Annex B1: Care home cost of care report

1. General comments

1.1 After considering both the March guidance on this exercise and the further guidance note circulated by DHSC on 25 August, we have attempted to adjust the figures submitted to us through the CareCubed tool to take account of each of the main respects in which a calculation based on actual expenditure in 2021/22 is likely to provide a distorted picture of what the median level of care home fees might be in a sustainable long-term sector.

1.2 The adjustments and assumptions that we have made are spelt out in this Annex. We believe that they are reasonable, but we are conscious that different assumptions and different methods of calculation could also be justified, and we are aware from discussions with other local authorities that there are likely to be significant differences between the approaches adopted in different areas, some of which will reflect differences in the situation of the local care home sector, while others will be the result of differing views about whether and how it is reasonable to attempt to compensate for the ways in which the survey returns may be misleading as an indicator of what might be a sustainable level of fees. We anticipate that DHSC may when it reviews local authority submissions decide that it requires figures arrived at following a more consistent approach, and we would be happy to discuss how any of the assumptions that we have made could be varied.

1.3 For reasons explained further in our provisional market sustainability plan, our view is that an exercise of the kind required by the DHSC guidance cannot give a reliable indication of what the impact on care homes of the full implementation of section 18(3) of the Care Act may be in any local area. We think that local authorities will need to explore that impact in detail with care home operators before deciding what changes to fee levels and contractual arrangements are necessary to minimise disruption to the sector, and we intend to do that over the coming months.

2. Overview of our approach to this exercise

2.1 After examining the CareCubed tool commissioned for this survey by CHIP, and discussing with other local authorities in the region and elsewhere how they were intending to collect the data, we came to the conclusion use of CareCubed was the only sensible option, since it appeared that almost all local authorities were likely to be adopting the same tool, and that corporate providers operating nationally or across multiple local authority areas were unlikely to be willing to submit data in different formats.

2.2 We did, however, attempt to collect some additional data as a follow-up to the CareCubed returns through a local survey (described below), but we received only limited information through that survey, and have not made use of it in this return, though we will look at the data collected through that survey again when we next review the premiums that we currently pay for dementia care, which was the main issue that we designed the local survey to help us explore further.

2.3 We made use of an external contractor (CommercialGov) to assist in the process of collecting and checking data, but we carried out this analysis of the data in-house.

On balance, we think this arrangement worked well, ensuring that all through the process we have been aware of the detail of the information received, and able to discuss emerging issues with other local authorities as they arose, while providing us with additional capacity for detailed discussions with staff in care home providers about their returns.

2.4 We decided at an early stage that we would ask providers to focus primarily on the data about actual expenditure in 2021/22, and other information which would assist us in producing estimates of per-resident costs based on the actual expenditure data. We circulated a note to all providers explaining this, and telling them which parts of the CareCubed tool we would wish them to prioritise if they were concerned about the burden of completing all parts of the tool. We asked CommercialGov to query implausible or outlier figures entered in any part of the tool, but to be clear with providers about which figures were most important.

2.5 We were in some respects disappointed by the quality of the information submitted by providers, and the limited clarification that we were able to obtain when we tried to follow up particular points, but we think this is largely a consequence of broader issues, such as large providers operating across multiple local authority areas preferring to provide information centrally on a standard basis for all of their care homes, and not holding on their corporate databases full information about each individual establishment. Some providers also had difficulties because the analysis of costs requested by DHSC did not correspond closely to the way in which they hold their financial records. While the information that we obtained gives us a more broadly based picture of the detail of the costs of operating a care home in Northumberland than we had before, we cannot be wholly confident about its accuracy.

2.6 Our overall approach to producing the indicator “fair cost of care” figures was as follows:

a) We began from the breakdown of actual expenditure in 2021/22, excluding no submission other than one which was supplied only in a letter rather than in the format required by the tool and was based on budgeted rather than actual expenditure. Section 3 of this report gives further details about the returns which we received.

b) Throughout the calculations, we made no differentiation between the costs of different categories of resident other than assuming that the costs of employing nurses were exclusively attributable to nursing residents. Our rationale for this is explained in section 4.

c) Where homes had occupancy levels below 90% in 2021/22, in most cases because of the impact of Covid, we have adjusted the figures as described in section 5, to produce an estimate of what costs would have been with a sustainable occupancy level.

d) We then uplifted these expenditure figures to an April 2022 price base. We did this by following a standard approach described in section 6 of this report rather than using provider-supplied uplift factors, which varied to an extent which suggested inconsistent interpretations of the question. The impact of this approach is analysed in section 6.

e) For the return on capital, we adopted the LHA-based approach illustrated in the grant guidance. Our rationale for this, and the detail of how we made the calculation are set out in section 7.

f) For the return on operations, we adopted a standard figure of 7%. The issues about this, and our rationale for taking this approach, are set out in section 8.

g) We made two adjustments to the figures aimed at removing distortions to them: inflated costs because of Covid precautions during 2021/22 that were covered by national grant funding schemes; and deflated costs of PPE in a year when most PPE was supplied free of charge through the national portal. These adjustments are described in section 9.

h) To arrive at the final indicator figures, we took the median of the resulting figures for each care home for the total costs per resident. Our rationale for this is set out in section 10.

i) Sections 11 and 12 supply tables as required by the grant guidance; section 13 explains which questions in the CareCubed tool we encouraged providers to focus on.

2.7 This approach has enabled us to include in our calculations all care homes for which we received data through CareCubed, including returns from providers which did not answer some of the questions used by the CareCubed software to generate unit costs. In our judgement, the resulting figures meet the specifications and the objectives of the DHSC guidance as closely as can reasonably be achieved. However we would wish to add a number of cautions:

a) The figures are at best an approximate indicator of the typical scale of costs, as at a specific time. While we believe that the basis of calculation that we have adopted is reasonable, different assumptions might also be reasonable, and might change the figures either up or down.

b) As providers have commented in correspondence, the figures are for a date before the full impact of current inflation, particularly in energy costs, and do not take account of further predicted impacts of current economic instability over the coming months.

c) Median cost figures may or may not be a reliable guide to the level at which fees will need to be set to minimise disruption resulting from the planned charging reforms from October 2023. We are continuing to explore how best to prepare for the impact of those reforms. Our Market Sustainability Plan discusses this issue further.

d) Decisions about actual fee levels in any year will need to take account of other information, including a “top down” assessment of the overall state of the sector, as well as “bottom up” calculations about what, on any particular set of assumptions, providers’ costs can be expected to be.

3. The responses we received, and engagement with providers

3.1 84 care homes in Northumberland were included in the list of locations extracted into CareCubed on the basis of CQC data indicating that older people are one of the

"service user bands" covered by their registration. 14 of these were specialist services accommodating service users primarily on the basis of characteristics other than their age – in most cases people with a learning disability. We marked those providers as out of scope, and wrote to all of them to explain the reasons for this, which none of them have disputed.

3.2 One home care provider mistakenly submitted data using the CareCubed tool, which was at the time possible even where a provider was not a registered care home. Their data was discarded. They were encouraged to submit a return to the separate homecare "fair cost of care" survey, but the company concerned decided during the period of the survey to withdraw from providing a service in Northumberland.

3.3 Out of the 70 care homes for older people which were in scope for the survey, we received submissions through CareCubed for 50 – a 71.4% return rate, from homes accounting for 73.7% of the registered beds. However some submissions fell significantly short of providing all the data requested:

a) [**Organisation name redacted**], a national non-profit provider, submitted a blank survey return, and wrote to us separately explaining that they had decided not to submit data in the form required by CareCubed (and by the grant guidance) because what it asked for was "unhelpful, historic data that does not take into account this financial year's inflationary pressures"; and because "Providing last year's data would not take into account our aspirations to increase pay and improve terms and conditions in order to reward staff better commensurate with their skills, which would in turn help to stabilise the current workforce crisis"; and because "When it comes to Market Sustainability Plans, we are not clear how historic costs added to the portal, can be used to meaningfully inform future market sustainability." This provider supplied figures for what they believed would be adequate fee levels to meet their aspirations, and a breakdown of the costs of their care home in Northumberland based on their 2022/23 budget. Since these were calculated on a different basis from the CareCubed returns (and the method of calculation was not described in detail) they could not be used in the analysis.

b) One national corporate provider, which operates [**number redacted**] care homes in Northumberland, submitted information about the breakdown of overall expenditure in each home in 2021/22, which it described as "the financial information that was agreed nationally with Providers as part of this process", but no other information, other than occupancy information derived from Capacity Tracker returns. The approach which we have adopted has made it possible for us to make use of this information in the same way as for other submissions.

c) [**Redacted identifiable information about a technical issue affecting the return from one provider**]

3.4 After excluding the home for which we received non-comparable figures by letter and [**further reference to redacted technical issue about one provider's return**], our calculations have therefore been carried out on the basis that they cover 48 care homes.

3.5 Other limitations of the data submitted are described elsewhere in this report.

Engaging with providers

3.6 We wrote to the providers of all care homes for older people in Northumberland on 7 June explaining the background to the survey, urging them to register with the CareCubed tool, and letting them know that we would be engaging a contractor to support providers in completing the tool and to chase up queries.

3.7 CommercialGov arranged a small number of open online events for providers including a general meeting to explain the survey, attended by a representative of Care England and some drop-in sessions. Most of their contact with providers was through individual contact, both by email and by phone, as well as using the comment facilities supplied by the CareCubed software. They followed up all identified queries about the contents of returns, and chased up providers who had not registered for the tool and providers who are registered but not yet submitted information.

3.8 Following initial analysis of the returns, and taking account of national and regional discussions about the issues which arose from them, we wrote to all providers on 22 September, explaining in detail the approach which we intended to take to produce the "Annex A" figures which we would be submitting, and inviting comments. We would have preferred to be able to do this earlier, and to allow a longer period for providers to consider the issues, but in common with many other local authorities our understanding of DHSC's expectations has evolved over time – and indeed on one point which we discussed in our letter, about how the calculations to arrive at the final "fair cost of care" indicator should be carried out, revised DHSC guidance was announced the week after the letter. We received four responses to our letter, which we replied to in detail, and where relevant we have taken those into account in our submission. Key points raised in these responses are described at the relevant points below .

3.9 One general theme in all these responses is a concern that the calculations which we are making for the "fair cost of care" figure submitted to DHSC do not take account of changes since April 2022, including further increases in energy costs and other prices. Providers have also noted that this exercise does not appear directly to address the issue of how the anticipated end of "cross subsidy" of local authority residents by private residents will affect the finances of care homes. One provider suggested that there is a need for a "top-down" as well as a "bottom-up" analysis of the potential financial implications of the reforms, looking at the total income received by care homes at present and comparing it with an assumption about how that may change and the charging reforms.

3.10 We have explained to providers that the purpose of this exercise is primarily to provide DHSC with indicative figures which it expects to use to help it to understand how local authorities are adjusting their fee rates in anticipation of the charging reforms, and that this is distinct from the process of setting actual fees, which will need to take account of a variety of issues that are not fully reflected in the indicative figures which we are submitting.

4. Differences between categories of resident

4.1 The Annex A template asks for costings for four distinct classes of resident - residential and nursing places with or without what "enhanced needs" – a term

which, in common with all other local authorities that we know about, we have interpreted as referring to residents receiving a dementia service, who in Northumberland and many other areas attract premium payments under the local authority fee structure.

4.2 The CareCubed tool attempted to collect information making it possible to differentiate between the staffing costs of different categories of resident by asking providers to split staffing and occupancy information between the separate wings/floors/units in each home, on the assumption that this would, for instance, identify the differences between staffing ratios between a dementia unit and a general unit. This has not been successful, locally or nationally. Many providers did not distinguish in their CareCubed returns between the staffing in separate units in their care home(s), making the calculated costs for each resident category largely meaningless. We have even seen figures from some local authorities in which random variations between care homes in the mix of residents have produced higher median costs for residents without "enhanced needs" than for those with them.

4.3 In Northumberland, we put a particular emphasis on chasing up returns to encourage providers to supply separate information for each unit/floor/wing that had a separate staffing rota, and we also asked providers to complete a separate survey asking about staffing and occupancy in each unit in 2021/22. As a result, we have sufficiently differentiated information to avoid obviously artefactual results of the kind that we have seen in some other local authority areas, but we do not think that we have a reliable basis for comparing the survey results with the premiums that we pay for residents in need of specialist dementia care. Some national care home providers produced information from corporate databases which did not record information about staffing rotas for units within the homes, and many providers told us that they had mixed groups of residents within each of their units. A rather similar issue arises for nursing care. In many of the care homes in our area, some or all rooms are used flexibly, and may accommodate either residents who need nursing care or residents who do not.

4.4 For the purposes of this return, we have assumed that the difference in cost between nursing placements and general residential placements corresponds to the cost of the qualified nursing staff, divided by the number of residents receiving nursing care, and have attributed other costs equally across all resident categories. We do not think that this is likely to give a correct picture of the staffing demands made by different resident categories, but we do not have sufficient information to be able to provide figures for the differentials based on actual costs.

4.5 Within our current fee structure, we pay on average premium of £50 per week for dementia residential care, and £63 per week for nursing dementia care. We had hoped to be able to use the results of this survey to test how well these differentials relate to actual costs, but do not have sufficient data to be able to do so. However our current view would be that differentials on around this scale are likely to be a reasonable reflection of the differing levels of support required.

4.6 Another issue which providers have repeatedly raised, but which it would be impossible to explore in a survey of this nature, is whether there are other categories of resident require high levels of staff support. The case which has been most often pressed by providers is residents who are eligible for NHS continuing

healthcare (CHC). No care home in Northumberland accommodates these residents in a separately staffed unit, so the only way to test the hypothesis put forward by providers that they typically require a higher level of staff attention would be a detailed diary study of how each individual member of staff allocates their time. In Northumberland, the view of NHS commissioners has long been that there is no clear reason to think that these residents routinely cost more to accommodate, and that a better approach is to make additional payments on the basis of specific assessments of individual residents, where there is evidence that they have care needs beyond what a care home can normally be expected to be able to meet. This issue is currently being reviewed by the new North East and North Cumbria Integrated Care Board, since predecessor CCGs have taken differing approaches. We hope to be able to reach a shared understanding with NHS commissioners about how the overall structure of public sector fee rates relates to the costs of care providers.

4.7 Costs reported by providers through the survey will in some cases include the costs of extra staffing for individual residents with particularly complex needs, for instance to pay for one-to-one staffing support for who is at high risk of harm, or of harming others. We do not necessarily have full information about this, since some residents in care homes in Northumberland are funded by local authority or NHS commissioners from other areas, so we have not attempted to adjust the figures to take account of this factor.

5. Adjustments for low occupancy

5.1 Of the 48 care homes which returned data through CareCubed, 31 reported an average occupancy level during 2021/22 of less than 90%, which we would regard in normal times as the minimum occupancy level which care homes for older people would be expected to achieve in a sustainable market. Care homes with nursing on average reported lower occupancy levels than residential-only homes (median occupancy levels were 81.8% and 86.1% respectively).

5.2 The homes with low occupancy levels fell broadly into two categories:

a) In four homes, part of the home – a floor, wing or unit – was out of use for some of 2021/22, and no care staff were working in that part of the home. Two homes returned very low occupancy levels for other reasons – in one case one unit in the home was operating under a block booking arrangement and its usage was not included in the data

b) In other homes, all parts of the home were staffed, but occupancy levels were below 90%.

5.3 The impact of these two situations on costs will have been different. In broad terms, if all parts of a care home are fully staffed, increases in occupancy are likely to have only a small impact on total costs, and the marginal cost of an additional resident is likely to be low. If a whole floor or unit is out of action, the cost of care staffing may reduce almost in proportion to the reduction in the number of residents, but many of the other costs of running the care home may remain the same, or will reduce than proportionately.

5.4 Analysis of these impacts is made more complicated by the fact that occupancy levels during 2021/22 varied between home types. 17 of the 22 care homes with nursing in the survey (77%) had occupancy rates below 90%, compared to 14 of the 26 homes without nursing (54%). (This difference is also one reason why we have not attempted to estimate differences between the costs of residential and nursing placements beyond the simple assumption that the pay cost of the nurses themselves are attributable to nursing residents.)

5.5 Since we have data only for 48 homes, with a variety of issues about the quality of some of the information, we have not attempted any sophisticated statistical modelling of the relationship between costs and occupancy levels. However the figures would give a misleading picture of sustainable costs if we made no adjustment, so we have adopted the following approach:

a) We have made no adjustment for occupancy to the reported per-resident costs of care homes with occupancy levels of 90% and over

b) For other care homes, we have adjusted each cost row to show the cost per resident as the *higher* of two figures:

- the reported 2021/2 expenditure divided by the average number of residents who would have been present if the home had been 90% occupied
- **the lower of** the median cost per resident for care homes with occupancy of 90% or more **or** the actual reported cost per resident (adjusting all costs to match the median for homes with sustainable occupancy would in some cases have had the obviously unreasonable effect of *increasing* the per resident cost above the reported level)

5.6 For comparison the table below shows the median figures for weekly operating costs per resident per week, at the original 2021/22 price base, excluding the costs of nursing staff, on a number of alternative assumptions.

No adjustment for occupancy	£657.16
All care homes with occupancy below 90% assumed to have 90% occupancy, with no reduction in costs	£574.37
Only care homes with occupancy of 90% or more included in the calculation	£579.14
Figures for care homes with occupancy below 90% adjusted as described in the text	£579.34

6. Price base adjustments

6.1 Since the base data from the tool was actual costs during the financial year 2021/22, and the grant guidance asked for the data to be at an April 2022 price base, our general approach to uplifting the base data has been to take an average of the price indexes/assumed wage rates across the 12 months of 2021/22, and compare those with index values/wage rates in the single month of April 2022.

6.2 The CareCubed tool gave providers an opportunity to supply what they believed to be the required uplift factor for each cost row. However our conclusion on surveying the figures supplied by those providers which chose to answer this question (around three quarters of respondents, for most cost rows) was that answers varied considerably in ways that seemed unlikely to reflect differing actual cost increases. Under many price headings the upper quartile figure was around double the lower quartile. In some cases, such as insurance and energy costs, where the interquartile ranges were particularly wide, the differing responses are likely at least in part to have reflected differences in the rates at which contracts were due for renewal, but they may also reflect some providers supplying estimates of expected future increases rather than April 2022 figures. The request to supply an uplift from average prices across a financial year to prices in a single month was an unusual one, and we think it likely that some providers answered a different question – for instance comparing prices in April 2022 with prices in April 2021, or comparing average prices in 2021/22 with their best estimate of what average prices might be in 2022/23, or comparing prices in the month of April 2022 with prices in the previous month.

Non-staffing costs

6.3 The table below shows the inflators that we have used for each row *other than* the costs of staffing in the homes, and compares these with the median inflation uplift factors returned by providers in the survey. While the median of the provider estimates was higher than the calculated figure in the majority of cases, providers' uplifts were *lower* in the case of energy costs, where increases from average 2021/22 prices were greatest in the CPI index. The overall impact of the method adopted is estimated to be modest – applying median provider uplifts to the total spending reported across all providers would produce an overall uplift of 10.8%, whereas the method we have followed produces an overall uplift of 10.4%. The main impact is at the level of individual cost rows. Adopting a standard approach across all care homes also avoids the potential distortion of some provider costs being uplifted by more than others because of their different interpretations of the question.

	CPI index used	2021/2 index average	April 2022 index	% uplift	Median uplift from survey
Food supplies	01 : FOOD AND NON-ALCOHOLIC BEVERAGES	105.50	110.7	4.9%	10.0%
Domestic and cleaning supplies	05.6.1 : NON-DURABLE HOUSEHOLD GOODS	92.62	100.1	8.1%	7.2%
Medical supplies excluding PPE	06.1 : MEDICAL PRODUCTS APPLIANCES AND EQUIPMENT	107.94	109.1	1.1%	7.2%
PPE	06.1 : MEDICAL PRODUCTS APPLIANCES AND EQUIPMENT	107.94	109.1	1.1%	6.6%
Office supplies (Home specific)	00: ALL ITEMS	113.25	120	6.0%	6.6%
Insurance (all risks)	12.5 : INSURANCE	117.38	127.2	8.4%	13.4%
Registration fees	(CQC fees not increased in 2022/3)			0.0%	5.0%
Telephone & Internet	08.2/3: TELEPHONE AND TELEFAX EQUIPMENT AND SERVICES	115.98	119.7	3.2%	6.0%
Council tax / rates	(Business rates not increased in 2022/23)			5.0%	5.0%

	CPI index used	2021/2 index average	April 2022 index	% uplift	Median uplift from survey
Electricity	04.5.1 : ELECTRICITY	138.33	203.2	46.9 %	41.0%
Gas / oil / LPG or equivalent	04.5.2 : GAS	92.18	165.9	80.0 %	49.0%
Water	04.4 : Water supply and misc. services for the dwelling	107.20	111.3	3.8%	7.2%
Trade and clinical waste	00: ALL ITEMS		120	6.0%	7.2%
Transport & Activities	07 : TRANSPORT	123.84	132.9	7.3%	7.2%
Other supplies and services costs	00: ALL ITEMS	113.25	120	6.0%	7.0%
Fixtures & Fittings	04.3 : REGULAR MAINTENANCE AND REPAIR OF THE DWELLING		111.1	3.8%	7.2%
Repairs and maintenance	04.3 : REGULAR MAINTENANCE AND REPAIR OF THE DWELLING	107.00	111.1	3.8%	7.2%
Furniture, furnishings and equipment	05.1 : Furniture, furnishings and carpets	119.27	128.4	7.7%	7.1%
Other premises costs	04.3 : REGULAR MAINTENANCE AND REPAIR OF THE DWELLING	107.00	111.1	3.8%	5.0%
Central / regional management	00: ALL ITEMS	113.25	120	6.0%	6.0%
Support services (finance / HR / legal / marketing)	00: ALL ITEMS	113.25	120	6.0%	5.0%
Recruitment, Training & Vetting (inc. DBS checks)	00: ALL ITEMS	113.25	120	6.0%	7.0%
Other head office costs	00: ALL ITEMS	113.25	120	6.0%	7.2%

Staffing cost uplifts

6.4 Uplifting the 2021/22 figures for staffing costs is made more complicated than it would normally be by three special factors:

a) For the last four months of 2021/22, NHS commissioners across the North East asked local authorities to offer care providers additional funding to introduce the April 2022 rate of the National living wage four months early, from 1 December 2021, as a financial incentive for care staff to remain in the sector during a difficult winter, at a time when alternative employers were increasing rates of pay. Most care homes in Northumberland took up this offer.

b) With effect from April 2022, the Council introduced a “wage support scheme”, offering care providers a supplementary fee increase above the amount provided for in their contracts if they agreed to pay all staff in their services at least a rate equivalent to the “Real Living Wage”, rather than the National Living Wage. Many, though not all, care homes accepted this – some did not feel able to do so because they were not intending to increase wages in other areas where they operated, or because they did not wish to increase the fees charged to private residents.

c) From April 2022, there was an increase in employers’ national insurance

contributions, because of the introduction of the Health and Social Care Levy[1]. The Council took this into account in its fee uplift, and providers' figures for cost increases will have included it. The Health and Social Care Levy , so this will not be relevant in future years.

6.5 Taking account as best we can of all of these complications, we have uplifted staffing costs on the following basis:

a) we have made the simplified assumption that all pay in April 2022 increased above 2021/22 levels pro-rata to the increase in the pay of basic care staff (which we think will if anything overstate the increase in pay costs, depending on whether differentials between the pay of different staff groups have been maintained)

b) we have assumed that the pay of basic care staff was at the 2021/22 NLW rate (£8.71) from April to November 2021, and at the 2022/23 NLW rate (£9.50) from December 2021 to March 2022, because of the NHS financial support. This means that we will be assuming that average basic pay during 2021/22 was £8.97.

c) We have assumed for the purposes of the calculation that basic care worker pay in April 2022 was either at £9.90 (in care homes signed up to the Council's wage support scheme) or at £9.50 (for other homes).

d) We have *not* for the purposes of the calculation included a cost uplift element for the Health and Social Care Levy. This is because the understand the purpose of this calculation as being to produce an indicator which can be compared with *future* fee levels. Our estimate of the effect of the introduction of the Levy which we used in setting fees for 2022/23 was that it would increase providers' payroll costs by 0.75%, based on the increase applying to 60% of these costs.

6.6 We have therefore uplifted staff cost rows by 7.2% in care homes which have not signed up to pay the RLW rate, and 10.3% in other care homes. Since it is only the proportional increases which we are using, calculating on this basis should produce a reasonable result even if a care home has always paid above NLW or wage support scheme rates, so long as the proportion by which its rates exceed minimum levels has remained the same.

7. Return on capital

7.1 There was considerable variation in the figures submitted for the return on capital which providers told us they believed was necessary to sustain their services. Providers which expressed this as a percentage return on the freehold valuation of the care home gave figures varying from 5% to 19%; providers who expressed it as a rate per resident gave figures varying from £67 to £155 per week.

[1] Strictly, the increase was not the levy itself, but an equivalent increase in NI contributions, pending the planned implementation of the Levy legislation in April 2023. This complication is

7.2 We considered both of the possible approaches illustrated in the March DHSC guidance. Either of them would produce figures towards the bottom end of the range returned by providers.

7.3 Providers supplied freehold valuations for only 22 of the 48 care homes which submitted figures through CareCubed. The median valuation was £38,611 per registered bed, which using the illustrative 5.5% return rate cited by DHSC would imply a weekly cost per resident at 90% occupancy of £40.73. It has been suggested to us by some providers that the capital values of care homes in Northumberland are lower than they should be in a sustainable market because of the fee levels paid by the council. We are not convinced by that argument – and comparative figures that we have seen from other local authorities in the region suggest that variation in the freehold valuations submitted by providers may not have any simple relationship with local authority fee levels – one of the local authorities currently paying among the highest fee levels in the region told us that the median freehold valuation from their survey was almost identical to the Northumberland figure. However our view on balance is that the LHA alternative, which produces a rather higher figure, is more solidly based.

7.4 The current LHA rates, on the same (Category B) basis as is used in DHSC's Impact Assessment for the charging reforms, are £78.25 per week in most of Northumberland, and £97.81 in the west of the County (the "Tyneside" local housing market area). Because the majority of care homes are in the "Northumberland" rather than the "Tyneside" LHMA, following strictly the principle of using medians for all cost rows in the return would mean that the higher figure in West Northumberland would disappear from the figures. We agree with providers who have told us that this would not be reasonable, and we have used a blended LHA rate of £83.07, a weighted average reflecting the number of registered beds in each LHMA among the homes which returned the survey.

7.5 Following DHSC advice, we have removed from the overall calculation the costs of repairs and maintenance, and fixtures and fittings, on the grounds that those would be included as landlord responsibilities in a private rent arrangement, so would be being double counted. The median value of these deductions at April 2022 prices was £24.85. One comment on this from a provider representative was that some providers may have included under the "repairs and maintenance" heading some spending which is not equivalent to a landlord responsibility, such as maintenance of industrial washing machines. We do not currently have any data which would let us estimate on what scale that might be an issue. Our provisional view is that it may not make a material difference, since we would guess many care home operators will have entered costs of that kind in the separate field for "furniture, furnishings and equipment". However we have asked for further details, and if we receive information after the submission date which suggests that it has a significant effect on our return, we will inform DHSC.

7.6 In our Annex A return, we have shown these two cost rows as well as showing the full LHA amount, but the total is the median figure for the total per resident costs of all care homes with the overlapping sums deducted. The tables in section 11 below show this calculation more fully than the Annex A format permits.

8. Return on operations

8.1 Figures submitted by providers for the return on operations that they expect to achieve varied considerably, with those expressing their target return as a percentage of total operating costs giving figures varying from 5% to 32%, with a median of 13.5%. Providers expressing their target return as a total annual sum for the care home supplied figures which, at 90% occupancy, would be equivalent to from £25.37 to £338.46 per week per resident, with a median of £119.56.

8.2 We asked CommercialGov to request explanations of the basis on which providers had arrived at these figures. This uncovered a few issues about the categorisation of costs – for instance in two cases, the provider had included under this heading on the return what were in effect the salaries of directors of a small care home company, and we advised them to revise the form to show those costs under a more appropriate heading.

8.3 Other providers made it clear that the figure they had entered into CareCubed reflected what one care provider operating multiple homes in Northumberland and elsewhere described as an "aspirational return". One non-profit provider told us that they had set a figure of a 15% return on operations because their reserves were at a low level after difficult recent years, and they aimed to rebuild them. Another provider told us that the 25% ROO they had included in their return was "broadly based on target average performance for a similar type/size/age care centre using sector published data", but supplied no detailed evidence to support this statement. Some responses gave only very broad explanations. One national corporate provider said in response to our query just that "15% is our ROO and this is based on a % mark up on our operational costs. We have used this as a basis for all our homes."

8.4 We have limited evidence on which to base a judgement about this figure. We consulted providers about a proposal to use a figure of 5%, in part because this figure had been suggested by the financial adviser to CHIP supporting the trailblazer local authorities, and in part because this figure been supplied by one of the national corporate providers who had given the clearest explanation of the separate figure they had supplied for their target return on capital, whereas comments which we have received from other providers suggested that they had found it difficult to make a clear distinction between return on operations and return on capital, which appears not to be the basis on which many providers usually construct their business plans. While the comments which we received on this proposal made it clear that some providers regarded as unreasonable, we have not received any clear explanations to justify a different figure – and some, again, compared a 5% ROO with the interest rates available on savings and investments, which does not appear to be a valid comparison, since turnover is distinct from capital (and from working capital).

8.5 An important consideration for us in considering rates of return has been our strategic view of the care home sector. Currently, while we do not wish to see closures of care homes, we also do not think that there is an immediately foreseeable need for additional care home accommodation – our hope is that in the long term, the increasing number of older people in their 80s and 90s will be more likely than previous generations to live in forms of housing which give them greater independence than living in a care home, while being sited and designed in a way

which makes it easy to provide them with care and support if they need that. On that basis, we do not think that we need at present to offer rates of return designed positively to stimulate new developments rather than sustaining what we have at present.

8.6 After considering representations from providers about this, we have decided for the purposes of our Annex A return to adopt a standard ROO of 7% rather than 5%, in recognition of the complexity of the issues involved, and the need for some providers to rebuild reserves after a difficult two years. The 7% figure matches one which we are aware some other local authorities in the region have adopted for the purposes of this return. When making decisions about actual fee levels, we expect to continue to base these on our assessment of the overall health of the sector rather than setting a target figure for return on operations.

9. Adjustments to costs affected by Covid

9.1 A particular difficulty in arriving at a clear view of the normal costs of operating a care home for older people on the basis of cost data from 2021/22 is that providers had extra costs during that period associated with infection control precautions during the Covid pandemic (as well as the higher costs per resident because of reduced occupancy which are discussed in section 5 above).

9.2 The guidance note issued by DHSC on 25 August asked local authorities to "use their best judgement on ensuring cost lines are not inflated or deflated, on account of COVID-19 expenditure and grant activity for example". We have therefore made two adjustments to the 2021/22 expenditure data:

a) We have subtracted from the expenditure the sums allocated to each care home from the three tranches of the Infection Control and Training Fund (ICTF) during that year, and from two other national grant funding schemes (the Omicron grant and Workforce Recruitment and Retention Fund). In the case of the ICTF funding, providers were required to confirm as a condition for receiving the grant that it was being used to fund expenditure falling within a list of specific categories, all of which fell outside normal care home operating costs. The link to exceptional costs arising because of Covid was less direct in the case of the workforce grant (16% of the total grant funding passed to care homes), but in our judgement the element of that grant which was allocated to care homes was clearly intended to fund costs arising from the impact of the first Omicron wave. In Northumberland only the second round of the workforce grant was allocated to care homes, since the initial round of funding had been allocated entirely to support loyalty bonuses for home care workers; that second round was announced by the Government as part of the national response to Omicron. The impact of this adjustment varies between care homes, since some of the funding was distributed on a discretionary basis to meet additional costs over and above a formula allocation, and some providers told us that they did not need the whole of the funding allocated to them by the formula. Averaged across the year, the median grant funding per resident allocated to the homes which submitted information in the survey was £45.31 per week. Based on the grant returns made by providers, we think that the majority of the additional spending will have been on staffing, but for maximum transparency we have treated this as a separate adjustment to the overall total for each care home, which therefore affects the median of the total per resident costs in the bottom line in Annex A,

but not the component cost headings. In the tables in section 11 below, we have shown a separate row for this adjustment.

9.3 We have added back into the expenditure a notional figure for expenditure on PPE. During 2021/22 and the current year, providers receive most PPE from the portal without charge, but that is expected not to continue beyond the current financial year, so that the ending of free PPE will introduce an additional cost to offset against the adjustments for grant income. Based on information that we gathered from providers who asked for additional support with Covid costs during the first wave in 2020, we estimate that before Covid typical PPE costs were of the order of £5 per resident per week. We don't yet know what expectations there will be for the use of PPE after this year, so we have assumed that providers may be advised to take greater precautions than before Covid for the foreseeable future, but that the current requirements will be eased. In our calculations, we have made the provisional assumption that the future infection control cost per resident might be four times the pre-Covid PPE level (£20 per week) – we have increased this figure from a provisional level of £15 per week which we consulted providers about. We will review this assumption before deciding on any adjustment for PPE costs when setting actual fee levels for future years.

10. Calculating the "fair cost of care" indicator

10.1 The Annex A template now imposes no fixed relationship between the individual cost headings, the subtotals and the overall total. We have tested the options for this calculation which were available in the first two versions of the draft DHSC template, and compared them with the option which we think providers would regard as natural, which is taking the median of the total costs calculated for each care home.

10.2 If all other assumptions are held constant, totalling the median values of each cost row, as in the initial DHSC template, would produce a median total cost £17.34 lower than the figure returned; totalling the median values of the subtotals would produce a median total cost £17.88 higher. Both of these figures are likely to be distorted, in different directions, by anomalies resulting from differences in where in the return providers have entered costs which are broadly equivalent – most obviously, large corporate providers will show under the headquarters office heading some costs which small local care home operators are more likely to show as support staff costs within the care home.

10.3 We told providers on 22 September that we were minded to adopt whatever available option would produce figures closest to the median of the total costs per resident calculated for each care home. Since we are now permitted to beuse that median directly, we have done so.

11. Tables

11.1 The table in Annex A, Section 3, showing the final results of these calculations is reproduced below.

Cost of care exercise results - all cells are £ per resident per week, MEDIANS.	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
Total Care Home Staffing	**£441.93**	**£441.93**	**£692.62**	**£692.62**
Nursing Staff			£253.39	£253.39
Care Staff	£275.72	£275.72	£275.72	£275.72
Therapy Staff (Occupational & Physio)	£0.00	£0.00	£0.00	£0.00
Activity Coordinators	£10.28	£10.28	£10.28	£10.28
Service Management (Registered Manager/Deputy)	£42.98	£42.98	£42.98	£42.98
Reception & Admin staff at the home	£9.79	£9.79	£9.79	£9.79
Chefs / Cooks	£32.54	£32.54	£32.54	£32.54
Domestic staff (cleaning, laundry & kitchen)	£47.74	£47.74	£47.74	£47.74
Maintenance & Gardening	£10.10	£10.10	£10.10	£10.10
Other care home staffing	£0.00	£0.00	£0.00	£0.00
Total Care Home Premises	**£35.89**	**£35.89**	**£35.89**	**£35.89**
Fixtures & fittings	£4.84	£4.84	£4.84	£4.84
Repairs and maintenance	£15.23	£15.23	£15.23	£15.23
Furniture, furnishings and equipment	£4.68	£4.68	£4.68	£4.68
Other care home premises costs	£0.96	£0.96	£0.96	£0.96
Total Care Home Supplies and Services	**£105.91**	**£105.91**	**£105.91**	**£105.91**
Food supplies	£30.24	£30.24	£30.24	£30.24
Domestic and cleaning supplies	£7.70	£7.70	£7.70	£7.70
Medical supplies (excluding PPE)	£2.36	£2.36	£2.36	£2.36
PPE	£0.00	£0.00	£0.00	£0.00
Office supplies (home specific)	£3.07	£3.07	£3.07	£3.07
Insurance (all risks)	£5.81	£5.81	£5.81	£5.81
Registration fees	£3.23	£3.23	£3.23	£3.23
Telephone & internet	£1.31	£1.31	£1.31	£1.31
Council tax / rates	£0.98	£0.98	£0.98	£0.98
Electricity, Gas & Water	£27.07	£27.07	£27.07	£27.07
Trade and clinical waste	£7.19	£7.19	£7.19	£7.19
Transport & Activities	£1.92	£1.92	£1.92	£1.92
Other care home supplies and services costs	£3.07	£3.07	£3.07	£3.07
Total Head Office	**£15.33**	**£15.33**	**£15.33**	**£15.33**
Central / Regional Management	£1.27	£1.27	£1.27	£1.27
Support Services (finance / HR / legal / marketing etc.)	£0.93	£0.93	£0.93	£0.93
Recruitment, Training & Vetting (incl. DBS checks)	£8.85	£8.85	£8.85	£8.85
Other head office costs (please specify)	£3.97	£3.97	£3.97	£3.97
Total Return on Operations	**£43.10**	**£43.10**	**£60.54**	**£60.54**
Total Return on Capital	**£83.07**	**£83.07**	**£83.07**	**£83.07**

Cost of care exercise results - all cells are £ per resident per week, MEDIANS.	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
TOTAL	**£682.50**	**£682.50**	**£968.86**	**£968.86**

11.2 Since we were not able to produce meaningful data showing the difference between "enhanced" and other care, there are in reality only two categories of residents for whom information shown above, and the only distinction between those categories is whether the cost of nursing staff is included. The further details specified in the grant guidance are therefore shown below in a single table. Rows in green are specific to nursing residents; all other figures are based on all residents covered by the survey returns.

£ per resident per week, MEDIANS.	Lower quartile	Median	Upper quartile	Number of observations
Total Care Home Staffing - non-nursing residents	**£414.88**	**£441.93**	**£490.05**	**48**
Total Care Home Staffing - nursing residents	**£666.06**	**£692.62**	**£804.66**	
Nursing Staff	£217.43	£253.39	£277.21	22
Care Staff	£269.98	£275.72	£305.51	48
Therapy Staff (Occupational & Physio)	£0.00	£0.00	£0.00	48
Activity Coordinators	£7.11	£10.28	£11.80	48
Service Management (Registered Manager/Deputy)	£32.41	£42.98	£51.08	48
Reception & Admin staff at the home	£8.07	£9.79	£12.44	48
Chefs / Cooks	£20.76	£32.54	£38.69	48
Domestic staff (cleaning, laundry & kitchen)	£35.96	£47.74	£57.47	48
Maintenance & Gardening	£8.76	£10.10	£11.49	48
Other care home staffing (please specify)	£0.00	£0.00	£4.02	48
Total Care Home Premises	**£26.90**	**£35.89**	**£60.98**	**48**
Fixtures & fittings	£0.00	£4.84	£20.53	48
Repairs and maintenance	£11.53	£15.23	£20.10	48
Furniture, furnishings and equipment	£0.53	£4.68	£7.57	48
Other care home premises costs	£0.00	£0.96	£8.48	48
Total Care Home Supplies and Services	**£95.52**	**£105.91**	**£122.84**	**48**
Food supplies	£27.86	£30.24	£32.04	48
Domestic and cleaning supplies	£6.28	£7.70	£8.93	48
Medical supplies (excluding PPE)	£0.73	£2.36	£4.41	48
PPE	£0.00	£0.00	£1.56	48
Office supplies (home specific)	£2.21	£3.07	£3.64	48
Insurance (all risks)	£5.16	£5.81	£8.15	48
Registration fees	£3.07	£3.23	£3.63	48
Telephone & internet	£0.78	£1.31	£1.79	48
Council tax / rates	£0.77	£0.98	£1.14	48
Electricity, Gas & Water	£12.10	£13.51	£22.69	48

£ per resident per week, MEDIANS.	Lower quartile	Median	Upper quartile	Number of observations
Trade and clinical waste	£4.72	£10.34	£17.35	48
Transport & Activities	£2.82	£3.22	£4.67	48
Other care home supplies and services costs (please specify)	£5.75	£7.19	£9.61	48
Total Head Office	**£0.77**	**£1.92**	**£3.36**	**48**
Central / Regional Management	£1.32	£3.07	£6.62	48
Support Services (finance / HR / legal / marketing etc.)	£13.40	£15.33	£20.73	48
Recruitment, Training & Vetting (incl. DBS checks)	£0.75	£1.27	£1.60	48
Other head office costs (please specify)	£0.73	£0.93	£1.00	48
Total Return on Operations - non-nursing residents	**£39.31**	**£39.31**	**£39.31**	**48**
Total Return on Operations - nursing residents	**£39.31**	**£39.31**	**£39.31**	**22**
Total Return on Capital	**£83.07**	**£83.07**	**£83.07**	**48**
Deduction from LHA blended rate for repairs &c.	(£35.72)	(£24.85)	(£16.40)	48
Covid cost adjustment	**(£24.64)**	**(£20.17)**	**(£14.55)**	**48**
TOTAL - non-nursing residents	**£641.97**	**£682.50**	**£744.86**	**48**
TOTAL - nursing residents	**£904.57**	**£968.86**	**£1,062.35**	

12. The supporting information figures in Annex A

12.1 The table of supporting information from Annex A is reproduced below.

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 location level survey responses received	46	39	22	13
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	70	62	35	30
Number of residents covered by the responses	806	603	278	115
Number of carer hours per resident per week	17.3	17.3	17.3	17.3
Number of nursing hours per resident per week			12.9	12.9
Average carer basic pay per hour	£10.20	£10.20	£10.20	£10.20
Average nurse basic pay per hour			£18.25	£18.25
Average occupancy as a percentage of active beds	84%	84%	82%	82%
Freehold valuation per bed	£38,611	£38,611	£50,200	£50,200

12.2 Because we adopted an approach largely based on the information about actual expenditure in 2021/22, most of the figures above were not directly used in our calculations. In most cases, the figures are median values for data collected through the CareCubed survey. The following table explains what the figures in each row represent.

Row in table	Source of data
Number of location level survey responses received	The number of returns which included residents in the resident category in their 2021/2 figures.
Number of locations eligible to fill in the survey	Numbers of homes for older people whose registration covers each resident category.
Number of residents covered by the responses	Average numbers of residents in each category in 2021/22 as reported in the survey.
Number of carer hours per resident per week	Reported hours per resident in April 2022 (the CareCubed tool collected this information only for that month).
Number of nursing hours per resident per week	Reported hours of nurse time per nursing resident in April 2022.
Average carer basic pay per hour	April 2022 figures returned in CareCubed.
Average nurse basic pay per hour	April 2022 figures returned in CareCubed.
Average occupancy as a percentage of active beds	2021/2 average occupancies, as used in the calculations.
Freehold valuation per bed	The first two columns show the median figure for all care homes answering this question; the final two columns show the median figure for care homes with nursing.

13. Questions asked in the survey

13.1 We used the CareCubed survey tool. For the reasons explained in section 2 above, we encouraged providers to focus particularly on certain parts of the tool. Specifically, the advice we gave to providers about what we most needed was as follows:

a) The number of registered beds in Tab 1.

b) **All of Tab 2 (expenditure), except for the estimates of percentage increases in prices between 2021/2 and April 2022.** If you have estimates of some or all of these price increases, do let us have them, but those aren't essential. DHSC have asked us to uplift the 2021/2 costs to take account of price increases, but if necessary we can do this using the detailed breakdown of information about price increases that is published by the Office for National Statistics (ONS) (for instance we can calculate from the ONS data that typical prices for "electricity, gas and other fuels" were 59% higher in April 2022 than their average level during 2021/2).

c) As much as you can provide of the information on Tab 3 about the returns on operations and on capital which you require for the home to be sustainable, including an explanation of the rationale for your figures in the notes field at the bottom of the Tab. If you are not sure how best to complete this section, please contact CommercialGov to discuss it.

d) The occupancy information for 2021/2 in Tab 4.

e) The breakdown of staffing hours and occupancy information in Tab 5 for each unit/floor/wing in the care home that is separately staffed. We need this to enable us to supply DHSC with estimates of how care staffing costs differ between units supporting residents with different needs.

13.2 Many providers did also answer other questions, and we have looked at these as a check on the reasonableness of the ways in which we have adjusted the 2021/22 expenditure figures, but we did not directly use the April 2022 calculated figures produced by the CareCubed tool.