

Cost of Care Report - Residential Care Homes

Herefordshire Council's report on the Department of Health and Social Care (DHSC) cost of care exercise to fulfil the conditions of the Market Sustainability and Fair Cost of Care Fund Grant.

Introduction

DHSC published on 24th March 2022 guidance to support local authorities in administering the Market Sustainability and Fair Cost of Care Fund. One of the conditions of the fund is to return a report on the output of a local 'cost of care' exercise on the costs of providing care in residential care homes and residential care homes with nursing, for adults aged 65 and over in Herefordshire.

Council officers have worked with care home providers locally, and regionally with ADASS, LGA, other local authority and provider association colleagues to complete the exercise in compliance with DHSC published guidance.

The submission is an accurate illustration of the median costs returned by those providers who participated in the exercise, however it does not represent a fair or accurate fee rate for the provision of local authority funded care in Herefordshire, for a number of reasons including:

- Participation in the exercise by care providers was not mandatory. The results set out below are a median of returns submitted by a voluntary and self-selecting sample of Herefordshire care home providers. Council officers worked with the whole local care home market to encourage participation in order to achieve a high level of responses. However, the nature of the process and the decision by some providers not to participate, means that it is not possible to give assurance that the output of the exercise is properly representative of the costs of providing care in the Herefordshire care home market.
- Providers returned the best information they could in the time available for the exercise and council officers and local providers have worked together to present as accurate and representative an output as possible. However, the cost collection process does not allow for council officers to have access to primary sources of information for each provider, so it has not been possible to audit the returns for accuracy, and nothing in the process compels providers to correct errors or respond to queries from council officers.

Whilst there is no suggestion that participating providers have misrepresented the costs of providing care in Herefordshire, it is not possible to give assurance that the output of the exercise is a true and fair view of those costs. A description of some of the weaknesses in the data is included in Appendix 3 of this report.

- Each provider in the market has a unique set of circumstances, business structure, operating environment and strategy. Even with the most robust process it would not be possible to identify one single fee rate that would be sustainable for every provider in every situation. This is discussed more in the section on Return on Operations and Return on Capital.

Provider Engagement and Response Rates

There are 88 CQC registered care homes in Herefordshire. 48 of those care homes are in the scope of this exercise. 40 care homes are out of scope due to the type of care they provide, because they have ceased trading as registered care homes, or because they are internal provision by Herefordshire Council. Care homes outside Herefordshire are not included in the exercise because most of Herefordshire’s out of county placements are over the border into Wales and therefore outside scope.

Herefordshire Council has good relationships and regular communication with all care homes that are CQC registered in the county, and places or has recently placed social care funded individuals in all of the care homes in scope for the exercise. The focus of the council’s approach to the data collection exercise was personal engagement on a one-to-one basis with providers.

Council officers worked with local providers and provider associations, and with regional and national colleagues at DHSC, LGA, ADASS, provider associations and other local authorities to maximise the quantity and quality of responses from care home providers and achieved a comparatively strong response rate, particularly from providers with whom the council commissions a significant amount of care.

Council officers, including the Service Director, frequently contacted providers to encourage participation and answer queries; and providers were offered individual private sessions to discuss queries and their financial information confidentially. Contacting providers individually to encourage participation in the process had a positive impact on the response rate, but, despite multiple attempts at contact by council officers, providers did not engage so well with the opportunity to improve the quality of their submitted data by responding to queries or correcting errors.

Table 1: Response Rates by Care Type

Care Type	% response rate- Providers in Scope	% Response Rate- Council commissioned activity
Residential Care - Standard	50% of providers in scope	50% of commissioned beds
Residential Care - Enhanced	60% of providers in scope	59% of commissioned beds
Nursing Care – Standard	36% of providers in scope	79% of commissioned beds
Nursing Care - Enhanced	26% of providers in scope	79% of commissioned beds

Herefordshire Council has a monthly open forum for care home providers and council officers. The cost of care exercise was discussed with providers prior to and during the data collection period, encouraging providers to take part, answering questions, giving advice and sign-posting providers to other sources or information, webinars, and guidance on the national templates for data collection.

Dedicated communication channels were set up to allow care home providers to ask questions and receive a response from council officers, with such communication remaining confidential.

Herefordshire Council allocated funds from the Market Sustainability and Fair Cost of Care Fund to assist providers with the costs of completing returns. Providers were paid £500 per appropriately completed return. Offering this payment did not have a significant effect on the response rate.

Nationally, there were regular messages, advice and webinars by LGA, ADASS and Care Provider industry bodies, regional and national fora for providers to attend, dedicated websites and other online resources for providers to access.

Regionally, council officers and local providers participated in working groups and contributed to regular messages of advice and assistance from LGA, ADASS and provider associations. Locally, council officers ensured that national and regional messages, invites to webinars, FAQs and other information were circulated to all providers in-scope for the exercise alongside bespoke local information.

Output of Exercise

Due to the challenging timescales for the exercise, the levels of experience and local knowledge of council officers who have been working with this market for some time, and the limited availability of interim commissioners and finance professionals, Herefordshire Council chose to carry out the exercise internally using existing resources.

The full detailed output is included in this report as appendices one and two.

Data Collection Methodology

Herefordshire deployed the nationally available “Care³ Fair Cost of Care Tool” developed by iESE for LGA/ADASS. A full description of the tool and its functionality is available from the iESE website.¹ Provider responses were uploaded directly to the iESE website and were then available for approved council officers to access. Only three council officers have access to the individual provider returns to maintain confidentiality of commercially-sensitive data.

¹ <https://iesee.org.uk/cost-of-care-tool-awareness-pack-local-authorities>

The initial data collection period for Herefordshire Care Homes ran from 6th June to 1st July 2022, the deadline for returns was extended to 31st July 2022, and then to 31st August 2022 to give providers the maximum amount of time to complete and submit returns.

A professionally qualified council finance officer carried out an analytical review of each return and worked with each participating provider to resolve any queries that the review generated. Herefordshire Council is committed to continuing this process of clarification and refinement with individual providers beyond the submission deadline, to produce the best quality dataset possible.

Calculation Methodology

DHSC guidance requires that the cost of care value be the *median* of the provider responses received. The guidance is not specific as to how the median should be calculated, which leads to the potential for inconsistency between returns from different local authorities and difficulties in usefully comparing results between local authority areas.

Herefordshire Council has chosen a calculation methodology that presents the median of returns from participating providers without significant adjustment, other than the resolution of queries as described above. The median output cost of care is the summation of the 'line by line' median values with zero responses included where providers have submitted a cost return with a zero value shown against particular cost lines, but not where a provider has submitted no costs on any lines for a type of care.

Herefordshire Council has chosen to include zero entries within the median calculation described above for two reasons:

- including the zero entries means that the median value is calculated from the data on a line by line basis exactly as it was returned from each provider; and
- it has not been possible to establish in every case whether individual providers do not incur such a cost at all, or such a cost is incurred but is combined with costs reported on other lines; especially where providers have recorded material values against 'other costs' lines.

Base Price Year

Herefordshire Council has taken full year costs for 2021/22 from each provider return and, for consistency and comparability, adjusted each return by the same inflation indices to generate April 2022/23 values:

- Pay related lines have been increased by 6.62%, reflecting the increase in National Living Wage (NLW) rates for 2022/23. In the care sector, NLW increase has a direct impact on the pay costs of staff whose basic wage is above NLW. Experience of the local market, and the need for providers to maintain an appropriate pay differential between different grades of staff, makes it appropriate to inflate all pay-related costs by the increase in NLW.

- Non-pay related lines have been increased by 7.80% based on the Consumer Price Index including owner occupied housing (CPIH) 12-month rate to April 2022². This owner-occupied housing CPI variant is relevant because some care home costs are similar to housing costs.

Herefordshire has used these indices to calculate fee-rate increases for care home placements for a number of years and plans to continue to use the same or similar indices as part the fee-rate setting exercise for future years.

Return on Capital and Return on Operations

The exercise required providers to return information on operating costs excluding Interest, Tax, Depreciation, Amortisation and Rent (ITDAR). Local authorities are required to determine a transparent approach for calculating consistent values for return on capital and return on operations appropriate for a sustainable local market to apply to the median of provider operating costs.

Return on operations (RoO) is the surplus generated from the day-to-day running of the business; it is broadly analogous to an operator's profit and represents the difference between income and expenditure. Return on capital (RoC) is a measure of the returns made by investors from investing their capital in the business: in the care home market this investment is often in the form of the funds needed to buy or build the property.

A sustainable business will generate reasonable returns on operations and capital; what represents a reasonable return depends upon the sector, locality, and ownership model of the business.

The Herefordshire care home market has a mixed model of care home ownership: there are owner-operator care homes; small and medium-sized local, sub-regional and regional care home groups, some owned by individuals or families and some owned by commercial operators or investment groups; and larger regional or national care home groups run by commercial operators, some of which are part of larger groups with a diverse portfolio of investments. Some care homes are owned outright by the operator, others were bought or built using borrowing which is still outstanding, whilst others are leased from another entity.

Each care home has different capital costs, with an older care home in a converted property being different from a new-build care home for example, and some care homes at the top of the market having a much higher standard physical environment that may be beyond the price range that a local authority may reasonably pay for a publicly funded resident.

² <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23>

Each of these, as well as many other factors, means that every care home has different target rates for returns on investment. This makes it unlikely that one rate for return on operations and one rate for return on capital can properly reflect the circumstances of all providers.

It has not been possible to adopt either of the methods of calculating RoC suggested in the DHSC guidance:

- Freehold Valuation
A significant number of respondents have not included a return on capital value or a freehold valuation for their care home and there is considerable divergence in the responses that have included such values, such that a calculation of RoC on the basis of a median of those values seems unrealistic.
- Local Housing Allowance (LHA)
Using this method based on Herefordshire's 30th percentile LHA adjusted for property costs already included elsewhere in the return results in a RoC value that is negative for over 20% of participating providers. This is absurd and for that reason this method had to be discounted.

For clarity and simplicity, Herefordshire Council has decided to adopt the approach recommended by Laing Buisson in their report for the County Councils Network as a reasonable 'average' rate of return for a care home business reflecting the intended 'average' operating costs output of the cost of care data collection exercise:

"The Care Cost Benchmarks model...uses an approach which is as close to objective as possible, starting from the empirical observation that investors will pay approximately nine times annual operating profit (EBITDAR) for a sustainable freehold care home.

The logic of the model is as follows: If investors pay 9.0x annual EBITDAR, that means that they are seeking an 11.0% whole business annual return on capital (the reciprocal of 9.0x). A further empirical observation is that investors in care home property seek a yield of about 6.0% per annum. It follows that the difference (11.0% less 6.0%) is a good proxy for the care home operators' profit, after paying the financing costs of the property (or accommodation). Expressed in a different way, this can be shown to be equivalent to a 10% mark-up on operating costs. Through this logic, the Care Cost Benchmarks model obviates unnecessary debate surrounding the costs of different capital financing structures.

To summarise, it uses the market-based observation that investors typically seek an 11.0% whole business return for the moderately risky business of owning and operating a care home, while property investors will accept a lower yield of 6% on the less risky business of making care home accommodation available, with first call of the gross operating surplus (EBITDAR).

With all other operating costs being the same (or potentially the same) it follows that the fixed cost of capital tied up in the land and buildings occupied by a care home is the sole reason for differences in the 'Fair Price' for a care home operating at reasonable staffing and other current costs in any given locality."³

On this basis, Herefordshire Council has used 5% of operating costs for return on operations and 6% of operating costs for return on capital for this exercise.

³ <https://www.countycouncilsnetwork.org.uk/new-analysis-warns-government-has-seriously-underestimated-the-costs-of-adult-social-care-charging-reforms/>

Use of Cost of Care Exercise Output in Future Decision Making

On 25th August, DHSC revised the published guidance for this exercise and published a policy note entitled 'Department of Health and Social Care Market Sustainability, Fair Cost of Care Fund and charging reform policy' which clarifies Government policy in this area.

"Our policy expectation is that local authorities make as much progress as possible towards the fair cost of care identified locally in your exercise within this Spending Review period"⁴

The policy note goes on to describe the expected role and relative importance of the output of this exercise in local authority fee-setting processes. Herefordshire Council will follow this policy direction when deciding future fee rates for care home placements over 65s:

"We know the median actual operating costs from which local authorities arrive at a fair cost of care in their area will not reflect the costs of each individual provider in their local area.

We recognise also that outlining median figures for the broad service types within scope (standard residential care, residential care for enhanced needs, standard nursing care, nursing care for enhanced needs and domiciliary care) may oversimplify what is a complex picture of care and support needs.

The outcome of the cost of care exercise is not therefore intended to be a replacement for the fee setting element of local authority commissioning processes or individual contract negotiation.

In practice we will expect actual fees to be informed by the fair cost of care, which is the median value rate local authorities will be moving towards. Fee rates will also continue to be based on sound judgement, evidence, and through a negotiation process, as is the case currently. As such there will be variation in the rates providers are paid to reflect the quality and level of service. Ultimately paying a fair cost of care does not mean that all providers are paid the same rate, but rather the fair cost of care is the median value which fee rates will be "moving towards".

The Fair Cost of Care guidance therefore states that: "as many local authorities move towards paying the fair cost of care, it is expected that actual fee rates paid may differ due to such factors as rurality, personalisation of care, quality of provision and wider market circumstances".⁵

In short, Herefordshire Council will have regard to the results of the cost of care data collection as one element informing the annual process of setting fee rates for commissioned care home placements.

⁴ Department of Health and Social Care Market Sustainability, Fair Cost of Care Fund and charging reform policy 25/08/2022 page 1 The current Spending Review Period runs from April 2022 to March 2025

⁵ Ibid Page 2

Appendices

For an accessible version of these tables please email Adrian Griffiths: Adrian.Griffiths2@herefordshire.gov.uk

Appendix One: full table in Annex A, Section 3 with one column of median values for each care type

Cost of care exercise results for age 65+ care homes:				
Cost of care exercise results - all cells should be £ 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	£483.60	£491.83	£708.28	£833.29
Nursing Staff	£0.00	£0.00	£204.28	£325.82
Care Staff	£292.06	£299.18	£295.08	£309.12
Therapy Staff (Occupational & Physio)	£0.00	£0.00	£0.00	£0.00
Activity Coordinators	£15.09	£15.94	£16.11	£13.65
Service Management (Registered Manager/Deputy)	£50.10	£51.16	£51.12	£42.58
Reception & Admin staff at the home	£13.51	£11.64	£17.42	£15.25
Chefs / Cooks	£32.51	£37.36	£37.36	£51.65
Domestic staff (cleaning, laundry & kitchen)	£64.65	£59.52	£59.52	£59.52
Maintenance & Gardening	£15.68	£17.04	£17.71	£15.71
Other care home staffing (please specify)	£0.00	£0.00	£9.67	£0.00
Total Care Home Premises	£36.52	£23.10	£38.76	£29.79
Fixtures & fittings	£1.71	£2.13	£5.62	£2.95
Repairs and maintenance	£32.77	£18.77	£24.78	£22.99
Furniture, furnishings and equipment	£1.60	£1.72	£5.77	£3.36
Other care home premises costs (please specify)	£0.45	£0.47	£2.60	£0.47
Total Care Home Supplies and Services	£120.66	£113.66	£150.29	£140.08
Food supplies	£39.77	£32.98	£42.79	£37.63
Domestic and cleaning supplies	£10.70	£9.57	£11.67	£9.59
Medical supplies (excluding PPE)	£2.04	£5.75	£13.42	£12.10
PPE	£0.00	£1.86	£0.74	£1.30
Office supplies (home specific)	£2.62	£2.87	£3.56	£2.89
Insurance (all risks)	£6.90	£6.14	£8.20	£8.20
Registration fees	£3.96	£3.71	£4.30	£3.95
Telephone & internet	£2.43	£2.24	£3.41	£2.33
Council tax / rates	£1.14	£1.20	£1.28	£1.01
Electricity, Gas & Water	£31.59	£28.39	£39.48	£39.16
Trade and clinical waste	£4.62	£4.66	£7.62	£7.06
Transport & Activities	£3.94	£2.99	£4.21	£3.54
Other care home supplies and services costs (please specify)	£10.95	£11.31	£9.60	£11.31
Total Head Office	£54.84	£79.25	£56.22	£67.62
Central / Regional Management	£21.89	£42.11	£21.53	£34.08
Support Services (finance / HR / legal / marketing etc.)	£25.97	£30.29	£26.55	£29.82
Recruitment, Training & Vetting (incl. DBS checks)	£6.97	£6.35	£8.15	£3.41
Other head office costs (please specify)	£0.00	£0.49	£0.00	£0.31
Total Return on Operations	£34.78	£35.39	£47.68	£53.54
Total Return on Capital	£41.74	£42.47	£57.21	£64.25
TOTAL	£772.14	£785.71	£1,058.45	£1,188.55
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	16	13	11	7
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	28	20	25	23
Number of residents covered by the responses	270	219	255	121
Number of carer hours per resident per week	24	25	23	24
Number of nursing hours per resident per week			10	9
Average carer basic pay per hour	£10.85	£10.88	£10.82	£10.65
Average nurse basic pay per hour	£0.00	£0.00	£20.26	£20.26
Average occupancy as a percentage of active beds	100%	99%	84%	85%
Freehold valuation per bed	£0.00	£50,000.00	£38,835.86	£50,000.00

Appendix Two: one table for each service type, with each showing the count of observations, lower quartile, median and upper quartile (where relevant) of all items in Annex A, Section 3

2021/22 Rates & Occupancy- RESIDENTIAL WITHOUT DEMENTIA	Residential Care without Dementia				
	Uplift Median to April 2022 Prices				
	Adjustment for Inflation	Number of Returns	Low Quartile	Median	High Quartile
Cost Per Bed Per Week	NMW = 6.62% CPI(H) = 7.8%	No. of locations that returned costs for this care type	25% of returns are at or below this value	Middle value of costs returned	75% of returns are at or below this value
Care home staffing					
Nursing staff	6.62%	0	£0.00	£0.00	£0.00
Care staff	6.62%	16	£246.78	£292.06	£311.56
Therapy Staff (Occupational & Physio)	6.62%	2	£0.00	£0.00	£0.00
Activity Coordinators	6.62%	14	£9.38	£15.09	£17.34
Service Management (Registered Manager / Deputy)	6.62%	16	£40.84	£50.10	£59.45
Reception & Admin staff at the home	6.62%	13	£8.46	£13.51	£22.99
Chefs / Cooks	6.62%	14	£21.28	£32.51	£44.15
Domestic staff (cleaning, laundry & kitchen)	6.62%	16	£51.71	£64.65	£78.10
Maintenance & Gardening	6.62%	16	£14.56	£15.68	£21.22
Other care home staffing	6.62%	7	£0.00	£0.00	£25.39
Care Home Staffing Total	6.62%	16	£393.00	£483.60	£580.20
Care home premises					
Fixtures & Fittings	7.80%	10	£0.00	£1.71	£6.09
Repairs & Maintenance	7.80%	16	£19.67	£32.77	£70.95
Furniture, furnishings and equipment	7.80%	9	£0.00	£1.60	£4.11
Other care home premises costs	7.80%	10	£0.00	£0.45	£4.96
Care Home Premises Total	7.80%	16	£19.67	£36.52	£86.11
Care home supplies and services					
Food supplies	7.80%	16	£31.70	£39.77	£48.25
Domestic and cleaning supplies	7.80%	16	£6.44	£10.70	£12.67
Medical supplies excluding PPE	7.80%	15	£1.37	£2.04	£10.17
PPE	7.80%	6	£0.00	£0.00	£1.10
Office supplies (Home specific)	7.80%	16	£1.11	£2.62	£5.53
Insurance (all risks)	7.80%	15	£3.50	£6.90	£8.65
Registration fees	7.80%	15	£3.47	£3.96	£4.42
Telephone & Internet	7.80%	16	£1.81	£2.43	£3.73
Council tax / rates	7.80%	16	£0.90	£1.14	£2.03
Electricity, gas & water	7.80%	16	£20.88	£31.59	£41.80
Trade and clinical waste	7.80%	16	£3.19	£4.62	£6.08
Transport & Activities	7.80%	16	£1.14	£3.94	£4.58
Other care home supplies	7.80%	15	£5.08	£10.95	£24.47
Care Home Supplies and Services Total	7.80%	16	£80.58	£120.66	£173.49
Head office					
Central / regional management	6.62%	10	£0.00	£21.89	£36.09
Support services (finance / HR / legal / marketing)	6.62%	12	£1.72	£25.97	£31.39
Recruitment, Training & Vetting (inc. DBS checks)	6.62%	14	£3.36	£6.97	£8.72
Other head office costs	6.62%	7	£0.00	£0.00	£4.57
Head Office Total	6.62%	15	£5.08	£54.84	£80.76
Total exc. ROC & ROO		16	£498.33	£695.62	£920.57
Return on Operations and Return on Capital					
RoO @ 5% of Total Operating Costs			£24.92	£34.78	£46.03
RoC @ 6% of Total Operating Costs			£29.90	£41.74	£55.23
RoO & RoC Total			£54.82	£76.52	£101.26
TOTAL COST PER BED PER WEEK			£553.14	£772.14	£1,021.83

2021/22 Rates & Occupancy- RESIDENTIAL WITH DEMENTIA	Residential With Dementia				
	Uplift Median to April 2022 Prices				
	Adjustment for Inflation	Number of Returns	Low Quartile	Median	High Quartile
Cost Per Bed Per Week	NMW = 6.62% CPI(H) = 7.8%	No. of locations that returned costs for this care type	25% of returns are at or below this value	Middle value of costs returned	75% of returns are at or below this value
Care home staffing					
Nursing staff	6.62%	0	£0.00	£0.00	£0.00
Care staff	6.62%	13	£258.28	£299.18	£359.60
Therapy Staff (Occupational & Physio)	6.62%	1	£0.00	£0.00	£0.00
Activity Coordinators	6.62%	11	£9.11	£15.94	£19.69
Service Management (Registered Manager / Deputy)	6.62%	13	£42.55	£51.16	£66.51
Reception & Admin staff at the home	6.62%	9	£0.00	£11.64	£18.99
Chefs / Cooks	6.62%	12	£23.97	£37.36	£57.00
Domestic staff (cleaning, laundry & kitchen)	6.62%	13	£44.03	£59.52	£75.41
Maintenance & Gardening	6.62%	13	£15.46	£17.04	£22.23
Other care home staffing	6.62%	6	£0.00	£0.00	£27.19
Care Home Staffing Total	6.62%	13	£393.40	£491.83	£646.62
Care home premises					
Fixtures & Fittings	7.80%	8	£0.00	£2.13	£7.90
Repairs & Maintenance	7.80%	13	£15.08	£18.77	£36.81
Furniture, furnishings and equipment	7.80%	9	£0.00	£1.72	£4.45
Other care home premises costs	7.80%	8	£0.00	£0.47	£5.67
Care Home Premises Total	7.80%	13	£15.08	£23.10	£54.84
Care home supplies and services					
Food supplies	7.80%	13	£31.22	£32.98	£38.81
Domestic and cleaning supplies	7.80%	13	£5.96	£9.57	£12.22
Medical supplies excluding PPE	7.80%	12	£1.48	£5.75	£12.10
PPE	7.80%	8	£0.00	£1.86	£4.59
Office supplies (Home specific)	7.80%	13	£0.97	£2.87	£3.24
Insurance (all risks)	7.80%	12	£4.16	£6.14	£8.66
Registration fees	7.80%	11	£3.30	£3.71	£3.98
Telephone & Internet	7.80%	13	£1.80	£2.24	£5.38
Council tax / rates	7.80%	13	£0.80	£1.20	£2.57
Electricity, gas & water	7.80%	13	£21.20	£28.39	£39.16
Trade and clinical waste	7.80%	13	£3.23	£4.66	£6.63
Transport & Activities	7.80%	13	£1.77	£2.99	£4.33
Other care home supplies	7.80%	12	£9.23	£11.31	£19.66
Care Home Supplies and Services Total	7.80%	13	£85.12	£113.66	£161.33
Head office					
Central / regional management	6.62%	11	£21.53	£42.11	£58.42
Support services (finance / HR / legal / marketing)	6.62%	11	£23.87	£30.29	£39.72
Recruitment, Training & Vetting (inc. DBS checks)	6.62%	12	£3.41	£6.35	£8.84
Other head office costs	6.62%	8	£0.00	£0.49	£8.98
Head Office Total	6.62%	13	£48.81	£79.25	£115.95
Total exc. ROC & ROO		13	£542.41	£707.84	£978.74
Return on Operations and Return on Capital					
RoO @ 5% of Total Operating Costs			£27.12	£35.39	£48.94
RoC @ 6% of Total Operating Costs			£32.54	£42.47	£58.72
RoO & RoC Total			£59.66	£77.86	£107.66
TOTAL COST PER BED PER WEEK			£602.07	£785.71	£1,086.40

2021/22 Rates & Occupancy- NURSING WITHOUT DEMENTIA	Nursing without Dementia				
	Uplift Median to April 2022 Prices				
	Adjustment for Inflation	Number of Returns	Low Quartile	Median	High Quartile
Cost Per Bed Per Week	NMW = 6.62% CPI(H) = 7.8%	No. of locations that returned costs for this care type	25% of returns are at or below this value	Middle value of costs returned	75% of returns are at or below this value
Care home staffing					
Nursing staff	6.62%	11	£177.56	£204.28	£398.37
Care staff	6.62%	11	£243.95	£295.08	£314.28
Therapy Staff (Occupational & Physio)	6.62%	2	£0.00	£0.00	£0.00
Activity Coordinators	6.62%	10	£12.85	£16.11	£19.27
Service Management (Registered Manager / Deputy)	6.62%	11	£35.99	£51.12	£53.38
Reception & Admin staff at the home	6.62%	11	£11.97	£17.42	£31.53
Chefs / Cooks	6.62%	10	£25.38	£37.36	£54.12
Domestic staff (cleaning, laundry & kitchen)	6.62%	11	£50.57	£59.52	£93.98
Maintenance & Gardening	6.62%	11	£15.06	£17.71	£19.52
Other care home staffing	6.62%	6	£0.00	£9.67	£33.40
Care Home Staffing Total	6.62%	11	£573.33	£708.28	£1,017.86
Care home premises					
Fixtures & Fittings	7.80%	8	£1.48	£5.62	£9.05
Repairs & Maintenance	7.80%	11	£19.84	£24.78	£61.86
Furniture, furnishings and equipment	7.80%	9	£2.25	£5.77	£9.65
Other care home premises costs	7.80%	8	£0.05	£2.60	£9.75
Care Home Premises Total	7.80%	11	£23.61	£38.76	£90.30
Care home supplies and services					
Food supplies	7.80%	11	£32.57	£42.79	£50.52
Domestic and cleaning supplies	7.80%	11	£9.47	£11.67	£13.07
Medical supplies excluding PPE	7.80%	11	£9.37	£13.42	£16.89
PPE	7.80%	6	£0.00	£0.74	£1.17
Office supplies (Home specific)	7.80%	11	£1.90	£3.56	£5.35
Insurance (all risks)	7.80%	10	£4.29	£8.20	£9.02
Registration fees	7.80%	11	£3.96	£4.30	£5.13
Telephone & Internet	7.80%	11	£1.92	£3.41	£5.26
Council tax / rates	7.80%	11	£1.07	£1.28	£4.11
Electricity, gas & water	7.80%	11	£27.36	£39.48	£48.20
Trade and clinical waste	7.80%	11	£6.70	£7.62	£9.77
Transport & Activities	7.80%	11	£1.09	£4.21	£4.74
Other care home supplies	7.80%	10	£5.68	£9.60	£20.10
Care Home Supplies and Services Total	7.80%	11	£105.37	£150.29	£193.33
Head office					
Central / regional management	6.62%	6	£0.00	£21.53	£36.66
Support services (finance / HR / legal / marketing)	6.62%	10	£13.81	£26.55	£45.79
Recruitment, Training & Vetting (inc. DBS checks)	6.62%	10	£3.26	£8.15	£14.51
Other head office costs	6.62%	5	£0.00	£0.00	£5.04
Head Office Total	6.62%	11	£17.08	£56.22	£101.99
Total exc. ROC & ROO		11	£719.39	£953.56	£1,403.48
Return on Operations and Return on Capital					
RoO @ 5% of Total Operating Costs			£35.97	£47.68	£70.17
RoC @ 6% of Total Operating Costs			£43.16	£57.21	£84.21
RoO & RoC Total			£79.13	£104.89	£154.38
TOTAL COST PER BED PER WEEK			£798.52	£1,058.45	£1,557.87

2021/22 Rates & Occupancy- NURSING WITH DEMENTIA	Uplift Median to April 2022 Prices				
	Adjustment for Inflation	Number of Returns	Low Quartile	Median	High Quartile
Cost Per Bed Per Week	NMW = 6.62% CPI(H) = 7.8%	No. of locations that returned costs for this care type	25% of returns are at or below this value	Middle value of costs returned	75% of returns are at or below this value
Care home staffing					
Nursing staff	6.62%	7	£202.70	£325.82	£415.96
Care staff	6.62%	7	£282.90	£309.12	£339.23
Therapy Staff (Occupational & Physio)	6.62%	1	£0.00	£0.00	£0.00
Activity Coordinators	6.62%	6	£9.46	£13.65	£15.87
Service Management (Registered Manager / Deputy)	6.62%	7	£39.55	£42.58	£51.14
Reception & Admin staff at the home	6.62%	7	£11.02	£15.25	£24.70
Chefs / Cooks	6.62%	6	£27.91	£51.65	£64.54
Domestic staff (cleaning, laundry & kitchen)	6.62%	7	£51.70	£59.52	£70.64
Maintenance & Gardening	6.62%	7	£12.51	£15.71	£17.59
Other care home staffing	6.62%	2	£0.00	£0.00	£13.59
Care Home Staffing Total	6.62%	7	£637.75	£833.29	£1,013.26
Care home premises					
Fixtures & Fittings	7.80%	5	£1.07	£2.95	£6.76
Repairs & Maintenance	7.80%	7	£16.01	£22.99	£26.42
Furniture, furnishings and equipment	7.80%	6	£1.68	£3.36	£4.96
Other care home premises costs	7.80%	5	£0.05	£0.47	£52.34
Care Home Premises Total	7.80%	7	£18.81	£29.79	£90.48
Care home supplies and services					
Food supplies	7.80%	7	£33.22	£37.63	£40.62
Domestic and cleaning supplies	7.80%	7	£8.11	£9.59	£11.72
Medical supplies excluding PPE	7.80%	7	£10.77	£12.10	£20.61
PPE	7.80%	6	£0.92	£1.30	£5.95
Office supplies (Home specific)	7.80%	7	£1.94	£2.89	£4.29
Insurance (all risks)	7.80%	6	£4.42	£8.20	£8.75
Registration fees	7.80%	6	£3.51	£3.95	£4.14
Telephone & Internet	7.80%	7	£1.98	£2.33	£3.78
Council tax / rates	7.80%	7	£0.82	£1.01	£1.96
Electricity, gas & water	7.80%	7	£27.08	£39.16	£48.73
Trade and clinical waste	7.80%	7	£6.48	£7.06	£8.38
Transport & Activities	7.80%	7	£1.12	£3.54	£4.39
Other care home supplies	7.80%	7	£5.51	£11.31	£21.03
Care Home Supplies and Services Total	7.80%	7	£105.89	£140.08	£184.34
Head office					
Central / regional management	6.62%	6	£19.40	£34.08	£53.78
Support services (finance / HR / legal / marketing)	6.62%	7	£28.73	£29.82	£35.76
Recruitment, Training & Vetting (inc. DBS checks)	6.62%	7	£2.80	£3.41	£7.01
Other head office costs	6.62%	4	£0.00	£0.31	£12.16
Head Office Total	6.62%	7	£50.94	£67.62	£108.72
Total exc. ROC & ROO		7	£813.38	£1,070.77	£1,396.80
Return on Operations and Return on Capital					
RoO @ 5% of Total Operating Costs			£40.67	£53.54	£69.84
RoC @ 6% of Total Operating Costs			£48.80	£64.25	£83.81
RoO & RoC Total			£89.47	£117.78	£153.65
TOTAL COST PER BED PER WEEK			£902.85	£1,188.55	£1,550.45

Appendix Three: Examples of issues with data collection and data accuracy

Some of the issues Herefordshire Council has encountered in collecting and processing data related to this exercise are described in the main report, others are set out below, as well as some issues with the design of the exercise vis a vis assessment of sustainability of individual providers and of the local market as a whole.

The issues are not ranked in terms of impact, but are set out here to illustrate some of the difficulties providers had in providing information in the time available and the difficulty council officers had in processing the data to produce a reasonable output in Annex A format.

The cumulative effect of such issues is to reduce the relative weight that can be given to the information collected and the output of this exercise in setting future fee rates for care home care. As stated in the main report, Herefordshire Council finance officers continue to work with providers to improve the quality of the data collected during this exercise.

- Individual provider sustainability cannot be assessed by comparing operating expenditure to local authority average fee rates. Whilst operating profitability is one factor, a proper assessment of sustainability needs to include analysis of each provider's balance sheet, total income and expenditure, debt, equity, cash flows, liquidity, access to finance, ownership status and also the local market context and the relative position of the provider compared to sector averages.
- Presenting figures on an EBITDAR basis is a useful way of assessing how much operating cash is generated by every pound of revenue earned, and can be a useful way of understanding the relative profitability of companies; but it has significant drawbacks when assessing the overall performance or sustainability of a company:

EBITDAR ignores interest payments, taxation, depreciation, amortisation and property rent in assessing the costs of doing business. Companies with large levels of debt, such as care homes whose purchase or construction was funded through borrowing, may have large interest payments to make each year which EBITDAR does not take into account, but which will nonetheless be significant cash outflows which affect overall levels of return from the business.

EBITDAR also does not take into account significant investments in fixed assets, such as the purchase or construction of a care home property or the replacement of expensive equipment. Depreciation helps to tie the cost of an asset with the benefit of its use over time. In other words, the incremental expense associated with using up the asset to generate revenue is recorded annually as the asset is put to use each year. Using EBITDAR to evaluate sustainability for businesses that require large investments in fixed assets fails to take into account the costs of purchasing those assets and using them up in the course of operations, and thus overstates profitability.

This has played out in the returns from some providers who have included significant costs for items such as furniture or fixtures and fittings; levels of costs that would not usually be incurred annually, and should more properly be

recognised as capital expenditure on fixed assets, held on the balance sheet and recognised as expenditure through depreciation as described above. Recognising the costs in a single year overstates operating costs greatly, and also goes against generally accepted accounting principles, but basing the return on EBITDAR gives providers no way to recognise such costs.

EBITDAR also ignores rental payments, but some providers who do not own their facilities will make significant regular rental payments, either to an external body or sometimes to another entity within their own group. These payments will be a material cash outflow, but EBITDAR does not recognise them and therefore understates the costs of doing business.

- Provider staff completing returns were not usually qualified accountants, and, through no fault of their own, did not always have the right skills to analyse their care home's financial data accurately or to engage in informed discussion on concepts such as those set out above. The timescale of the exercise made it difficult for providers, particularly smaller providers, to engage qualified accountants to produce their returns; each provider has chosen their own approach to the exercise which has led to inconsistencies.
- Many providers have financial years that are different to the tax year. This is perfectly appropriate, businesses are at liberty to decide which accounting period is best for them, but it made it more challenging for providers to have to restate their costs on a 2021/22 basis in the limited time available for this exercise.
- Some returns have not stated, or have found it impossible to state, how their data has been adjusted to remove COVID-19 specific expenditure.
- Many returns have not included costs for PPE. Providers have received PPE free of charge directly from Herefordshire Council, as well as receiving and continuing to receive PPE via the national portal; this means that many providers have not incurred significant costs for PPE and find it difficult to estimate what 'normal' PPE costs may be.
- Providers have shown variable use of 'Other Costs' lines for each sub-type. Some returns show significant proportions of costs listed under 'Other' without explanation of what those costs are or why they cannot be included in more specific lines. Council officers have tried to work with those providers to separate out the costs and move them to a more appropriate classification, but this refinement is not complete in the current dataset.
- As might be expected in such a diverse market, there is considerable variation between provider operating costs as submitted: e.g. in all four types of care the highest total operating cost is double or more than double the lowest total cost. This highlights the implausibility of using the median operating cost as a means of establishing local authority fee rates: the nature of the median is that half of providers will be above the median and half below it, so basing a fee rate on the median would benefit 50% of the market but disadvantage the other 50%.

As well as the general issues listed above and in the main report, a number of returns from individual providers raised queries or contained obvious errors. As noted in the main report, not

all providers have engaged with resolving queries or correcting errors, and therefore the quality of data received is not as strong as it could be.