic cost of running a care home and apply to all care home providers as made clear by CMA (2017). * Return on capital is an important consideration for the impact of section 18(3), as it is one of the main fixed costs in a care home and to some extent determines who is paying for those fixed costs. * Nevertheless, return on capital is not a hard entitlement nor is it fully objective. There is judgement involved in setting the amounts included in the cost of care exercise, and further judgement when setting the amounts for any particular provider. The amounts included in the cost of care exercise are not intended to be fixed across all providers in the local authority; the amount paid to any one provider is a judgement according to considerations such as area and building type. It is important to balance spending on return on capital with other potential uses of public money in meeting care needs. * It is important to remember that return on capital may in some cases be reinvested in the business. This can make their business more desirable to the market in future, and help the market develop more generally, for example by improving quality, improving efficiency, serving more people, or moving into new types of care. * While they involve judgement, the amounts included in the cost of care exercise will need to be defensible, with the evidence that has informed them set out. The CMA (2017) suggest the cost of capital is calculated as the product of both:   + (a) the value of the assets invested in the care home   + (b) the required percentage annual return on capital * There are several approaches to estimate a) and b) above, although in general, the value of assets used in the cost of capital calculation should reflect the market value of those assets. This is where local authorities may find it helpful to adopt multiple approaches to triangulate and validate their returns. For example, freehold valuations of land and buildings that reflect what those assets could be sold for as an alternative to continuing to use them within the care business.   Cost-of-care exercises should be clear about how their reported return on capital values have been calculated. Approaches including (but not limited to) those below can inform a local authority's overall judgment on the level of return on capital reported as part of its cost of care exercise. The methods below reflect that property prices and rents, and therefore justifiable levels of return on capital, vary substantially between local authorities. As discussed above, local authorities may wish to flex the return on capital value for different care homes in their area.  Potential approach 1  Providers should be asked to state the current freehold value of their care home, and the median freehold value per bed can then be calculated for the local authority conducting the exercise. There is a second-hand market for care homes which can provide a sense check. A percentage rental yield can then be applied to the freehold value per bed. For example, the commercial estate agents Knight Frank cite a 5.5% yield for core care home stock (note that it is a lower 4% for prime stock and 3.5% for super prime stock). For example, consider a local authority with a median freehold valuation of £60,000 per bed. The cost of care exercise could report a return on capital of 5.5% \* £60,000 / 52 weeks = £63 per resident per week.  Potential approach 2  Local Housing Allowance (LHA) is paid to Housing Benefit recipients to support the cost of the rent. The rates are set at the 30th percentile of local rents. The one-bedroom rate of LHA (minus fixtures/fittings/repairs/maintenance can arguably be used as a proxy for the property rental element within a local authority. This is because whilst a one-bedroom flat has features that are care home does not, such as a kitchen in every flat, a care home has many communal areas that the flat would not have. The LHA rates are paid at Broad Rental Market Area (BRMA) level, and several of these areas may overlap within the local authority's boundaries. For example, consider a local authority with an average one-bedroom LHA rate of £130 per week, and fixtures/fittings/maintenance of £30 per week, the cost of care exercise could report a return on capital of £100 per resident per week.​  Source: Market Sustainability and Fair Cost of Care Fund 2022 to 2023: guidance published 25 August. [https://www.gov.uk/government/publications/market-sustainability-and-fair-cost-of-care-fund-2022-to-2023-guidance](https://www.gov.uk/government/publications/market-sustainability-and--cost-of-care-fund-2022-to-2023-guidance) |

|  |
| --- |
| **Box 2 Return on Operations (care homes and domiciliary care)**The return on operations amounts to a reward and incentive for operating the care and support services in a care home, and as a reward and incentive for the whole business of domiciliary care. It is important to note that in domiciliary care, return on operations is the only source of profit (there is no return on capital nor any capital gains from the property). It is therefore particularly important to understand the costs of domiciliary care providers and how they are changing, to ensure that profits remain at a sufficient level.  Return on operations can be calculated as a percentage markup on operations and head office costs.  As noted for the return on capital above, providers can choose to reinvest part of their return on operations into the business. This can make their business more desirable to the market in future, and help the market develop more generally, for example by improving quality, improving efficiency, serving more people, or moving into new types of care.  Source: Market Sustainability and Fair Cost of Care Fund 2022 to 2023: guidance published 25 August. [https://www.gov.uk/government/publications/market-sustainability-and-fair-cost-of-care-fund-2022-to-2023-guidance](https://www.gov.uk/government/publications/market-sustainability-and--cost-of-care-fund-2022-to-2023-guidance) |

A1.2 Care homes

LaingBuisson has drawn on its own *Care Cost Benchmarks* model which contains a methodology they believe comes as close as possible to setting an objective, market-related norms for return on capital and return on operations for care homes.

The starting point of the methodology is to determine a reasonable, evidence-based ‘whole business’ return for a sustainable care home capable of being rated Good by CQC. The whole business return can then be divided into two component parts, return on capital, and return on operations, using available evidence.

A1.2.1 Whole business return for care homes

Market behaviour is the best indicator of what the benchmark for a reasonable ‘whole business’ return on investment should be. LaingBuisson has approached this question by seeking advice from major business transfer agents and property funds active in the care home space. The current consensus is that good-quality, modern care homes sell at a multiple of about 9x sustainable EBITDARM[[10]](#footnote-10). A ‘profit purchase’ multiple of 9x implies in turn that investors are typically seeking a ‘whole business’ return of 11% per annum (that is, the reciprocal of 9). **Therefore 11% comes as close as possible to an objective, market-related norm for expected whole business returns at the individual home level[[11]](#footnote-11).**

One of the merits of the approach described is that it is independent of capital structure. It side-steps the near impossible task of calculating capital costs for an infinite combination of financing options - mortgages, other loans, leases, and the imputed cost of the proprietor’s own capital, or, just as bad, choosing a single capital structure as a ‘standard’ for the purposes of calculating capital costs.

The whole business benchmark rate of return (of 11%) is made up of two components, which are aligned with DHSC guidance:

1. The rate of return on capital tied up in the care home accommodation asset, for which LaingBuisson recommends 6% per annum, see Section A1.2.2.
2. Return on Operations for delivering the care home service, which Laing Buisson recommends should make up the balance of the 11% whole business EBITDARM return at the individual home level, see Section A1.2.3.

The rationale for the split is described in the next two sections.

A1.2.2 Return on capital invested in care home accommodation

DHSC guidance[[12]](#footnote-12) cites the Competition and Markets Authority’s advice in its 2017 report on the care home market[[13]](#footnote-13), that the cost of capital for care homes should be calculated as the product of a) the **value of** **the assets invested in the care home** and (b) the **required percentage annual return on capital**. This is the same approach as used in Laing Buisson’s *Care Cost Benchmarks* model.

In addition to capital tied up in the care home accommodation asset, providers will have working capital requirements, but these are relatively small and have been ignored in these calculations.

*A1.2.2.1 Value of assets*

The IESE toolkit for care homes contains a field for providers to record the ‘Red Book’ valuation for the care home in question and the year of that valuation. The ‘Red Book’ refers to guidance from the Royal Institute of Chartered Surveyors (RICS) on how to make a whole business valuation of a freehold care home business. It is done by applying an appropriate multiple to its sustainable annual operating profits. It should be noted that the term ‘sustainable’ means that any premium due to exceptionally strong management is discounted and the home is valued according to the sustainable operating profits that the valuer considers competent replacement management could achieve.

The ’Red Book’ valuations in the care home toolkit returns have been adjusted for inflation (since the year of valuation) and expressed as a 2022/23 £ value per resident in the home by the home master spreadsheet which accompanies this report. Among the 20 Oxfordshire toolkits which reported valuations, the median figure was £136,679 per bed, see Table 4. But this has been capped at £122,000, for reasons described in Section 2.11.1, to give a return on capital figure of which works out at £140.38 per resident per week.

*A1.2.2.2 Percentage annual return on capital*

The provision of care homes in the UK now takes place almost entirely outside the public sector. It is mainly undertaken by for-profit providers and it is anticipated will remain so for the foreseeable future. Care home development and operation is viewed by the business community as a moderately risky activity and investors in care home property, whether they are care home operators themselves or third-party property investors, expect a reasonable rate of return on capital. From a public policy perspective, the return should be sufficient to:

1. Attract investment in new care home capacity to meet potentially increasing underlying demand driven by the ageing population.
2. Incentivise existing operators to continue in business and upgrade their physical assets where appropriate.
3. Encourage providers of new and existing homes to make services accessible to publicly as well as privately paying residents.

An objective measure of the annual cost of providing the accommodation (property) is required, independent of the care and other services provided within the property. This is readily available from the price that a care home operator typically has to pay for a long-term (c. 25 years) lease on a turnkey care home asset. Much of the care home capacity that has come on stream in recent years has been financed by this means[[14]](#footnote-14). The consensus view is that a yield of 6%-7% plus would be expected by a property investor leasing premises to an operator with a moderate covenant, though a yield of as low as 5% may be adequate for assets leased to the handful of operators with a strong balance sheet and excellent covenant[[15]](#footnote-15). These rates can be equated to the cost to a care home business of providing accommodation. The range is higher than a typical mortgage rate because it reflects the cost of (riskier) 100% finance.

Based on this evidence, **Laing Buisson’s *Care Cost Benchmarks* model proposes a Return on Capital benchmark rate of 6% per annum for care home property,** being at the lower end of the yield range of 6%-7% plus for care home operators with a moderate covenant, which is representative of the bulk of the UK care home market for older people. This conclusion is consistent with the DHSC ‘Potential approach 1’, as set out in Box 1.

LaingBuisson have rejected the DHSC’s ‘Potential approach 2’ as set out in Box 1. They do not believe that LHA rates can be considered a good proxy for sustainable care home returns since the risk profile of residential property investment is different from the risk profile of care home investment.

A1.2.3 Return on operations for care homes

In the approach described above, the benchmark for return on operations can be derived by deducting the benchmark return on capital for the care home property asset (6%) from the benchmark whole business return on investment (11%, see section A1.2.1). The difference is 5%. However, this needs to be expressed not as a return on capital but as a mark-up on operating costs and head (in line with DHSC guidance, see Box 1).

After adjusting for the different denominators**, the return on operations benchmark can be re-expressed as a 10% mark-up on care home operating costs and head office costs**.

LaingBuisson posed a subsidiary question over whether the mark-up should be the same for not-for-profit care homes as for for-profit care homes, given the typically lower profitability (surplus) aspirations of not-for-profits. Oxfordshire County Council has significant partnerships with not-for-profit organisations as part of our strategic approach to the market. The council would not seek to provide a lower return rate to not-for-profit providers, but to enable them to reinvest any surplus in the sustainability and quality of care for the long-term stability of social care in the county. This is in line with the council’s approach to sound stewardship of public money.

The council will investigate the number of nursing hours which currently stands between 12-13 hours per resident per week in Oxfordshire. The nursing hours per resident per week calculated from LaingBuisson’s Care Cost Benchmark Subscription product is 8.4 hours per resident per week.

**Cost of Care (CoC)**

**Domiciliary Care (18+)**

**Results and Analysis from Toolkits submitted by Providers located in**

**Oxfordshire County Council**

**EXECUTIVE SUMMARY**

In June 2022 Oxfordshire County Council commissioned Laing Buisson to undertake a Cost of Care exercise (CoC), as described and specified in government guidance, covering registered domiciliary care services for adults (18+) within the council’s boundaries.[[16]](#footnote-16)

This written report is based on validated submissions of CQC registered domiciliary care providers, using the toolkit developed by ARCC in partnership with the Local Government Association. 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.

The Council has carefully reviewed the cost of care analysis undertaken by LaingBuisson and share a number of their concerns and in doing so, have considered the following pieces of evidence to support its decision:

The CoC exercise undertaken by LaingBuisson on behalf of Oxfordshire County Council returned a median CoC rate of £30.12, this figure including a 5% return on operations. However, there were several key concerns and issues with the return including:

* Low rate of response: only 21 toolkits were validated by LaingBuisson representing a return rate of just 22% of providers
* The geographical spread of returns was limited
* There was a predominance of small and medium companies amongst those who completed returns, which is likely to have skewed some cost areas
* The business costs reported were of significant concern, and LaingBuisson despite adjusting their approach to outliers still recommended that the Council recognised the anomaly when reviewing appropriate fee rates and noted a possible systematic overstatement of ‘Business Cost’ costs.

The Council has noted LaingBuisson’s conclusion that the difference in magnitude between the Homecare Association’s national minimum pro forma cost for ‘Running the Business (£5.95) and the ‘Business Costs’ returned in this CoC exercise (£9.99) was ‘hard to explain’. The Council has therefore determined that the rates on back-office returns reflected in the median rates are insufficiently robust and have considered other sources of evidence including the Homecare Association’s national minimum pro forma cost structure and a previous Cost of Care exercise undertaken in Oxfordshire by Valuing Care in 2020 which had a higher response rate and can therefore be considered more robust. The Council therefore intends to accept back-office costs at a rate of £6.20 per hour, being the higher of these two amounts when adjusted for 2022/23 figures.

When this revised back-office figure of £6.20 per hour is applied this therefore leads the Council to **a cost of care figure of £26.15.**

1.1 Headline results

A summary of median total costs derived from the CoC 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 3.

**Table 1 Median total costs1 of providers of domiciliary care services located in Oxfordshire County Council (including return on operations), £ per hour at 2022/23 prices at 2022/23 prices.** **This is based on a 5% return on operations.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Median total costs | 1. Fully validated submissions | 1. Partly validated submissions (with at least one cost line validated) | 1. Services in scope | Response rate (A + B) / C |
|  | £ per hour | Number | Number | Number | % |
| All domiciliary care | **£30.12** | **21** | **0** | **96** | **22%** |

1 Derived from Table 3

1.2 Response rates

LaingBuisson fully validated twenty-one toolkit submissions. There were no partially validated zero toolkit submissions, meaning those for which one or more (but not all) of the cost lines had been validated. The twenty-one fully validated toolkits represent a response rate of 22% of home care providers in scope. For each individual cost line, the effective response rate was lower, see Table 3 for the number of respondents (in brackets) for each individual cost line. No cost line has 21 validated responses.

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 results set out in Table 1 and Table 3 are sensitive to the return on operations benchmark determined by the council, Section 2.9, and to the outlier exclusion rules applied, Section 2.6.1.

1.5 Considerations

The overall validated response rate was 22% of all domiciliary care providers in scope. It was felt that this may not be a sufficient proportion of returns to be able to make a fair assumption on the rate, especially as there were no large corporate group services among the respondents. In addition, there was not a sufficiently broad geographical spread of providers - see 2.7.1.

LaingBuisson noted some serious anomalies around business costs which included staff doubling up as care workers and as back-office staff members, leading to possible double counting, and back-office staff being used to support other business lines, leading to possible overstatement of costs. They also noted that toolkit submissions for business costs stood out as being substantially higher than the benchmark cost for ‘Running the businesses within the Homecare Association’s pro forma minimum cost structure presented in Table 4. The balance of evidence is that many of the toolkit submissions did overstate Total Business Costs.

Business costs were at a median of £9.99 compared to the Homecare Association’s national minimum pro forma cost structure which cited business costs as £5.95. This latter figure is supported by Oxfordshire’s previous Cost of Care exercise commissioned in 2020 which returned business costs at £5.94 per hour, which would rise to £6.20 when inflated for 2022/23 prices. On this basis the Council has determined it should accept business costs at the higher of these two figures at £6.20 per hour. **This sets Oxfordshire County Council’s Cost of Care rate at £26.15.**

In determining an appropriate rate for return on operations, Oxfordshire considered a number of factors:

1. In July 2020, Oxfordshire County Council instructed Valuing Care to undertake a review of the home care market in Oxfordshire. The objective of the review was to provide the Council with the necessary intelligence to develop a range of actions to ensure a sustainable market and deliver the required quality and capacity of service to meet the needs of the local population.

With regards to the return on operation the Valuing Care report stated a range of 3 - 7.5% in the responses and their outcome total hourly rate was based on 5% mark-up. This formed the basis for the Council’s Live Well at Home framework rate. Valuing Care suggested that the return on operations element was the reward for delivering the care service, stating that what constitutes a fair level is subjective and it is an area where Commissioners may choose to apply some discretion.

1. LaingBuisson’s supporting evidence shows industry averages at 3.9% in 2016 and most recently 6.3% in 2018 and 2019 and 6.9% in 2020.
2. The Homecare Association suggests a 3% minimum although LaingBuisson suggest this is unrealistically low.
3. The average of homecare toolkit submissions in Oxfordshire for the cost of care exercise was 4.8%
4. An IBISWorld report on Domiciliary Care in the UK from 2021, indicated that the industry profit margin has been falling over the previous 5 years and was expected to be 3.1% for 2021.

**2. COST OF CARE RESULTS FOR SUBMISSION TO DHSC**

2.1 The ARCC / LGA toolkit

Oxfordshire County Council opted to use the cost of care toolkit developed by ARCC in partnership with the Local Government Association. The ARCC toolkit takes the form of an Excel spreadsheet with a mix of editable and locked cells addressing different costs associated with domiciliary care business operations. The toolkit allows providers to enter their costs and other relevant data while internal calculations in protected parts of the spreadsheet re-present costs in a Data Output tab, in the format required for reporting results to DHSC. It should also be noted that several providers insisted on remaining anonymous, limiting our ability to make meaningful comparisons and to be confident that all relevant information has been supplied. This in turn has reduced trust and confidence in the quality of the returns.

Domiciliary care providers submitted their completed toolkit spreadsheets to the Council and to LaingBuisson who undertook the Cost of Care exercise. Unlike the approved care home toolkit, domiciliary care cost data is held only in the toolkit spreadsheets. It is not held or maintained in any online portal.

2.2 Services in scope

There were ninety-six domiciliary care services in scope, with a CQC registered address located within the boundaries of Oxfordshire County. In scope services included for-profit and not-for-profit providers which predominantly offer visiting domiciliary care to adults aged eighteen or over, funded by local authorities, the NHS or privately. Those which predominantly serve clusters of users at fixed ‘extra care’ or ‘supported living’ locations are not in scope. Out of scope services can usually be identified through their CQC registrations as those with an ‘extra care’ or ‘supported living’ service type, but without a ‘domiciliary care’ service type.

2.3Engagement with providers

LaingBuisson worked with the council to engage with providers through a variety of communication channels, including intensive, direct telephone contact with providers to encourage participation and completion of the toolkit.

Among the providers LaingBuisson were able to make positive contact with, ten gave outright refusals to participate. Reasons given by those who gave outright refusals or otherwise expressed uncertainty and did not submit, were most commonly confidentiality of information sharing, company policy preventing participation in surveys and lack of interest. Additionally, a sizeable proportion of those homecare providers with whom successful contact was made expressed concerns about the lack of time they had available to participate in the exercise, given the number and complexity of the questions within the toolkit, the privacy of data they were expected to submit, and/or about the value of the exercise. These concerns also reflected the perceived lack of meaningful results from comparable exercises in the past. LaingBuisson were unable to measure the exact extent but expect these issues to have affected the number and quality of submissions received.

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

2.5 Validation

Toolkit submissions were inspected by LaingBuisson and checked for sense and consistency. All respondents were re-contacted by telephone following submission. Among other things, re-contact was necessary to resolve ambiguities around three specific data points reported in the toolkits, each of which could potentially have a significant impact on reported total costs:

* The year of results, particularly carers’ gross hourly pay rates. The ARCC toolkit does not ask for the year that actual costs relate to, meaning that stated pay rates may relate to either 2021/22 or 2022/23.
* payroll calculation: the internal formula within the ARCC toolkit calculates direct staffing costs (before on-costs) as gross hourly pay rate X contact + travel hours. However, LaingBuisson understand that the majority of domiciliary care employers calculate payroll as gross hourly pay rate X contact hours only, meaning that ARCC’s internal formula is biased towards overstating staffing costs in many cases, the degree of overstatement depending on the ratio of travel hours to contact hours.
* back-office costs, which were highly variable. Some of them accounted for large proportion of total costs. Anomalies which LaingBuisson came across included staff doubling up as care workers and back-office staff members, leading to possible double counting, and back-office staff being used to support other business lines, leading to possible overstatement of costs.

The opportunity presented by the re-contact call was taken to ask some further questions, for the purpose of gathering supplementary information which may be useful for cost of care and also for subsequent market sustainability work:

* What is your approximate breakdown of billable hours by funding source? – Local authority, Private, NHS and Others. Unfortunately, however, the homecare response rate was insufficient to estimate the sector-wide funding profile reliably.
* How would you describe your catchment area: Mainly Urban, Urban, Rural, Mainly Rural?
* Which districts do you operate your services in?
* Are you a For Profit or Not for Profit organisation?
* Are you an Independent or part of a Group operator?
* Are you a Franchisee?
* Does gross pay include an element of mileage? If so, please confirm that travel time is not double counted.

In some cases, where the total cost returned in the initial toolkit submission was unusually high, LaingBuisson carried out an anonymous mystery shopper call, prior to the validation re-call. The question (paraphrased) was: ‘I want to arrange domiciliary care for my [relative], what’s your hourly rate?’ The reason for this was to test the plausibility of toolkit submissions. If the hourly rate quoted was less than the operating costs submitted in the toolkit, then the provider could be challenged as follows: 'Your service appears to be loss-making (toolkit operating costs are higher than charge-out rates). If you are not loss-making, how might your toolkit submission have overstated your costs?

Depending on the answers to the above questions, appropriate adjustments were made with the agreement of providers in order to arrive at corrected total hourly costs at April 2022 prices for each submitted toolkit.

**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, it 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.
* **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 the median total cost line required by DHSC is equal to the sum of the median subtotals and the median subtotals are equal to the sums of the relevant individual cost lines.

LaingBuisson opted to use the **outlier exclusion** approach, and have defined outliers to encompass:

1. Null (empty) or zero values for any cost lines where a null or zero value would be inappropriate
2. Non-zero values which are outside specified boundaries.

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

MAD=median(|X\_i-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, LaingBuisson opted for an enhanced method called “Double MAD.”

The premises underlying 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 one to set pertinent outlier thresholds taking into account skewness in the data sample. Finally, for each cost line, LaingBuisson 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 3.

LaingBuisson have made one exception to the general outlier exclusion rule described above. It relates to the treatment of outliers in the Total Business Costs line. As noted in Section 2.5, these back-office costs were highly variable. Some of them accounted for large proportion of total costs. Anomalies which LaingBuisson came across included staff doubling up as care workers and as back-office staff members, leading to possible double counting, and back-office staff being used to support other business lines, leading to possible overstatement of costs. They also noted that toolkit submissions for back-office costs stood out as being substantially higher than the benchmark cost for ‘Running the businesses within the Homecare Association’s pro forma minimum cost structure presented in Table 4. On the balance of evidence, it appears that many of the toolkit submissions overstated Total Business Costs. Consequently, for this cost category, the outlier exclusion method had been customised to “Median – 3 X MAD” for the lower boundary and “Median + 1 X MAD” for the upper boundary. This has the effect of restricting the acceptable range of values above the median. Simultaneously, we consider it necessary to accept values which gravitate around the Homecare Association benchmark of £3.02 per hour for back-office staff, which would have been rejected if the threshold stayed “Median – 2 X MAD”.

2.7 Response rates

The overall validated response rate stands at 22% of all domiciliary care providers in scope. Table 2 segments response rates according to key service characteristics which may (or may not) have a bearing on costs. There were no large corporate group services among the respondents, but there is only one homecare service in Oxfordshire which is operated by such a group, Allied Healthcare.

Table 2 - Validated responses and response rates as a percentage of services in scope, by key service characteristics

|  |  |  |
| --- | --- | --- |
|  | Responses | Responses as % of  services in scope with  the relevant characteristic |
|  |  |  |
| Key characteristics | No. | % |
| Total | 21 | 22% |
| Strategic providers | 3 | 20% |
| For-profit | 18 | 20% |
| Not-for-profit | 1 | 20% |
| Large corporate group | 0 | 0% |
| Medium group | 6 | 67% |
| Small group or independent | 10 | 36% |
| Large service scale (100,000+ hours annually) | 1 | N/A |
| Medium service scale (15,000 – 99,000 hours annually) | 19 | N/A |
| Small service scale (<15,000 hours annually) | 1 | N/A |
| Mainly private pay (60%+) | 5 | N/A |
| Mainly public pay (60%+) | 11 | N/A |
| Other (mixed funding) | 4 | N/A |
| Good or Outstanding | 13 | 20% |
| Requires improvement or Inadequate | 2 | 22% |
| Cherwell District Council | 2 | 8% |
| West Oxfordshire District Council | 3 | 30% |
| Oxford City Council | 5 | 26% |
| South Oxfordshire District Council | 2 | 22% |
| Vale of White Horse District Council | 3 | 15% |

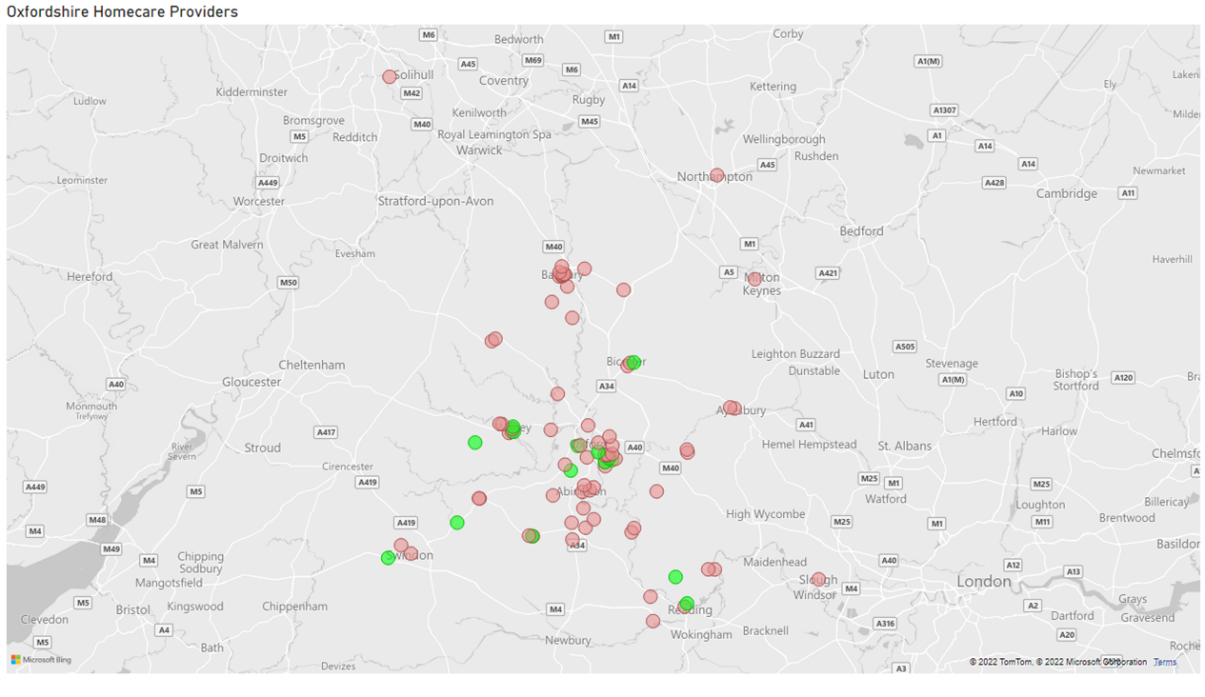
1 40 or more domiciliary care services across the UK

2 3 - 39 domiciliary care services across the UK

3 Fewer than three domiciliary care services across the UK

Reservations based on this include that there are no validated submissions from providers located in North Oxfordshire (only 2 providers submitted toolkits in Cherwell District) – this area is considered to have the greatest potential for recruitment and larger urban areas with less travel required (after Oxford City).

2.7.1 Geographical spread of home care providers in Oxfordshire County (respondents in comparison to non-respondents)



* Respondents
* Non-respondents

2.8 Analysis and results

Summary results from fully and partly validated domiciliary care toolkits submitted by domiciliary care providers located in Oxfordshire are presented in Table 3, in the form prescribed by the DHSC guidance, the results are populated with median operating costs derived from the validated toolkits. **It should be noted that this is the outcome of the exercise and not the final Oxfordshire County Council cost of care which is £26.15.** This is due to the concerns previously outlined regarding back-office costs reported.

Return on operations is based on a benchmark 5% mark-up on operating costs, as agreed by the council based on the evidence presented in Appendix 1. This benchmark supersedes the median 4.8% mark-up on operating costs entered in the toolkit submissions.

**Table 3 Median costs of domiciliary care services located in Oxfordshire which submitted valid toolkits, £ per week at 2022/23 prices and the number of returns taken into account.**

|  |  |  |  |
| --- | --- | --- | --- |
| *Cost of Care Exercise results - £ per contact hour, Medians* | Median | 1st Quartile | 3rd Quartile |
|  | £ | £ | £ |
| **Total Care worker Costs:** | **18.70** | **17.83** | **22.90** |
| Direct Care - direct pay | 11.97 (18) | 11.001 (18) | 13.1 (18) |
| Travel Time | 0.49 (20) | 1.543 (20) | 2.44 (20) |
| Mileage | 1.76 (17) | 1.333 (17) | 2.05 (17) |
| PPE | 0.29 (15) | 0.24 (15) | 0.47 (15) |
| Training (staff time) | 0.27 (13) | 0.242 (13) | 0.55 (13) |
| Holiday | 1.73 (19) | 1.668 (19) | 1.87 (19) |
| Additional Non-Contact Pay Costs | 0.31 (3) | 0.289 (3) | 0.33 (3) |
| Sickness/Maternity & Paternity Pay | 0.4 (19) | 0.196 (19) | 0.49 (19) |
| Notice/Suspension Pay | 0.06 (5) | 0.048 (5) | 0.07 (5) |
| NI (direct care hours) | 0.93 (17) | 0.807 (17) | 1.03 (17) |
| Pension (direct care hours) | 0.49 (14) | 0.467 (14) | 0.5 (14) |
| **Business Costs:** | **9.99** | **7.05** | **15.80** |
| Back Office Staff | 5.58 (16) | 3.85 (16) | 6.89 (16) |
| Travel Costs (parking/vehicle lease etc.) | 0.56 (5) | 0.43 (5) | 1.86 (5) |
| Rent / Rates / Utilities | 0.72 (19) | 0.55 (19) | 1.08 (19) |
| Recruitment / DBS | 0.12 (20) | 0.04 (20) | 0.6 (20) |
| Training (third party) | 0.07 (20) | 0.04 (20) | 0.14 (20) |
| IT (Hardware, Software CRM, ECM) | 0.26 (18) | 0.12 (18) | 0.38 (18) |
| Telephony | 0.1 (19) | 0.07 (19) | 0.16 (19) |
| Stationery / Postage | 0.07 (17) | 0.05 (17) | 0.08 (17) |
| Insurance | 0.14 (16) | 0.11 (16) | 0.19 (16) |
| Legal / Finance / Professional Fees | 0.11 (19) | 0.06 (19) | 0.31 (19) |
| Marketing | 0.1 (18) | 0.07 (18) | 0.31 (18) |
| Audit & Compliance | 0.04 (11) | 0.03 (11) | 0.07 (11) |
| Uniforms & Other Consumables | 0.05 (15) | 0.04 (15) | 0.07 (15) |
| Assistive Technology | 0.07 (5) | 0.04 (5) | 0.09 (5) |
| Central / Head Office Recharges | 1.48 (5) | 1.2 (5) | 1.55 (5) |
| Additional Costs (Totals) | 0.41 (11) | 0.24 (11) | 1.88 (11) |
| CQC Fees | 0.11 (16) | 0.11 (16) | 0.14 (16) |
| **Sub-total Operational Costs** | **28.69** | **24.88** | **38.70** |
| **Return on Operations (5% of operating costs)** | **1.43** | **1.24** | **1.94** |
| **Total Cost per hour** | **30.12** | **26.15** | **40.64** |
| **Supporting information on important cost drivers used in calculations:** |  | | |
| Number of location level survey responses received  (fully verified) | 21 | | |
| Number of locations eligible to fill in the survey  (excluding those found to be ineligible) | 96 | | |
| Carer basic pay per hour | 11.69 | | |
| Minutes of travel per contact hour | 13 | | |
| Mileage payment per mile | 0.40 | | |
| Total direct care hours per annum | 526,542 | | |

Notes: All data are derived from toolkit responses except for return on operations, which has been superseded by the council based on a benchmark rate of 5% of operating costs.

2.8.1 Supplementary information from homecare toolkits

DHSC guidance requires supplementary information on the number of appointments per week by visit length, direct care costs by visit length and travel costs per visit. The information is presented in Tables 4 and 5.

**Table 4** **Number of domiciliary care appointments per service per week by length of visit**

|  |  |  |  |
| --- | --- | --- | --- |
| Visit Length | Median | 1st Quartile | 3rd Quartile |
| 15 minutes | 49 | 36 | 65 |
| 30 minutes | 460 | 254 | 852 |
| 45 minutes | 152 | 65 | 196 |
| 60 minutes | 74 | 23 | 214 |

Note: Values are rounded to whole numbers.

**Table 5** **Direct care and mileage cost per visit-by-visit length**

|  |  |  |
| --- | --- | --- |
| Visit Length | Average Cost | Median Cost |
|  | £ | £ |
| 15 minutes | 9.03 | 8.68 |
| 30 minutes | 16.49 | 15.79 |
| 45 minutes | 23.95 | 22.91 |
| 60 minutes | 31.41 | 30.03 |

2.9 Sensitivity analysis

The median total costs set out in Table 3 are sensitive to the following factors:

* The efficacy of the validation process in eliminating implausible and incorrect toolkit submissions for individual cost lines. LaingBuisson 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 restrictive, and LaingBuisson believe the rules adopted, as described in Section 2.6 were appropriate.
* The value of the return on operations benchmark that has been adopted, see Section 2.9.1
* The approach to calculating confidence intervals for the median total costs, see Section 2.9.2
* LaingBuisson discussed the factors affecting profitability and sustainability with homecare providers. Some of the factors cited included restrictions on recruitment (such as overseas recruitment) and travel time because of traffic congestion. In one case, a home care provider had set a 4-mile radius of travel between their carer and client, this was due to the rurality of Oxfordshire County. . The cost of petrol is widely understood to have been a factor in home care staff leaving the sector, though there are no data available on this to confirm if it is a confirmed trend or a belief based on anecdote.

2.9.1 Return on operations

Oxfordshire considered a number of sources of information in relation to the return on operations. Laing Buisson advised setting the return on operations benchmark at a 10% mark-up on operating costs, see Appendix 1 for the evidence. However, after considering a full range of evidence as set out at 1.5, Oxfordshire council has determined that the benchmark should be a 5% mark-up on operating costs. As stated above (paragraph 2.8) this is 0.2% higher than the median from the validated toolkits and higher than the UKCHA 3%. This latter benchmark rate has been applied in the calculation of median total costs in Table 3. If the council-determined benchmark were amended to the LaingBuisson recommended mark-up of 10% of operating costs, then the median total cost calculation in Table 3 would rise from £30.12 per hour to £31.56 per hour.

2.9.2 Comparisons with the Homecare Association pro forma cost structure for 2022/23

The Homecare Association is the trade body for the independent homecare sector in the UK. It has published pro-forma costing models, the latest of which is for the year 2022/23, Table 6. To date it has been the only benchmark in the public domain for the hourly costs of visiting homecare. Gross pay for care workers’ contact + travel time, before on-costs, is shown as £11.43 nationally in the Homecare Association model, compared with the CoC result of £12.46 in April 2022 for Oxfordshire County council (Table 3).

The ratio of ‘Total price’ to gross pay works out at 2.03 in the Home Association pro-forma model, compared with an equivalent ratio (Total cost to (Direct Care + Travel Time) of 2.41 from the CoC results in Oxfordshire presented in Table 3.

If the Homecare Association ratio of 2.03 were applied to the Cost of Care median gross pay per hour in Oxfordshire County, then the Total cost line in Table 3 would work out at £25.29 per hour, which is very close to the council’s current rate of £25.20. This rate was based on a previous Valuing Care exercise and has since been inflated to keep in line with increases in costs.

LaingBuisson identified significant anomalies in the submissions for business costs, which when tested with providers indicated variations in completing the toolkit; it is possible costs were included which did not directly relate to the cost of delivering home care.

The single most important contributor to the cost differential between the CoC median and the Homecare Association’s national minimum pro forma cost structure is cost line described as ‘Running the Business’ by the Homecare Association and ‘Business Costs’ by the CoC toolkit. The contributions to total hourly costs were £9.99 for business costs and £5.58 for back-office staff. A differential of this magnitude is hard to explain other than in terms of random variation among the small number of Oxfordshire respondents. We have already referred in Section 2.6.1 to possible systematic overstatement of ‘Business Cost’ costs. We have addressed this with tighter outlier exclusions, but that may be a blunt instrument. LaingBuisson has therefore recommended that the council should be aware of the ‘Business Cost’ anomaly when reviewing appropriate fee rates in the light of the Cost of Care median results. Having taken in account the previous Valuing Care exercise, the council therefore intends to accept back-office costs at a rate of £6.20 per hour, being the higher of these two amounts when adjusted for 2022/23 figures.

It should be noted that the Homecare Association pro forma allows a 3% mark-up for ‘profit or surplus’. LaingBuisson considers this to be unrealistically low, even as a minimum, as indicated. It is unlikely that any commercial organisation would consider entering the domiciliary care sector with an average expected profitability of 3%.

**Table 6 Pro forma minimum cost structure of the short duration visiting model of homecare, illustrated at National Living Wage for all care workers, £ per hour 2022-23**

|  |  |
| --- | --- |
|  | £ per hour |
| Care workers contact time (gross pay before on-costs) | £9.50 |
| Care workers travel time (gross pay before on-costs) | £1.93 |
| NI and pension contributions | £1.34 |
| Other wage-related on-costs | £2.28 |
| Mileage | £1.52 |
| Running the business | £5.95 |
| Profit or surplus | £0.68 |
| **Minimum hourly price** | **£23.20** |

2.9.3 Confidence intervals

While we have no reason to believe that the toolkit responses were biased in any systematic way, there was a high degree of variance in many of the cost lines submitted by respondents. LaingBuisson note that this may “give rise to concerns about the statistical validity of the calculated median”.

DHSC guidance does not ask for any assessment of the reliability of the CoC results. However, LaingBuisson recognise that because of the relatively low number of validated responses, and the high degree of variance among the sample of toolkits in most of the cost lines, the council may wish to give some indication of confidence limits, and particularly whether confidence limits for the CoC medians do or do not overlap with average fees currently being paid by council in financial year 2022/23. LaingBuisson’s calculations of confidence intervals are set out in Figure 1.

Figure 1 CoC median costs for April 2022 with 95% confidence intervals, and comparison with post-April 2022 fee rates paid by councils to independent sector providers

Note: The council’s average hourly fee rate is calculated as Gross Fees divided by Service Users, using iBCF definitions.

**2.10 Conclusions**

The key item of data that the national CoC exercise has sought to reveal is the gap between the calculated median cost of care and the fee rate currently being paid by council, in order to inform policy decisions on the quantum of the gap to fill and the pace at which it can be filled with the resources available.

Based on the information presented in this report, the current fee rates paid by Oxfordshire County Council are below the cost of care, as calculated based on the median rate of return. However, it has been noted that there are concerns about the quality and size of the sample, and particularly regarding the business costs reflected in the medians. Therefore, consideration should be given to concerns that the medians derived may not be reasonable and reflective of the whole market. The current actual fee rate paid by Oxfordshire County Council stands at £25.20, which is outside the boundaries of a 95% confidence interval based on these medians. For comparison, the median cost per hour identified through CoC is £30.12, which falls within the range of the 95% confidence interval.

The council’s adjusted median is £26.15, which sits just outside of the confidence interval, however it should be noted that the confidence intervals are based on a back-office calculation of £9.99, which it is believed is incorrectly high. Looking at the CoC results all of the councils LaingBuisson have been supporting over the summer of 2022, they have been struck by the fact that, at individual council level, low response combined with high variance may mean that the gap (if any) cannot always be stated with a sufficiently high level of confidence. At the same time, LaingBuisson are conscious that if all council level data were combined into an appropriately normalised single data set for all 150 English councils, it is very likely that the percentage gap between CoC and council-paid fees could be quantified with greater confidence at national than at local level.

**APPENDIX 1 of the Domiciliary Care Report**

**EVIDENCE BASE FOR RETURN ON OPERATIONS BENCHMARK**

The council has favoured a 5% operating return. The rationale and evidence are discussed at length in Appendix 1 of the CoC care home report, the relevant sections are repeated here for the reader’s convenience. The LaingBuisson CoC report on care homes concluded with a recommendation for a 10% mark-up on operating costs, representing a reasonable return on operations for care home providers.

LaingBuisson’s view is that the same mark-up of 10% could legitimately be applied to domiciliary care operating costs. The rationale is that, once the property costs have been stripped out of care homes, the operating business - employing and managing staff to deliver care and support – has more similarities than differences. Therefore, 10% is an equally appropriate mark-up on domiciliary care operating costs and head office costs. For the council this statement lends itself to supporting a 5% operating return on home care as well as care homes.

LaingBuisson have also considered a supporting approach to determining a return on operations benchmark, based on historic returns posted by domiciliary care, and supported living groups. LaingBuisson maintains structured data on profit and loss accounts posted on Companies House by the full range of independent sector operators of health and social care in the UK, going back for more than a decade. Nearly all domiciliary groups in this financial data set are for-profit. All not-for-profit groups specialise in supported living for younger adults.

Trends in the profitability of for-profit groups over the period 2010 - 2020 are illustrated in Figure 1.The data support a narrative frequently expressed by independent sector interests, which is that financial pressures following the implementation of austerity measures from 2011/12 had a negative impact on profitability. The aggregate mark-up of companies fell from a base of a little over 10% at the turn of the decade to a low point of 3.6% for statutory accounts periods ending in 2016, before partially recovering to 6.9% for statutory accounts periods ending in 2020. Data for 2021 are as yet incomplete.

The aggregate revenue of for-profit domiciliary care companies covered in Figure 1 in 2020 was £1.3 billion, which represents 20% of the total UK domiciliary care market of £6.4 billion in 2020/21, as estimated by LaingBuisson. Larger companies with full profit and loss accounts are more exposed to local authority funding than the market as a whole. Also, profitable franchise providers which typically focus on private pay are excluded from the analysis because their results do not consolidate their individual franchisees. Despite the skewed sample, LaingBuisson considers that the trends in profitability illustrated in Figure 1 are supportive of 10% as a mark-up norm for a competitive sector during a time (pre-austerity) when it was not subject to excessive pressure on margins.

LaingBuisson recommend a 10% mark-up on operating and head office costs as anappropriate return on operations for domiciliary care providers.

**Figure 1 Aggregate mark-up on operating costs among larger, for-profit domiciliary care providers which have posted statutory accounts with full profit and loss at Companies House, UK 2010 - 2020**

Figure 1 illustrates the mark-up operating costs among larger, for profit domiciliary care providers. 

Financial period ending in those years

The council has not adopted this recommendation, the rationale is set out below.

**EVIDENCE BASE FOR RETURN ON CAPITAL AND OPERATING PROFIT PARAMETERS**

A1.1 Introduction

Total costs of care services are made up of Operating Costs, derived from responses to validated toolkits, plus the following two items, which DHSC advises may be determined by councils based on available evidence:

1. Return on Capital invested in accommodation assets PLUS return on operations, for care homes (65+); and
2. Return on Operations only for domiciliary care (18+)

DHSC guidance on return on operations is reproduced in Box 2. DHSC guidance is fully consistent with the framework adopted in Laing Buisson’s Care Cost Benchmarks model, allowing the latter to be adduced in evidence in the commentary which follows.

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| **Box 2 Return on Operations (care homes and domiciliary care)**  The return on operations amounts to a reward and incentive for operating the care and support services in a  care home, and as a reward and incentive for the whole business of domiciliary care. It is important to  note that in domiciliary care, return on operations is the only source of profit (there is no return on capital nor  any capital gains from the property). It is therefore particularly important to understand the costs of  domiciliary care providers and how they are changing, to ensure that profits remain at a sufficient level.  Return on operations can be calculated as a percentage markup on operations and head office costs.  As noted for the return on capital above, providers can choose to reinvest part of their return on operations  into the business. This can make their business more desirable to the market in future, and help the market  develop more generally, for example by improving quality, improving efficiency, serving more people, or moving  into new types of care.  Source: Market Sustainability and Fair Cost of Care Fund 2022 to 2023: guidance published 25 August. <https://www.gov.uk/government/publications/market-sustainability-and-fair-cost-of-care-fund-2022-to-2023-guidance> |

The council does not recognise the median figures for back-office costs for the following reasons:

* The report from LaingBuisson describes significant flaws in the toolkit and the data received.
* The return rate of 22% of home care providers does not provide adequate confidence that the medians derived are reasonable and reflective of the whole market.
* LaingBuisson identified significant anomalies in the submissions for business costs, which when tested with providers indicated variations in completing the toolkit; it is possible costs were included which did not directly relate to the cost of delivering home care. If the Homecare Association ratio of 2.03 were applied to the CoC median gross pay per hour in Oxfordshire County, then the Total cost line in Table 3 would work out at £25.29 per hour, which is very close to the council’s current rate of £25.20.
* There are no large corporate providers represented in the exercise although there is one currently working in Oxfordshire. It is likely that their economy of scale would have lowered the median

The council has adopted a 5% operating return for the following reasons:

* The broader evidence set out at 1.5 indicates 5% is a reasonable rate of operating return.
* The council is responsible for good stewardship of public money, which supports targeting resources to greatest need to achieve high quality and stability in the market rather than necessarily allowing for higher profit margins by private companies - the current data do not give a clear enough picture of the expected profit by providers across the sector in Oxfordshire – there is a risk the providers which submitted returns are not representative of the wider market.
* Over the past twelve months the council has attracted a significant number of providers to join the Live Well At Home framework at the rate of £25.20 (2022/23 rate). While some providers describe this rate as lower than their true cost Oxfordshire has been viewed as a positive partnership and business environment for competitors in this market.

LaingBuisson posed a subsidiary question over whether the mark-up should be the same for not-for-profit providers as for for-profit providers, given the typically lower profitability (surplus) aspirations of not-for-profits. Oxfordshire County Council has significant partnerships with not-for-profit organisations as part of our strategic approach to the market. The council would not seek to provide a lower return rate to not-for-profit providers, but to enable them to reinvest any surplus in the sustainability and quality of care for the long-term stability of social care in the county. This is in line with the council’s approach to sound stewardship of public money.

**APPENDIX 2 GLOSSARY**

**Cost of care**

Cost of care best describes the actual costs a care provider incurs in delivering care at the point in time that the exercise is undertaken. It is typically presented as a unit cost for an hour of domiciliary care or a bed per week in a care home.

**‘Fee for care,’ ‘rate for care’ or ‘fee rate for care’**

These terms are often used interchangeably but most commonly refer to the figure a local authority sets and/or agrees to pay a provider for a particular service. Local authorities will have different commissioning frameworks and approaches to rates for care. In some situations, a local authority will set a fixed rate that it will pay for a type of service, and this may be referred to as the 'local authority's set or usual rate for a care home bed'.

**Cost of care exercise**

A process of engagement between local authorities, commissioners and providers, data collection and analysis by means of which local authorities and care providers can arrive at a shared understanding of the local cost of providing care. The cost of care exercise will help local authorities identify the lower quartile, median and upper quartile costs in the local area for a series of care categories.

**Cost**

For reporting purposes for this fund, and in terms of understanding the cost of care, cost means the median actual operating costs for providing care in the local area (following completion of a cost of care exercise) for a series of care categories. This must include evidence values for return on capital and return on operations, and also travel time for domiciliary care. Together this is what is described as the 'cost of care and is, on average, what local authorities are required to move toward paying providers.

In the context of specific rates for care paid, cost means what is sustainable for the local market.

For providers, this means they will be able to cover the cost of care delivery and be able to make a reasonable profit (including re-investment in their business), surplus or meet their charitable objectives.

Local authorities recognise the responsibility they have in stewarding public money, including securing the best value for the taxpayer.

**Data collection tool**

This is a spreadsheet or web-based system for use by each care location participating in the cost of care exercise to work out their breakdown of costs (per resident per week or contact hour) for submission in the cost of care exercise. The spreadsheet or web-based system will contain pre-programmed formulas to help providers consistently calculate these costs.

**Cost of the care data table**

A breakdown of the results of the cost of care exercise for each cost line as set out in Annex A, Section 3, for submission to DHSC.

**Cost of care report**

A PDF or Microsoft Word document explaining how the results in the cost of care data table were arrived at, including but not limited to, the contents described in Annex B. Separate reports should be produced for 65+ care homes and 18+ domiciliary care due to their very different cost bases. Local authorities are required to submit these reports to DHSC and publish them on their GOV.UK website.

**Average**

Averages (properly called ‘means’) cover the whole distribution, though have the disadvantage of being skewed by high outlier values.

Local authority fee rates in collections such as the Adult Social Care Finance Return and the Improved Better Care Fund collection are required to be reported as averages. For reporting purposes in this fund, fee rates paid are required to be reported as averages in line with wider fee rate reporting.

**Median**

Medians represent the middle value when a distribution (for example fee rates) is ordered by size (for example by the amount of the fee rate). The advantage of medians compared to averages is that they are less skewed by high outlier values.

Data collected through the cost of care exercise are required to be reported as medians to account for outliers in the distributions that are being analysed (such as staffing ratios or staff costs per resident at location level).

**Sustainable market**

A sustainable market has a sufficient supply of services but with provider entry and exit, investment, innovation, the choice for people who draw on care, and sufficient workforce supply. It also refers to a market which operates efficiently and effectively, linked to the market shaping duty placed on local authorities under section 5 of the Care Act 2014. Further detail on this can be found in the market sustainability plans section of the guidance.

**Enterprise Scale**

LaingBuisson use enterprise scale to refer to the number of home care providers/care homes operated by the same service provider as obtained from the CQC.

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> [↑](#footnote-ref-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. [↑](#footnote-ref-2)
3. LaingBuisson has collected cost data from UK wide care home surveys and local Fair Price exercises commissioned by councils, the NHS and independent care associations over more than a decade. They provided a useful source of benchmarking data against which 2022 FCoC toolkit submissions could be compared, in particular with regard to staff hours per resident per week, which is the single most important driver of care home costs. [↑](#footnote-ref-3)
4. 7 Table 22, <https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation> [↑](#footnote-ref-4)
5. 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> [↑](#footnote-ref-5)
6. 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>. [↑](#footnote-ref-6)
7. 10 Tables 8 and 22, <https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation> [↑](#footnote-ref-7)
8. 11 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. [↑](#footnote-ref-8)
9. 12 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. [↑](#footnote-ref-9)
10. 13 EBITDARM stands for Earnings Before Interest, Tax, Depreciation, Amortisation of goodwill, Rent on leased premises and central Management overheads [↑](#footnote-ref-10)
11. 14 In Laing Buisson’s Care Cost Benchmarks model, the whole business benchmark return can be expressed in two equivalent ways: a) 11% at the home level when measured as EBITDARM (before charging corporate overheads) and b) 9.5% at the group level when measured as EBITDAR (after charging corporate Management overheads). This is a presentational change only. The two benchmarks are different ways of expressing the same thing. The 9.5% group level return implies typical acquisition multiples for an average freehold care home portfolio of a little over 10 times group EBITDAR, which is borne out by transaction evidence. [↑](#footnote-ref-11)
12. 15 Annex E: further detail on return on capital and return on operations - GOV.UK (www.gov.uk) [↑](#footnote-ref-12)
13. 16 <https://www.gov.uk/government/publications/care-homes-market-study-summary-of-final-report> [↑](#footnote-ref-13)
14. 16 There are now two London Stock Exchange quoted property investment companies, Target Healthcare REIT, and Impact Healthcare REIT, specialising in financing new care home developments under arrangements in which the property investor owns the freehold and, ‘as landlord’, leases the asset to a care home operator ‘tenant’ at an escalating rent for a typical period of 25 years. There are also several European and other overseas-based property investors which are active in the UK market, [↑](#footnote-ref-14)
15. 17 The DHSC guidance (Box One) notes Knight Frank’s citation of a 5.5% yield for core care home stock (or 4% for prime stock and 3.5% for super prime stock). These rates, however, are only available for care home operators with a good covenant in the form of a strong balance sheet. Most care home operators are viewed as having a moderate covenant only and would expect to pay a higher yield for 100% finance. [↑](#footnote-ref-15)
16. 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> [↑](#footnote-ref-16)