



HILLINGDON
LONDON

Fair Cost of Care and Market Sustainability Grant 2022-23

Annex B

Fair Cost of Care Report – 65+ Care Homes

1. Introduction

The Cost of Care exercise undertaken by Hillingdon Council represents an extensive engagement and analytic cycle. This report, and all supporting information, was based on 18 care home providers operating within the borough. For consideration, the subsequent paragraph represents collated feedback from London local authorities, highlighting limitations of the exercise.

This exercise presented significant and fundamental constraints, including issues with data quality, lack of clarity in the structure and guidance for the exercise and unreliable results being produced by the mathematical median calculation method. These challenges are specified in further detail under Part Three (Approach to Analysis).

Further, there is a significant proportion of self-funders living in care homes within Hillingdon. Given the scope of the exercise the returns do not include wholly self-funder homes. In turn, this has led to returns which may not accurately reflect the market breakdown within the borough.

These limitations are such that the results produced by this exercise cannot be treated as wholly reliable or accurate. The London Borough of Hillingdon intends to work with providers from 2022/23 to agree local fee rates that are sustainable for the local market.

Further, we are unable to provide any detail on future rates until we have clarity on the national funding distribution is confirmed.

2. Provider Engagement

Initial Engagement

On 20th May 2022 Hillingdon reviewed the list of care home providers providing care to residents and determined which homes would be considered as in scope. Of the 33 care homes registered with the Care Quality Commission within the borough, the following table summarises why 6 of the care homes whose registration includes the care of older people were considered “out of scope” for the exercise. The number of residents within each care home (included as brackets in Column 3) are accurate as of 27th June 2022.

Care Home	Older People residents at the home on 21/06/22	Total Beds (Residents)	Description from latest CQC inspection report
78 Hoylake Crescent	1 x OP resident	4 (4)	Is a care home for up to four people who have mental health needs and learning disabilities.
Alvina Lodge	No OP residents	5 (5)	Provides support and accommodation for up to five adults who have mental health needs
Aram House	1 x OP resident	5 (4)	Is a care home for up to five adults with mental health needs. The service aims to support people who were living in other care settings or hospital with the goal of moving to a more independent setting when they are ready
Blandford Lodge	1 x OP resident	4 (3)	Is a care home for up to four adults with mental health needs.
Santa Care	No OP residents	4 (3)	Is a care home for up to four adults with learning disabilities or mental health needs.
Simone's House	1 x OP resident	5 (5)	Simone's House accommodates five people in one adapted building. People living at the service were younger adults with mental health needs and /or physical or learning disability

Hillingdon Council (“Hillingdon”) contacted all “in-scope” care home providers on 20th May 2022, informing them of the Fair Cost of Care exercise and provided links to the Care Cubed portal. Shortly after, on 1st June 2022 Hillingdon forwarded information from the Care Providers Alliance regarding the exercise, along with invites to monthly “drop-in” sessions, with the agenda set up specifically to provide further information and guidance. The first virtual engagement event for care home providers was hosted by the council on 8th June 2022. During this event the council:

- Re-introduced the Fair Cost of Care exercise;
- Demonstrated the use of Care Cubed, whilst outlining sources of support and information;
- Shared official guidance links for the Fair Cost of Care exercise; and
- Held a question-and-answer session.

At this stage, the Council developed a Fair Cost of Care webpage for providers. The webpage included, but was not limited to:

- Background information for the exercise
- Direct links to the Care Cubed portal and common questions from providers
- Guidance on how to submit returns
- Dates and times of future engagement events
- Specific links for help and support, both from LGA and Hillingdon specifically.

The table below summarises the early engagement carried about by the council.

Date	Engagement
20 th May 2022	Identified all “in-scope” providers and distributed initial summary briefing.
20 th May 2022	Informed providers of the return deadline and that the Council would be using the Care Cubed portal to support the Fair Cost of Care exercise.
1 st June 2022	Forwarded information from the Care Providers Alliance regarding the Fair Cost of Care exercise. Provided further information regarding monthly “drop in” sessions set up for providers, and how to register on the Care Cubed portal.
7 th June 2022	Emailed those Care Homes yet to register on the Care Cubed portal.
7 th June 2022	Created Fair Cost of Care webpage
8 th June 2022	Hosted the first of monthly virtual engagement events for providers, with agenda item specifically around the Fair Cost of Care exercise.

Hillingdon appointed Grant Thornton UK LLP (“Grant Thornton”) to support the Council in the Fair Cost of Care exercise and granted them access to CareCubed. Hillingdon informed all providers in scope via email of Grant Thornton involvement. Additionally, Grant Thornton was invited to attend all monthly provider “drop-in” sessions, giving them the chance to encourage further engagement and offer support where required.

Once all information and progress to date made by the Council was shared with Grant Thornton, they split all in scope providers into ‘buckets’ to determine the status of each provider:

“Bucket”	Engagement cycle carried out by Grant Thornton
A) Not registered on CareCubed	<ul style="list-style-type: none"> • Immediate engagement by email in the first instance, followed up by a phone call if required • Where providers refused to participate in the exercise and complete CareCubed, understand why and share at weekly progress meetings with Hillingdon for escalation if required. It was noted that in most cases where providers responded to inform on non-completion noted capacity issues as the reason for not completing the exercise
B) Registered on CareCubed; no information provided to date	<ul style="list-style-type: none"> • Immediate engagement by email in the first instance, followed up by a phone call if required
C) Registered on CareCubed; information provided to date incomplete/ in query	<ul style="list-style-type: none"> • Engagement to discuss incomplete/ returns in query through email and phone calls, providing support to complete the tool
D) Registered; information completed/ not in query	<ul style="list-style-type: none"> • No initial engagement • Analysis of returns started • Proposed clarification questions shared Hillingdon for discussion • Final clarification questions shared with provider by email in the first instance, followed up by a phone call if required

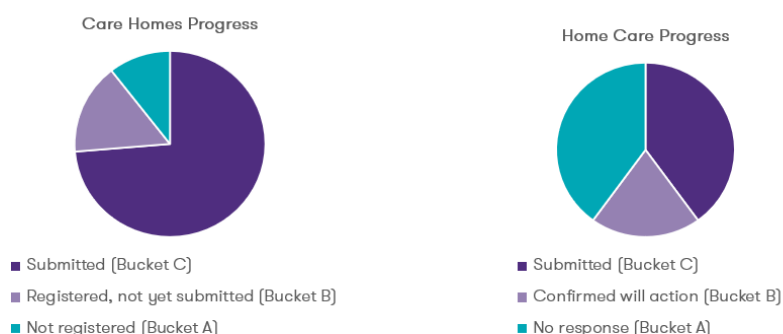
On 28th July 2022, once in-scope providers were allocated to a “bucket” Grant Thornton contacted each provider individually, offering support and guidance according to their bucket allocation following the planned engagement

cycle. It was initially agreed that for submissions to be included within the Fair Cost of Care calculations, they would need to be completed and uploaded to Care Cubed by 12th August 2022, this would allow for additional engagement with providers to gain as many submissions as possible.

On 4th August 2022 emails were sent to all providers that were yet to register on Care Cubed, along with those yet to submit their returns (i.e., those within Buckets A and B from the table above).

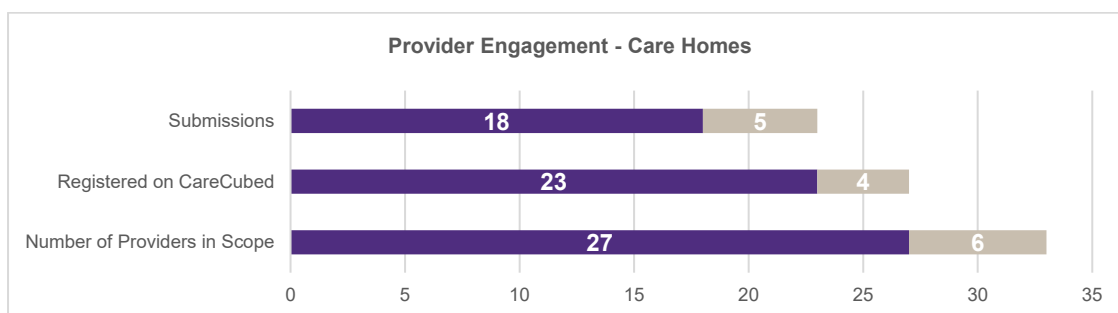
Weekly operational meetings were scheduled for Grant Thornton to provide Hillingdon Council Adults Social Care Reforms group with progress updates. A progress tracker was developed to monitor the progress engagement and providers submissions. Examples of the slides presented at these meetings and the progress tracker are included below:

Provider Engagement



Within these operational meetings, it was agreed to extend the original deadline requested of providers owing to a lack of further submissions up to 12th August 2022. Therefore, on 19th August 2022 a final email was sent to providers falling within Buckets A and B, requesting for submission by 26th August 2022. The final status of provider engagement is illustrated in the bar chart below, and summarised as follows:

- 27 care homes were deemed in scope for this exercise
- 23 of these 27 registered on Care Cubed
- 18 of the 23 providers have subsequently submitted their returns



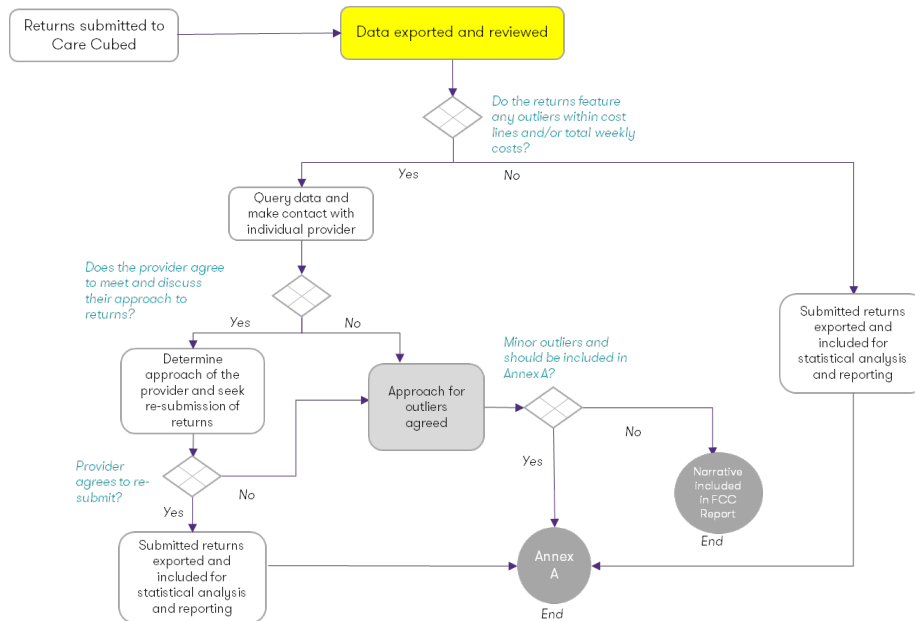
Clarification Questions

Submissions within Care Cubed were reviewed on a weekly basis by Grant Thornton who validated provider responses and identified any outliers. Where required, further information and clarification questions were asked from providers through direct emails and phone calls. The clarification questions sent to four providers are listed below:

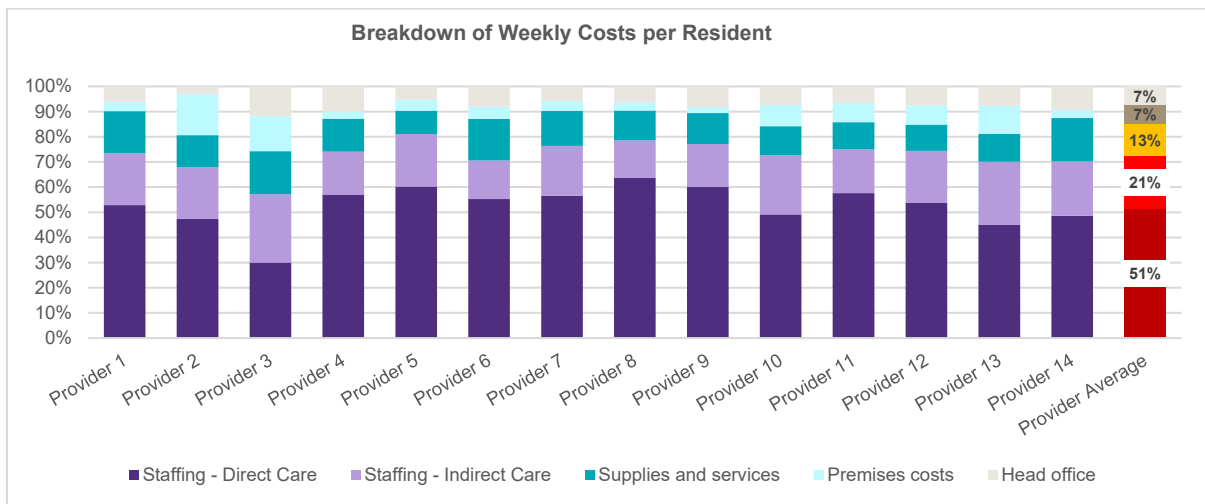
Provider Ref	Section of return	Clarification	Date(s) of Contact and Response
1	Return on Operations	The return included a negative percentage for ROO	26 th August – Re-submitted on Care Cubed
2	Return on Operations and Return on Capital	Much higher-than-expected ROO and 0% for ROC.	26 th August – No response
3	Return on Capital	Justification for ROC when the percentage exceeded 10%.	26 th August – No response
4	Return on Capital	Justification for ROC when the percentage exceeded 10%.	6 th September – No response
5	Return on Capital	Justification for ROC when the percentage exceeded 10%.	26 th August – No response
6	Return on Capital	Justification for ROC when the percentage exceeded 10%.	26 th August – Confirmed that ROC was the standard rate for this Care Home
7	Return on Capital	Justification for ROC when the percentage exceeded 10%.	26 th August – Confirmed that ROC was the standard rate for this Care Home
8	Return on Capital	Justification for ROC when the percentage exceeded 10%.	26 th August – Confirmed that ROC was the standard rate for this Care Home
9	Uplift Factors	Confirmation that 0% uplift factors across all cost lines was intentional.	26 th August – No response
10	Uplift Factors	Justification for 20% uplift factors across all cost lines.	26 th August – No response
11	Uplift Factors	Justification for 10% uplift factors across all cost lines.	26 th August – No response
12	Staffing Costs	Staffing costs were extortionate compared to other providers, whilst ROO was very low. Clarification required to see if the ROO had been included within staffing costs.	26 th August – No response
13	Return on Capital	The return is missing the rate per resident per week	26 th August

3. Approach to Analysis

To determine the fair cost of care for older people's care homes as required by this exercise, the local authority has analysed provider submissions with reference to available evidence and sector guidance. All provider data was drawn from the Care Cubed portal, with data exports used to determine both statistical findings and the identification of outliers, summarised above as part of the clarification questions. Where the local authority had queries about specific cost lines in submissions, the local authority contacted individual providers to seek clarification or justification of costs and any missing data. The general approach to analysis, and subsequent updates to data, is best summarised in the flow chart below.



As per industry guidance, clarification was sought on statistically significant areas of spend. Initial analysis of the returns highlighted a large proportion of spend on staffing care (both direct and indirect) along with large variation across care homes. Providers were contacted in the event of anomalous staffing costs, as well as justification for approaches adopted on Return on Capital and Return on Operations. Typically, higher staffing costs were associated with a greater proportion of agency nursing staff or the proportion of self-funders within care homes. Consequently, unusually high staffing costs were not explicitly amended or adjusted for the purposes of Annex A. The chart below represents initial analysis of weekly costs, at which point 14 providers had submitted their returns.



Providers were contacted for clarification questions in advance of finalising the submissions, in line with the table within the section above. Once the final set of figures were agreed, and the Care Cubed portal was updated to reflect any changes in provider submissions, the process to convert submissions into a fair cost of care was as follows.

1. For each provider, a weekly cost per bed was calculated for all sub-service lines as broken down within Care Cubed. These also represent the sub-service lines within Annex A, which allowed for a straightforward conversion of raw data exports into Annex A. The weekly cost per bed for each sub-service line was based on the total expenditure in 2021/22, i.e., with no percentage uplift applied, and the respective occupancy of each care home as of April 2022. The only sub-service line which did not account for the total occupancy of the care home was expenditure on nursing staff. In this scenario, the

weekly cost per bed was determined exclusively on the number of nursing placements, rather than accounting for total occupancy.

2. The next logical step would have been to calculate a sub-service line median for each care home type, as delineated in Annex A. However, within the Care Cubed portal there is no differentiation between care staff costs for those with dementia and those without. For instance, a care home which houses 10 patients without dementia and 20 patients with dementia will end up with the same weekly cost per bed, regardless of the client's needs. Essentially, a provider will have expenditure associated with staffing costs which does not accurately reflect how these costs go towards dementia and non-dementia clients. Theoretically, it would have been possible to separate care homes by those which house no dementia patients. However, given the low number of care homes housing exclusively non-dementia patients, this approach would reduce the sample size, and hence reliability of any data analysis. Therefore, to determine weekly costs for care homes with and without dementia a new approach was adopted, which accounts for as much data as possible, and explained below.
3. The approach was to discount the differentiation of dementia and non-dementia care homes within Care Cubed. Instead, a median weekly Care Staff cost per bed was calculated for (a) Residential Homes and (b) Nursing Homes. A dementia uplift factor was then applied to the median weekly Care Staff cost, based on the total proportion of dementia and non-dementia clients across all care homes. This results in much more 'reasonable' costs, with a clear increase in costs associated with Care Staff for dementia patients.
4. The uplift factor agreed is explained later in this report, within the section Fair and Reasonable Adjustments. Note that the uplift factor was applied only on Care Staff costs. For all other sub-service lines, a median cost of care was calculated for (a) Residential Care and (b) Nursing Care. If a provider housed any non-nursing clients, then their respective weekly costs were included within the median for (a) Residential Care. Similarly, if a provider housed any nursing clients, then their respective weekly costs were included within the median for (b) Nursing Care. Essentially, the only difference in the total weekly cost per bed for Residential and Residential with Dementia is within the weekly Care Staff cost per bed.
5. A total weekly cost of care per bed could then be calculated for each care home type, based on a sum of the sub-service line medians determined from the approach so far. However, these figures were based on expenditure from 2021/22. Therefore, each sub-service median weekly cost per bed was inflated based on the average uplift factor as reported by providers in their Care Cubed returns.
6. At this point, a number of fair and reasonable adjustments were required. These centre around the dementia uplift factor referenced above, an appropriate approach to Return on Operations and Return on Capital, and a scaling factor applied to certain fixed costs based on the reported occupancy rate of care homes. These adjustments are detailed below.

Fair and Reasonable Adjustments

Complexity Uplift Factor

As referenced in Points 2, 3 and 4 above, there is no differentiation between care staff cost for those with dementia and those without. To overcome this, the following steps were carried out:

- a) Calculate a median weekly Care Staff cost per bed was calculated for (a) Residential Homes and (b) Nursing Homes.
- b) Assign a 'complexity uplift' to those with dementia. For instance, within a care home, staffing costs will be a certain percentage greater for those with dementia. Staffing costs are assumed to be higher for those with dementia given the increased complexity of care giving required, along with any additional time required over the course of a week to deliver this care.
- c) Based on the total proportion of dementia and non-dementia clients across care homes, a new weighted average Care Staff cost was back calculated, generating two median Care Staff costs: one for those with dementia and one without.

The complexity uplift factor was set at 40% and applied to Care Staff and Therapy Staff costs.

Return on Operations and Capital

As the figures submitted by Hillingdon older people's care homes for both Return on Operations and Return on Capital varied across a wide range, applying the approach outlined below supports consistency in calculating a median rate for this exercise, informed by industry guidance for care homes.

In determining that a combined rate of 12.0% for Return on Operations (5.0%) and Return on Capital (7.0%) is the appropriate figure we have considered the factors listed below. These factors will inform - but not necessarily determine - our fee-setting decisions, but we have also had regard to them in moderating and deciding the information we will be submitting to the Department for Health and Social Care.

First, Hillingdon has a duty to consider how it will achieve the objectives prescribed by section 5(1) of the Care Act, which requires us to promote the efficient and effective market in our area. In doing so we must have regard to the matters outlined in section 5(2) of the Care Act.

Second, in doing so we must have regard to the matters set out in the Care and Support Statutory Guidance.

Third, we must have regard to the Market Sustainability and Fair Cost of Care Fund 2022 – 23 Guidance.

Fourth, as a public body we must reach a determination that is not irrational, in that it is within the range of decisions that a public body acting reasonably could make.

Finally, we must have regard to our public sector equality duty under s149 of the Equality Act.

Hillingdon have determined that the data we will submit to the DHSC will be premised on a minimum rate of 7.0% for surplus profit or Return on Operations and of 7.0% for Return on Capital being sufficient to support the market in our area. In our assessment, the Hillingdon OP care homes market is a diverse market that provides good quality services to clients. Additionally, the LaingBuisson guidance sets out the market-based observation that 5% is an appropriate figure for surplus profit or Return on Operations and that 6% is an appropriate figure for Return on Capital for care homes. Based on an appraisal of local market sustainability and with reference to the LaingBuisson guidance, Hillingdon is of the view a combined rate of 14.0% for Return on Operations (7.0%) and Return on Capital (7.0%) will be appropriate to secure sufficient and sustainable service provision, ensuring a variety of high-quality services in the borough.

To ensure full transparency of the approach adopted to the Fair Cost of Care exercise, the North West London (NWL) sub-region decided to work as a collective to garner the market's views on current and future sustainability for inclusion within individual market sustainability plans (MSPs). It was agreed that working cross borough in this regard was beneficial due to the single market NWL has created resulting from a shared procurement for care homes.

NWL agreed that an online event supplemented by a survey to encourage greater participation was the most effective way to capture the market's views. The online event combined both the 65+ Care Homes and the 18+ Domiciliary Care markets and was attended by over 50 providers. The survey generated 48 responses across both markets. The event focused on the questions posed in the MSP template provided within the Fair Cost of Care guidance document.

Limitations of Exercise

Having followed guidance, we are not confident that the cost of care figures provided here are fair or sustainable. They provide data without the context and insight to come to an accurate judgement on the fair cost of care. This is due to several reasons, namely:

- The cost is derived from a sample of the care market that chose to provide data, so risks not being fully representative of the cost of care.
- This is particularly true in London where small care markets are common, and where out-of-borough care home placements are also common.
- Costs can vary significantly from provider to provider, impacted by factors that include the size of the organisation, variations in staff pay rates and use of agency staff. There is also significant variation in Return on Operations costs submitted by home care providers and likewise Return on Capital.
- The median calculation method produces results that do not reliably reflect market costs.
- DHSC guidance did not provide clear criteria for moderation (e.g., adjusting for ROO / ROC).
- DHSC guidance recommends querying outliers with providers, however there is no clear line between a cost being inefficient or an outlier.
- Rising inflation, living, and running costs mean that the data submitted through this exercise at a point in time may no longer be accurate.

From the outset, it is important to acknowledge the fundamental limitations of the data and the unknown variables that are key constraints for the analysis of the cost of care data. Hillingdon proceeded to analyse cost lines and applied a consistent approach to Return on Operations, with reference to evidence-based industry guidance. Nevertheless, the data quality concerns are such that, even after final analysis, it is necessary for the local authority to consider other factors in setting fee rates as the Fair Cost of Care outputs alone do not provide a reliable basis for fee setting.

The outcome of the cost of care exercise is not intended to be a direct replacement for the fee setting element of the local authority commissioning process or individual contract negotiations. It is expected that actual fee rates may differ, as the outcome of sound judgement, evidence and local negotiation. The outputs of this exercise will be one element to inform future negotiations, taking into consideration other known market factors including

inflation, demand, capacity, benchmarking, quality and importantly affordability for the Local Authority and availability of funding.

Annex A Outputs

The table below sets out the median value for each category from the data received from providers.

Cost Lines	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	£467.91	£582.63	£669.69	£778.01
Total Care Home Premises	£36.63	£36.63	£51.69	£51.69
Total Care Home Supplies and Services	£116.04	£116.04	£113.54	£113.54
Total Head Office	£62.07	£62.07	£62.31	£62.31
Total Return on Operations	£47.79	£55.82	£69.40	£70.39
Total Return on Capital	£47.79	£55.82	£62.81	£70.39
TOTAL	£778.22	£909.00	£1,022.84	£1,146.32

The table below sets out the supporting information on the cost drivers used in the cost of care calculations.

As detailed within Section 3 – Approach to Analysis, a fair cost of care was determined by calculating median weekly costs for sub-service cost lines and uplifting these rates to 2022/23. The median rates for 2022/23 are therefore standalone rates, rather than a median of individual provider rates. Essentially, this means that it is not possible to determine interquartile ranges on cost of care data for 2022/23. Theoretically, interquartile ranges could be drawn directly from the uplifted values in the Care Cubed portal returns, though this would lead to costs of care with no Fair & Reasonable Adjustments applied. To avoid inconsistency in the fair cost of care as determined through the Hillingdon's approach to analysis, interquartile ranges have not been included within the table below.

Care Home Type	Count of observations	Median
65+ care home places without nursing	11	£778.22
65+ care home places without nursing, enhanced needs	12	£909.00
65+ care home places with nursing	12	£1,022.84
65+ care home places with nursing, enhanced needs	10	£1,146.32