

**Cost Review of Care Home Services for Older People
For Bath and North East Somerset Council**

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Report on 5th October 2022**

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1. Executive Summary

In May 2022, Bath and North East Somerset Council (the Council) instructed Valuing Care Ltd (VC) to undertake a review of the cost of providing care home services for older people in Bath and North East Somerset (B&NES). The objective of the review is to provide the Council with reliable information on what it usually costs to provide care home services, which can be used to inform a sustainable fee structure.

To identify the usual cost of delivering services locally, all care homes located in B&NES were invited to participate in a cost survey using the iESE software tool. Valuing Care supported care homes providers to create their iESE accounts and deal with any queries about completion of the tool.

In response to the survey 16 care homes completed the iESE tool representing 57% of the revised number invited to participate in B&NES (28 homes). All of the completed tools were considered acceptable for inclusion in a sample group which has been used to identify the survey results.

Based on the local survey results Valuing Care have constructed Fair Price of Care (FPoC) Rates for each needs group. The following points summarise how the rates have been calculated.

- The cost of care and nursing staff reflects the median nursing and care hours identified for each needs group, multiplied by the median total direct cost of employing each type of staff
- All other operating costs are based on the median costs reported by all care homes who participated in the survey
- Provision for return on capital (ROC) is based on the Local Housing Allowance (LHA) 1 bedroom rate for Bath BRMA, which provides a net yield of 6% on a freehold valuation of £95,000 per bed
- Provision for return on operations (ROO) has been calculated at 5% of total operating costs

Valuing Care recognise that there is rational for varying provision for Return on Capital and Operations in accordance with the location of the service, the quality of the care home environment, and the quality of the services provided.

The following table summarises the FPoC Rates at 2022/23 prices.

Table 1 – Fair Price of Care Rates (at 2022/23 prices)

Survey Section	Cost Type / Driver	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Income & Expenditure	Nursing Staff	£0	£0	£202	£201
	Care Staff	£336	£336	£316	£426
	Service Management	£32	£32	£32	£32
	Other Care Home Staff	£182	£182	£182	£182
	Premises	£58	£58	£58	£58
	Supplies & Services	£132	£132	£132	£132
	Head Office	£62	£62	£62	£62
	Total Operating Costs	£802	£802	£984	£1,092
	Return on Capital	£121	£121	£121	£121
	Return on Operations	£40	£40	£49	£55
	Total FPoC Rates	£963	£963	£1,154	£1,268
Staffing Costs	Direct Cost per Nursing Hour	n/a	n/a	£26.31	£26.31
	Direct Cost per Care Staff Hour	£14.35	£14.35	£14.35	£14.35
Staffing Inputs	Nursing Hours PRW	-	-	7.7	7.6
	Care Staff Hours PRW	23.4	23.4	22.0	29.7

The table shows the median care staff hours to be consistent for residential older people and residential dementia (23.4 hrs). This maybe partly due to the methodology of the iESE software which assumes people receiving care on the same unit receive equal amounts of care (irrespective of needs group).

In contrast, the median care staff hours for nursing dementia (29.7 hrs) is significantly higher than for nursing older people (22.0 hrs). Of the 4 nursing homes delivering nursing older people and nursing dementia services, 3 reported higher levels of care for nursing dementia.

The estimated cost of nursing staff at approximately £202 per week is marginally less than the current rate of NHS funded nursing care (FNC) which increased to £209 per week in April 2022.

Independent of the local cost survey, Valuing Care have used their cost model and database of service costs, to calculate benchmark rates for care home services for each needs group. This provides an opportunity to compare the local survey results against Valuing Care’s cost model and national intelligence of service costs.

The following table provides a summary of the variance between the FPoC and benchmark allocations for each cost group.

Table 3 – Variance between FPoC and Benchmark

Variance	Cost Type / Driver	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Income & Expenditure	Nursing Staff	£0	£0	£0	£15
	Care Staff	£23	-£17	£12	£60
	Service Management	-£12	-£12	-£5	-£5
	Other Care Home Staff	£70	£70	£70	£70
	Premises	£19	£19	£19	£19
	Supplies & Services	£31	£31	£27	£27
	Head Office	£9	£9	£8	£7
	Total Operating Variance	£141	£101	£131	£193
	Return on Capital	£0	£0	£0	£0
	Return on Operations	£7	£5	£7	£10
	Total Rate Variance	£148	£106	£137	£203
Staffing Costs	Direct Cost per Nursing Hour	n/a	n/a	£0.28	£0.28
	Direct Cost per Care Staff Hour	-£0.02	-£0.02	£0.09	£0.09
Staffing Inputs	Nursing Hours PRW	n/a	n/a	-0.1	0.5
	Care Staff Hours PRW	1.6	-1.2	0.7	4.0

The table shows the FPoC rates to exceed the benchmark rates across all needs groups. The adverse variances can be primarily attributed to a combination of higher care staff inputs, and higher expenditure on other care home staff (+£70), supplies & services (+£31/+£27), and premises (+£19).

To some extent the relatively high expenditure reported in B&NES may reflect decisions by local care homes to provide higher levels of service to their customers.

In VC's experience undertaking cost surveys for Councils and the NHS across the country, benchmark provision for operating costs is likely to be a good indication of the usual cost of providing care home services. VC also acknowledge that there is likely to be variation in the average service offer between areas, likely reflecting levels of income deprivation amongst older people, and the percentage of self-funders procuring services.

2. Managing the Annual Fee Adjustment

The Fair Price of Care (FPoC) Rates are stated at 2022/23 prices.

To ensure they continue to reflect the actual costs of providing services, Valuing Care puts forward a suggestion to consider adjusting on an annual basis, by an estimate of future inflation in year 2 (to September 2023 prices), and then to reflect actual inflation in subsequent years.

An estimate of future inflation is necessary in year 1 as actual inflation to mid-year 23/24 prices is not yet known. The estimate of future inflation should be updated annually to reflect anticipated cost pressures, with separate adjustment to reflect actual inflation over the previous year.

The following table summarises Valuing Care’s adjustments for inflation over the next three years.

Table 4 – Valuing Care’s adjustment for inflation

Year	Basis of Fee	Price Adjustment
Year 1 (2022/23)	FPoC rate (at 2022/23 prices)	–
Year 2 (2023/24)	FPoC rate (at 2022/23 prices)	+ Estimate of future inflation to Sept 2023
Year 3 (2024/25)	FPoC rate (at 23/24 prices)	+ Adjusted to reflect actual inflation to September 2023 + Estimate of future inflation to Sept 2024
Year 4 (2025/26)	FPoC rate (at 24/25 prices)	+ Adjusted to reflect actual inflation to September 2024 + Estimate of future inflation to Sept 2025

Valuing Care recommend the following indices as the basis for adjusting the benchmark rates to reflect actual inflation:

- Nursing and service management costs are adjusted in line with the Average Weekly Earnings (AWE) series for health and social work (K5BC). The AWE is the Office for National Statistics (ONS) headline measure of short-term earnings growth
- Other care home staff are adjusted in line with the National Living Wage (NLW) for workers aged 23 and above

- Non staff costs are adjusted in line with Consumer Price Index (CPI). The CPI is a measure of inflation published monthly by the Office for National Statistics. It measures the change in the cost of a basket of retail goods and services, excluding house prices and mortgage interest
- Provision for Electricity, gas & water are adjusted in line with fuel price indices for the industrial sector published by the Department for Business, Energy & Industrial Strategy (BEIS), assuming a 50:50 fuel mix of electricity and gas
- Provision for return on capital is adjusted in line with Local Housing Allowance rates
- Provision for return on operations is maintained at 5% mark up on total operating costs

Valuing Care recognise there are other equally valid indices (or combinations of) which may be used to uplift care home fees but suggest that it is the adoption of clear methodology applied consistently on a year-to-year basis that is of primary importance to gain provider trust and confidence.

3. Introduction

In September 2021, the Prime Minister confirmed the government would be providing funding to support local authorities move towards paying providers a fair rate of care. Further details of the funding available and the funding conditions were specified in the policy paper ‘Market Sustainability and Fair Cost of Care Fund: Purpose and conditions 2022 to 2023,’ which was published on the 16th December 2021.

The conditions to access funding include:

1. conduct a cost of care exercise to determine the sustainable rates and identify how close they are to it
2. engage with local providers to improve data on operational costs and number of self-funders to better understand the impact of reform on the local market (particularly the 65+ residential care market, but also additional pressures to domiciliary care)
3. strengthen capacity to plan for, and execute, greater market oversight (as a result of increased section 18(3) commissioning) and improved market management to ensure markets are well positioned to deliver on our reform ambitions
4. use this additional funding to genuinely increase fee rates, as appropriate to local circumstances

To help meet these conditions, the Council instructed Valuing Care Ltd to undertake a review of the cost of providing care home services to older people in B&NES, utilising the iESE software tool. *Further information about Valuing Care is included in [Appendix 1](#).*

The objective of the review is to provide the Council with reliable information on what it usually costs to provide care home services, which may be used to inform future rates for services; also to assist the Council to develop a range of actions with the aim of ensuring a sustainable market, able to deliver the required quality and capacity of services to meet the needs of the local population.

The review required Valuing Care to engage local care home providers to participate in a survey reporting the cost of operating their services. *Further information about the engagement of providers is included in [Appendix 2](#).*

Valuing Care have methodically analysed the response to the survey to produce the local survey results, which seek to identify the range and usual cost of delivering services in B&NES. *Further information about Valuing Care’s approach to survey analysis is included in [Appendix 3](#).*

The report also provides the Council with an explanation of Valuing Care’s methodology for determining a fair level of Return on Capital & Operations (ROCO). This takes into consideration several factors including local rental values, the market value of care homes, and typical investment yields from care home real estate.

To corroborate the local survey results, Valuing Care have used their cost model and national intelligence of care home operating costs to construct benchmark rates for care home services in B&NES. Where there is a close level of similarity between the data sets, this should provide commissioners with additional confidence in the usual cost of operating services locally.

4. Response to the Survey

A total of 24 provider organisations operating 32 registered care homes located in B&NES were originally invited to participate in the survey.

In response to the survey, 8 providers completed the iESE tool for 16 care homes. This includes 1 provider who completed the tool for 7 care homes.

Invitations were subsequently withdrawn to 4 providers operating 4 care homes, as they do not provide generic services for older people or are going through a period of business change.

The following table summarises the final survey response by registration category:

Table 5 – Summary of final survey response

Final Survey Response	Residential	Nursing	Total Care Homes
Total invited to participate	12	20	32
Invitation withdrawn - wrong service type	2	2	4
Revised number invited to participate	10	18	28
Completed iESE tool	4	12	16
Response Rate (%)	40%	67%	57%
Excluded from the survey results	0	0	0
Included in the survey results	4	12	16

Receiving completed templates from 57% of the revised number invited to participate represents a positive response to the local survey.

All of the submissions were considered suitable for inclusion in a sample which has been used to identify the local survey results.

The iESE tool asked providers to report on the different types of need met within their care homes, including a breakdown of occupancy and a summary of care and nursing staff levels. The purpose of this requirement was to calculate the cost of care and nursing staff provided to people within each needs group.

The following table summarises the number of care homes who reported that they were delivering services to each needs group, and identified their care and nursing staffing levels in April 2022.

Please note that 2 of the 16 care homes who completed the tool did not report their care and nursing staff inputs (and are therefore excluded from the following table).

Table 6 – Number of care homes who reported staffing levels to each needs group

Service Types reported on:	Residential	Nursing	Total Care Homes
Residential Older People	4	3	7
Residential Dementia	2	3	5
Nursing Older People	n/a	8	8
Nursing Dementia	n/a	6	6

The table shows that 7 care homes reported staffing levels for residential older people services, and 5 care homes residential dementia. The number of homes reporting residential older people and dementia is increased by some nursing homes also providing services to these needs groups.

Of the 12 nursing homes who completed the tool, 8 reported staffing levels for nursing older people and 6 for nursing dementia.

Valuing Care normally recommend a sample of at least 10 to generate a reliable survey result. Thus, the number of care homes included in each needs group creates some uncertainty about the reliability of these results.

5. Information Requirements – iESE tool

The iESE software was commissioned by the Local Government Association (LGA) and the Association of Directors of Adult Social Services (ADASS), to help Councils meet the DHSC requirements.

The software required care homes to provide a range of information about the cost of running their service. This included:

- A statement of expenditure for the year ending 31st March 2022
- The percentage increase in costs between 2021/22 and 2022/23
- A statement of current occupancy by needs group, differentiating between: residential older people, residential dementia, nursing older people and nursing dementia
- A statement of occupancy by needs group for the year ending 31st March 2022
- A summary of the current cost of employing nursing and care staff per hour
- A summary of nursing and care staff on duty throughout the day/night to meet the mix of needs on each unit of the care home

- Return on capital and operations (ROCO) requirements

The aim of these information requirements is to calculate unit costs for each of the needs groups served by each care home at 2021/22 and 2022/23 prices.

Whilst 16 care homes in B&NES reported the cost of delivering their services for the year ending 31st March 2022, only 9 care homes identified a percentage increase to 2022/23 prices.

The 7 care homes who did not identify a percentage increase were automatically excluded by the software from the data extract for 2022/23.

Due to the limited sample of homes who reported their costs at 2022/23 prices, the survey results presented in the following sections of this report reflect the year to 31st March 2022.

6. Survey Results 2021/22 – Care Home Staffing

The following table presents a percentile analysis of the average unit costs reported for care home staffing. The totals for each needs group are the medians reported across all providers within the sample, and are not the sums of the columns.

Table 9 – Survey Results – Percentile Analysis of Care Home Staff Costs PRW

Expenditure Types	Count	1st Quartile	Median	3rd Quartile	IQR
Nursing Staff - Nursing Older People	10	£162	£214	£343	£181
Nursing Staff - Nursing Dementia	8	£159	£204	£333	£175
Care Staff - Residential Older People	9	£327	£353	£360	£33
Care Staff - Residential Dementia	7	£310	£342	£354	£44
Care Staff - Nursing Older People	10	£273	£311	£350	£78
Care Staff - Nursing Dementia	8	£338	£358	£388	£50
Therapy Staff	0	£0	£0	£0	£0
Activity Coordinators	15	£12	£14	£17	£5
Service Mangement	14	£21	£31	£55	£33
Reception & Admin staff	15	£12	£16	£23	£11
Chefs / Cooks	15	£19	£30	£41	£22
Domestic Staff	15	£46	£90	£97	£51
Maintenance & Gardening	8	£14	£22	£31	£17
Other care home staffing	2	£35	£38	£42	£7
TOTAL STAFF - Residential Older People	8	£553	£589	£618	£64
TOTAL STAFF - Residential Dementia	6	£495	£574	£591	£97
TOTAL STAFF - Nursing Older People	9	£639	£672	£914	£275
TOTAL STAFF - Nursing Dementia	7	£669	£723	£898	£229

The table shows the median total staff costs of £589 for residential older people, £574 for residential dementia, £672 for nursing older people and £723 for nursing older people.

The main reason for the differential between residential and nursing services can be attributed to the additional cost of employing nursing staff, with a median cost of £214 nursing older people and £204 nursing dementia.

The median cost of care staff appears fairly consistent across the needs group (c. £350), except for nursing older people (£311).

The cost types showing the highest level of variability are expenditure on nursing staff for nursing older people (IQR=£181) and nursing dementia (IQR=£175). Where a wide range of values is reported for a particular cost type (with a high IQR), this creates uncertainty about the usual cost of this element.

Conversely, the reported cost of care staff shows lower levels of variability across each of the needs groups. The Council may take greater confidence in what represents a reasonable allocation for care staff costs.

The unit cost of care and nursing staff for 2021/22, are based on total expenditure divided by average occupancy for the year, assuming care and nursing hours for each needs group are maintained in the same proportions as 2022/23.

To provide further understanding of the basis of these figures, the following table presents a percentile analysis of the average nursing and care staff inputs identified for each needs group (based on reported staffing levels in April 2022).

Please remember that 2 of the 16 care homes who completed the tool did not report their care and nursing staff inputs (and are therefore excluded from the following table).

Table 10 – Survey Results – Percentile Analysis Nursing and Care Staff Inputs PRW

Hours per Resident Week	Count	1st Quartile	Median	3rd Quartile	IQR
Nursing Staff - Nursing Older People	8	6.6	7.7	13.6	6.9
Nursing Staff - Nursing Dementia	6	6.4	7.6	8.9	2.5
Care Staff - Residential Older People	7	22.3	23.4	27.1	4.8
Care Staff - Residential Dementia	5	22.3	23.4	27.3	5.1
Care Staff - Nursing Older People	8	21.1	22.0	24.3	3.2
Care Staff - Nursing Dementia	6	27.7	29.7	36.6	8.9

The table shows the median nursing staff hours to be consistent for nursing older people (7.7 hrs) and nursing dementia (7.6 hrs).

The median care staff hours are also consistent for residential older people (23.4), residential dementia (23.4 hrs). Of the 4 homes delivering residential older people and residential dementia services, all reported the same level of care for each needs group.

The consistency in care staff inputs is partly due to the methodology of the iESE software which assumes people receiving care on the same unit receive equal amounts of care (irrespective of needs group).

Contrary to this point, the median care staff hours for nursing dementia (29.7 hrs) is significantly higher than for nursing older people (22.0 hrs). Of the 4 nursing homes delivering nursing older people and nursing dementia services, 3 reported higher levels of care for nursing dementia.

7. Survey Results 2021 /22 – Non staff costs

The following table presents a percentile analysis of non-staff costs reported by care homes in B&NES.

Table 13 – Survey Results – Percentile Analysis of Non-Staff Costs PRW

Expenditure Types	Count	1st	Median	3rd	IQR
Fixtures & fittings	7	£9	£17	£24	£15
Repairs and maintenance	14	£28	£41	£46	£17
total - F&F, Repairs & Maintenance	15	£37	£43	£54	£17
Furniture & equipment	14	£5	£10	£22	£18
Other care home premises costs	2	£12	£16	£20	£8
TOTAL - PREMISES	15	£49	£62	£75	£25
Food supplies	15	£38	£46	£49	£11
Domestic and cleaning supplies	14	£9	£11	£12	£3
Medical supplies excluding PPE	15	£2	£2	£8	£6
PPE	3	£4	£4	£4	£0
Office supplies (home specific)	15	£2	£3	£4	£2
Insurance (all risks)	15	£2	£4	£6	£4
Registration fees (incl DBS checks)	15	£3	£3	£5	£2
Telephone & internet	15	£1	£1	£2	£1
Council tax / rates	15	£1	£1	£1	£0
Electricity, Gas & Water	15	£22	£25	£32	£10
Trade and clinical waste	15	£2	£3	£5	£3
Transport & Activities	15	£1	£5	£6	£5
Other care home supplies	14	£6	£9	£13	£7
TOTAL - SUPPLIES & SERVICES	15	£111	£119	£128	£17
Central/Regional Management	14	£7	£11	£46	£40
Support Services	14	£20	£39	£47	£26
Recruitment and Training	7	£5	£9	£19	£14
Other head office costs	5	£8	£8	£79	£71
TOTAL - HEAD OFFICE	14	£51	£84	£118	£67
TOTAL OP COSTS - Residential Older	8	£839	£882	£935	£96
TOTAL OP COSTS - Residential Dementia	6	£749	£882	£922	£173
TOTAL OP COSTS - Nursing Older People	9	£872	£942	£1,229	£357
TOTAL OP COSTS - Nursing Dementia	7	£907	£930	£1,163	£256
Return on operations	14	£80	£87	£93	£13
Return on capital	13	£103	£129	£176	£73
TOTAL - ROCO	13	£199	£250	£269	£70
TOTAL RATE - Residential Older People	8	£920	£1,026	£1,083	£163
TOTAL RATE - Residential Dementia	5	£893	£929	£1,024	£131
TOTAL RATE - Nursing Older People	9	£1,080	£1,201	£1,241	£161
TOTAL RATE - Nursing Dementia	6	£1,189	£1,210	£1,263	£74

The table shows the median cost of premises to be £62 PRW, supplies & services £119 and head office £84 across the sample of all homes.

Median total operating costs for residential older people and residential dementia are consistent at £882 PRW (including care home staffing costs). Median total operating costs for nursing older people and nursing dementia also appear similar at £942 and £930 PRW, despite the higher levels of care staff inputs previously identified for nursing dementia.

The median total rates for services include amounts for return on capital and operations (ROCO). These amounts are expected to cover the cost of Interest, Tax, Depreciation of buildings, Amortisation and Rent (ITDAR), as well as the profit expectations of the owner. The iESE tool calculated an amount for return on operations (ROO) based on the required mark-up on total operating costs specified by each care home divided by average occupancy in 2021/22.

The median ROO of £87 is shown to vary negligibly across the middle fifty (IQR=£13), reflecting uniformity in providers expected returns.

The iESE tool calculated an amount for return on capital (ROC) based on either:

- the freehold valuation and expected yield/ return on investment specified by each care home, divided by average occupancy for 2021/22
- the amount of ROC expected per resident week

The median ROC of £129 PRW is also shown to vary more widely across the middle fifty (IQR=£73), reflecting differences in freehold valuations and expected return on investment.

The following table presents a percentile analysis of the cost drivers which have been used by the iESE tool to calculate the amounts for ROC and ROO for each care home.

Table 13 – Survey Results – Percentile Analysis of Non-Staff Costs PRW

Service Details	Count	1st Quartile	Median	3rd Quartile	IQR
Registered Capacity	16	36	48	61	25
Average Occupancy 2021/22	16	78.9%	90.4%	95.2%	16.3%
Return on Operations % (ROO)	13	10.0%	10.0%	10.0%	0.0%
Freehold valuations per bed	12	£72,997	£95,319	£124,236	£51,239
Return on Capital % (ROC)	8	7.0%	7.0%	7.0%	0.0%

The table shows care homes typically expect to make a 10% mark up on total operating costs (ROO), not varying across the middle fifty.

Only 8 care homes specified their ROC expectations as a percentage, with a median value of 7%. Again there was no variation across the middle fifty.

The low variation in the percentages for ROC and ROO can be partly attributed to the inclusion of 1 provider operating 7 care homes within the sample.

A total of 12 care homes reported an estimate of the freehold value of their care home, with a median valuation of £95k per registered bed – these ranged between £73k and £124k across the middle fifty percent of care homes, indicating wide variability.

While freehold valuations are likely to be subjective, the spread of valuations (IQR=£51k), is also likely to reflect a combination of factors including the location of the service and the quality of the building.

The median percentage occupancy of 90.4% of registered beds (in 2021/22) is about par for the sector, and is consequently not detrimental to the unit cost of ROCO. [Under the workings of the iESE model, a high level of vacancies increases the amount of ROCO per resident week, as expected total returns are divided by occupied places.]

8. Survey Results – Cost per Nursing and Care Hour (April 2002)

For the purpose of calculating unit costs at 2022/23 prices, the iESE tool requested that care homes report the cost of employing nursing and care staff per hour (at April 2022).

The following table presents a percentile analysis of the average rates of basic pay, and the average total direct cost per hour for nursing and care staff.

The average rates of basic pay are a weighted average of the rates paid to each type of staff. For example, the rate for carers is the blended rate for care assistants and senior care assistants, weighted by the number of hours per week.

The average total direct costs for each type of staff includes, provision for employers national insurance, pension contributions, the cost of cover for holidays, staff training and sickness, and agency staff costs.

Please note, the 7 care homes who did not identify a percentage increase between years were automatically excluded by the software from the data extract for 2022/23, and are therefore excluded from this table. A further 2 care homes didn't identify their nursing and care staff costs per hour.

Table 10 – Survey Results – Percentile Analysis Nursing and Care Staff Costs per Hour

Cost per Hour	Count	1st Quartile	Median	3rd Quartile	IQR
Average Nurse basic pay per hour	4	£18.53	£19.33	£20.14	£1.61
Average Carer basic pay per hour	7	£10.46	£10.63	£11.04	£0.58
Average Nurse - total direct cost/hour	4	£25.42	£26.31	£27.29	£1.88
Average Carer - total direct cost/hour	7	£13.56	£14.35	£17.99	£4.44

The table shows that nurses are typically paid £19.33 per hour and that carers are typically paid £10.63 per hour.

The median total direct cost of nursing staff at £26.31 /hr, and carers at £14.35/hr, suggest that the combined cost of employers NI, pension, cover and agency staff equates to approximately 36% of basic pay for nurses, and 35% of basic pay for carers.

9. Fair Price of Care – Provision for Total Operating Costs (2022/23)

To calculate Fair Price of Care (FPoC) Rates which reflect the cost of delivering services in B&NES, VC recommend aggregating the median cost for each expenditure type reported by care homes in the local survey.

A cost structure based on the 50th percentile (or median amounts), could be used to describe a notional provider with average or usual costs across all expenditure types.

To calculate fair provision for nursing and care staff Valuing Care have multiplied the median nursing and care hours identified in the survey by the median total direct cost of employing each type of staff (at April 2022 prices).

The following table summarises the calculation of estimated expenditure on nursing and care staff for each needs group at 2022/23 prices.

Table 11 – FPoC – Estimated expenditure on nursing and care staff 2022/23

	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Median Nursing Hours PRW	-	-	7.7	7.6
Median Care Hours PRW	23.4	23.4	22.0	29.7
Median Cost per Nursing Hour	-	-	£26.31	£26.31
Median Cost per Care Staff Hour	£14.35	£14.35	£14.35	£14.35
Estimated Exp. on Nursing Staff	0	£0	£202	£201
Estimated Exp. on Care Staff	£336	£336	£316	£426

For all other expenditure types Valuing Care have assumed the median costs for 21/22 across the sample including all 16 care homes who participated in the survey. This is due to the significant number of care homes (7) which did not identify a percentage uplift to current year prices.

To update the median costs to 2022/23 prices, Valuing Care have adjusted the median cost for 2021/22 in line with the following indices:

- Service management and head office costs have been adjusted in line with the Average Weekly Earnings (AWE) series for health and social work (K5BC). The measure rose by 4.7% in the year to April 2022
- Other care home/ ancillary staff have been adjusted in line with the National Living Wage (NLW) for workers aged 23 and above. The NLW increased from £8.91 to £9.50 per hour in April 2022, representing an increase of 6.6% per annum
- Non staff costs have been adjusted in line with the most relevant item in the CPI Consumer Price Index (CPI). The overall measure rose by 9% in the year to April 2022
- Provision for Electricity, gas & water has been adjusted in line with fuel price indices for the industrial sector published by the Department for Business, Energy & Industrial Strategy (BEIS), assuming a 50:50 fuel mix of electricity and gas. The measure rose by 46% in the year to March 2022

The following table presents a summary of the FPoC allocations for total operating costs for each needs group at 2022/23 prices, also identifying the rate of adjustment applied to each expenditure type.

As some care homes did not provide a breakdown of expenditure between fixtures & fittings and repairs & maintenance, Valuing Care have assumed the median total of both these items.

Where the count of providers reporting a particular expenditure type is less than 50% of the sample group, this should not be considered a usual cost. Consequently the FPoC rates do not include any provision for 'other staffing', 'other premises' and 'other head office' costs, which were reported by the minority of care homes.

Table 19 – Fair Price of Care – Provision for Total Operating Costs 2022/23

Expenditure Types	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Nursing Staff	£0	£0	£202	£201
Care Staff	£336	£336	£316	£426
Activity Coordinators	£15	£15	£15	£15
Service Mangement	£32	£32	£32	£32
Reception & Admin staff	£17	£17	£17	£17
Chefs / Cooks	£32	£32	£32	£32
Domestic Staff	£96	£96	£96	£96
Maintenance & Gardening	£23	£23	£23	£23
SUB TOTAL - STAFFING	£551	£551	£732	£841
Fixtures & fittings + repairs & m'tce	£46	£46	£46	£46
Furniture & equipment	£12	£12	£12	£12
SUB TOTAL - PREMISES	£58	£58	£58	£58
Food supplies	£49	£49	£49	£49
Domestic and cleaning supplies	£12	£12	£12	£12
Medical supplies excluding PPE	£2	£2	£2	£2
PPE	£0	£0	£0	£0
Office supplies (home specific)	£3	£3	£3	£3
Insurance (all risks)	£4	£4	£4	£4
Registration fees (incl DBS checks)	£3	£3	£3	£3
Telephone & internet	£1	£1	£1	£1
Council tax / rates	£1	£1	£1	£1
Electricity, Gas & Water	£36	£36	£36	£36
Trade and clinical waste	£3	£3	£3	£3
Transport & Activities	£5	£5	£5	£5
Other.....	£10	£10	£10	£10
SUB TOTAL - SUPPLIES & SERVICES	£132	£132	£132	£132
Central/Regional Management	£11	£11	£11	£11
Support Services	£41	£41	£41	£41
Recruitment and Training	£9	£9	£9	£9
SUB TOTAL - HEAD OFFICE	£62	£62	£62	£62
TOTAL OPERATING COSTS (TOCS)	£802	£802	£984	£1,092

The table shows the total operating costs of a residential older people and residential dementia service to be £802/week, as the median care staff inputs identified in the survey results were the same for these needs groups.

The total operating costs of a nursing dementia service at £1,092 significantly exceeds the cost of a nursing older people at £984, due to the additional care staff inputs identified in the survey (+7.7 hrs).

The estimated cost of nursing staff at approximately £202 per week for both nursing older people and nursing dementia is marginally less than the current rate of NHS funded nursing care which is paid at £209.19 per week.

It is important to note some activities undertaken by nursing staff (including general management and administration), are not required to be undertaken by a nurse, and are excluded by the Department of Health and Social Care (DHSC) when determining the amount of NHS funded nursing care (FNC).

The most recent review of FNC prepared for the DHSC by Laing Buisson in 2019 concluded that 88% of total nursing time and costs were eligible for FNC.

Acknowledging that FNC is only expected to cover 88% of total nursing time and costs, the estimated direct cost of nursing staff at £202 per week appears relatively low.

10. Fair Price of Care – Provision for Return on Capital & Operations (ROCO)

To calculate a fair price for care home services, additional provision needs to be made for return to the care homeowner and service provider.

Valuing Care's preferred approach to determining a fair level of return is to separately calculate a return on capital (ROC) and a return on operations (ROO). The ROC rewards the care homeowner for their investment in land and buildings based on evidenced market rents, whilst the ROO rewards the operator for providing health and social care services, over and above a private landlord service.

11.1 Fair Price of Care – Return on Capital (ROC)

To inform an assessment of what represents a fair level of ROC, Valuing Care take into consideration several factors including local rental values, the estimated freehold values of care homes and typical investment yields from care home real estate. By considering each of these factors, Valuing Care seeks to achieve a rational and balanced approach to determining ROC, which is both fair to care homeowners and commissioners alike.

Local Rental Values

Historically Valuing Care have used ¹Local Housing Allowance (LHA) rates for one-bedroom accommodation as a guide to determining a fair level of ROC. LHA rates are used to limit the amount of housing benefit for tenants renting from private landlords, and the rates vary dependent upon the Broad Rental Market Area (BRMA) where a person resides.

Bath and North East Somerset is mainly covered by Bath BRMA. The current rate for one-bedroom accommodation is £166.85 per week.

In Valuing Care’s experience LHA rates provide a helpful proxy for the purpose of calculating a fair level of ROC. The one-bedroom rate should afford a person their own self-contained accommodation, including their own kitchen, and bathroom facilities. Valuing Care believe this level of accommodation to be at least equivalent to a room in a care home with a private bathroom.

When calculating fair provision for ROC, Valuing Care expect the total rent to cover annual expenditure on fixtures, fittings, building repairs and maintenance, as well as the capital investment in property.

The following table shows the apportionment of the one-bedroom rate for Bath BRMA to cover median expenditure on fixtures, fittings, building repairs and maintenance (reported by care homes in B&NES). The weekly return from an occupied place is calculated as the balancing figure.

Table 24 – Financial Apportionment of Rent

Cost Group / Cost Element	Financial Apportionment of Rent (based on the 1-bedroom rate)
Fixtures & Fittings + Repairs & Maintenance	£46.10
Weekly Return from Occupied Place	£120.75
Total Rent	£166.85

The table shows that a rent equal to the one-bedroom rate will provide a return of £120.75 per week from an occupied place, after allowing for median levels of expenditure on fixtures & fittings, and repairs & maintenance.

¹ LHA rates are mathematically calculated by the local Rent Officer in accordance with Government protocol. The rates are usually based on the 30th percentile on the list of private rental values (being paid in the BRMA), although there are restrictions on how the rates are uplifted annually and maximum weekly rents.

To put this return in context it should be considered against the typical freehold values of care homes in B&NES.

Estimated Freehold Valuations

The iESE tool asked providers to give an estimate of the freehold value of their care home, which was used to calculate a value per registered place.

To corroborate the valuations reported by local providers, Valuing Care routinely monitor care homes for sale across the UK.

The following table presents a percentile analysis of values reported by care homes in B&NES in 2022, the values previously reported by care homes in B&NES in 2020, and the asking prices of care homes for sale in Somerset, Gloucestershire and Wiltshire over the last 3 years.

Table 25 – Average Values per Registered Place

Average market value / bed	Count	1st Quartile	Median	3rd Quartile
Care homes for sale in Somerset, Wiltshire & Glos.	15	£50,781	£63,462	£77,635
B&NES Survey Results 2020	14	£65,183	£99,250	£116,486
B&NES Survey Results 2022	12	£72,997	£95,319	£124,236

The table shows the valuations reported in the 2022 cost survey to exceed the asking prices of care homes for sale in Somerset, Wiltshire & Gloucestershire. To some extent this may be explained by the quality of the care homes advertised for sale, which are unlikely to include prime care home stock.

Care homes located in B&NES are also likely have higher freehold values than neighbouring authorities where real estate prices are typically between 30%–40% lower.

Consequently, VC believe the valuations reported in B&NES in 2022, which are consistent with those previously reported in 2020 are not unreasonable.

Net Yield on Investment

Accepting that freehold valuations are likely to range between £70k and £120k per registered bed, it is possible to calculate the net yield likely to be achieved from the LHA one bedroom rate (after allowing for median levels of expenditure on fixtures & fittings and repairs & maintenance).

The following table presents the net yield per place across the estimated range of market valuations assuming 90.4% occupancy (the median level of occupancy reported in the B&NES survey).

Table 26 – Summary of Net Yield

Cost Group / Cost Element	Return on Capital based on the 1-bedroom rate
Annual return from 90.4% occupied place	£5,692
Net Yield on £70,000 Market Valuation	8.1%
Net Yield on £95,000 Market Valuation	6.0%
Net Yield on £120,000 Market Valuation	4.7%

The table shows that the LHA one-bedroom rate will generate a net yield of approximately 6% on a market valuation of £95k per place (at 90.4% occupancy).

Research by Knight Frank ‘Healthcare Capital Markets 2019’ reported that – “Yields for different healthcare property types range from 4% to 6% with tenant covenant, the level of acuity, and the resident (or patient) profile being the main determining factors. We have seen continued compression in the elderly care segment with prime and super-prime care homes transacting at yields as low as 3.75% in 2018. This reflects well-located, purpose-built stock with the strongest covenant and operating in the sought-after self-funder market. However, the more typical core stock, which tends to require more capital expenditure to bring up to standard and usually contains a more even mix of self-funded and publicly funded residents is currently trading between 5–6% (NIY)”.

The latest research by Knight Frank ‘Healthcare Capital Markets 2021’ reports that – “Core market elderly care stock has been trading closer to 6% and above in 2020.”

The table has shown that the shared accommodation rate will generate a net yield of approximately 6% on a freehold valuation of £95k per place. This level of return is consistent with the market rate of return for core stock, typically providing services to “a more even mix of self-funded and publicly funded residents”.

Rational for Varying ROC

Accepting a net yield of 6% as the market rate of return for core stock, but that care home values are likely to vary depending on location and quality of stock, a reasonable case can be made for maintaining this yield across the estimated range of freehold valuations. This would effectively reward care home owners for investing in higher environmental quality.

The following table shows the amount of ROC required to maintain a yield of 6% across the range of freehold valuations.

Table 27 – Valuing Care’s recommended provision for ROC

Cost Group / Cost Element	Return on Capital (ROC)	Net Yield at 90.4% Occupancy
Low Market Valuation - £70,000 per place	£88.97	6.0%
Mid-Market Valuation - £95,000 per place	£120.75	6.0%
High Market Valuation - £120,000 per place	£152.52	6.0%

The table provides justification for varying provision for return on capital between £89 and £152 per resident week, depending on the environmental quality of each care home. To implement a system of price discrimination between homes requires a robust system of quality monitoring to be in place. While Valuing Care are aware of other Councils who employ these systems, paying an enhanced rate for higher environmental quality, would seem to represent a payment exceeding the usual costs of care.

Consequently, for the purpose of constructing FPoC rates, Valuing Care recommend a net yield of 6% on the mid valuation of £95k per place, (equating to £121 per week).

Valuing Care recognise that return on capital is the area of least confidence in these figures as it is possible that some figures were duplicated in returns. The Local Authority will need to do further due diligence to ensure the figures are used appropriately to arrive at a fair price of care.

11.2 Return on Operations & Fair Price of Care Rates

Unlike all other elements of a care home fee, return on operations (ROO) is not expected to cover an associated cost, but to reward the care homeowner for delivering the care service. What constitutes a fair level of ROO is therefore subjective and an area where Councils may choose to apply some discretion.

For this report, Valuing Care have included a provisional allocation for ROO at 5% of total operating costs. Similarly to ROC, Valuing Care believe there is a reasonable case for varying the amount of ROO to reflect the quality of a care homes operations – this could potentially be linked to achievement of the Care Quality Commission’s ratings, or to an independent system administered by the Council.

As the amount of ROO is dependent on total operating costs, this allocation varies depending on needs group.

Assuming the survey results to be an accurate reflection of the usual cost of delivering services in Bath and North East Somerset and Valuing Care’s recommended provision for ROC and provisional allocation for ROO, the following table summarises Fair Price of Care rates for B&NES.

Table 28 – Fair Price for Care Rates (FPoC)

FPoC Rate Summary	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Total Operating Costs	£802	£802	£984	£1,092
Return on Capital	£121	£121	£121	£121
Return on Operations	£40	£40	£49	£55
Total FPoC Rate	£963	£963	£1,154	£1,268
% ROCO / EBITDAR	16.7%	16.7%	14.7%	13.8%

The table shows the FPoC rate to be £963 for residential older people and residential dementia, £1,154 for nursing older people and £1,268 for nursing dementia (including the cost of nursing staff).

The total provision for ROCO equates to approximately 17% of the total benchmark rates for residential services and 14% for nursing services. The reason for the differential is Valuing Care’s standard provision for ROC which makes up a greater proportion of the benchmark rate for a residential service.

11. Bespoke Pricing of Services

The FPoC rates presented above are based on the delivery of an average level of care to service users within each needs group. Consequently higher or lower levels of care may be required to meet the needs of some service users, which requires a bespoke pricing mechanism.

When calculating a bespoke price, the main cost driver is the number of care staff hours required to meet an individual service user’s need. Valuing Care recommend these should be quantified in rota form, differentiating between shared care and additional 1:1 hours.

To allow the calculation of a fair price to meet the specific needs of individual service users, Valuing Care have calculated hourly rates for procuring additional care and nursing hours.

The rates for additional care and nursing hours cover the direct cost of employing staff (including on-costs, cover requirements and agency), and allowance for ROO at 5% of the additional operating costs.

The hourly rates do not include any further contribution to service management, central management & support service costs, which are assumed to be shared equally between all services users and therefore covered by the standard FPoC rates presented above.

The following table sets out FPoC rates for additional care hours, based on the median direct cost of care and nursing staff reported in the local survey.

Table 29 – FPoC Rates for Additional Hours

Staff / Cost Type	Blended Care Assistant	Blended Nurse
Direct Cost per Hour	£14.35	£26.31
Return on Operations	£0.72	£1.32
FPoC Rate for Additional Hours	£15.07	£27.63

When procuring additional hours for a service user, it is important to ensure their care requirements cannot be met by the hours allowed within the standard FPoC rate.

12. Constructing Benchmark Rates

To corroborate the local survey results, VC has used its cost model and national intelligence of service costs to construct benchmark rates for each needs group in Bath and North East Somerset (at April 2022 prices).

Valuing Care's cost model is based on years of experience, methodical collection of service cost data and cost validation processes.

Valuing Care's database currently contains over 700 anonymised cost records for care home services for older people, collected over the last 5 years. By referencing this large sample, usual costs can be identified with greater confidence than just working on a theoretical basis, or from a smaller sample group.

As a general principle when constructing benchmark rates, Valuing Care take the median value for each cost driver/type (from the database), which are then aggregated to form the benchmark rates.

Valuing Care's cost model also requires an estimate of basic pay per contact hour for each type of staff. It is important these allocations are localised to reflect the employment market in the area the benchmark rate is being calculated for.

A brief summary of how VC constructed benchmark rates for Bath and North East Somerset:

- Care and nursing staff inputs based on the average hours PRW reported in previous surveys (of care homes for older people and dementia)
- Rates of pay based on an independent review of jobs recently advertised by care home providers operating in Bath and North East Somerset
- Allowance for non-staff costs based on the median costs reported in previous surveys, adjusted for inflation to April 2022 prices
- Allowance for return on capital (ROC) to provide a 6% net yield on a freehold valuation of £95k per place, assuming 90.4% occupancy
- Allowance for return on operations (ROO) to provide a 5% mark up on total operating costs

13.1 Benchmark Care and Nursing Staff Costs

The following tables present a summary of the estimated cost of care and nursing staff included in the benchmark rate for each needs group. These estimates are calculated by multiplying the average hours reported in previous surveys, by the estimated cost of employing each type of staff per hour (including employers on costs and cover requirements).

Table 30 – Benchmark Allocations for Care and Nursing Staff

	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Nursing Hours per Resident Week	0.0	0.0	7.8	7.2
Care Hours per Resident Week	21.8	24.6	21.4	25.7
Estimated Cost per Nursing Hour	n/a	n/a	£26.04	£26.04
Estimated Cost per Care Staff Hour	£14.37	£14.37	£14.26	£14.26
Estimated Exp. on Nursing Staff	£0	£0	£202	£186
Estimated Exp. on Care Staff	£314	£353	£304	£366

The table shows increased allocations for care homes providing dementia services, compared to those for older people. In Valuing Care’s experience care homes providing dementia services typically report higher levels of care staff than care homes providing generic services for older people.

Please note that the benchmark allocations for staff inputs are based on the delivery of an average level of care to service users within each needs group. Valuing Care recognise that higher or lower levels of care may be required to meet the needs of some service users within each needs group.

Further information about Valuing Care’s benchmark staffing costs is included in [Appendix 4](#).

13.2 Benchmark Operating Costs

The following table details the allocations for each expenditure type included in the benchmark rates for each needs group (at April 2022 prices).

Table 31 – Benchmark Allocations for Total Operating Costs

Expenditure Types	Residential	Residential	Nursing Older	Nursing
Nursing Staff	£0	£0	£202	£186
Care Staff	£314	£353	£304	£366
Activity Coordinators	£11	£11	£11	£11
Service Mangement	£44	£44	£37	£37
Reception & Admin staff	£14	£14	£14	£14
Chefs / Cooks	£34	£34	£34	£34
Domestic Staff	£43	£43	£43	£43
Maintenance & Gardening	£11	£11	£11	£11
SUB TOTAL - STAFFING	£470	£510	£655	£701
Fixtures & fittings + repairs & m'tce	£31	£31	£31	£31
Furniture & equipment	£7	£7	£7	£7
SUB TOTAL - PREMISES	£39	£39	£39	£39
Food supplies	£32	£32	£32	£32
Domestic and cleaning supplies	£7	£7	£7	£7
Medical supplies excluding PPE	£4	£4	£8	£8
PPE	£0	£0	£0	£0
Office supplies (home specific)	£3	£3	£3	£3
Insurance (all risks)	£4	£4	£4	£4
Registration fees (incl DBS checks)	£3	£3	£3	£3
Telephone & internet	£2	£2	£2	£2
Council tax / rates	£2	£2	£2	£2
Electricity, Gas & Water	£33	£33	£33	£33
Trade and clinical waste	£4	£4	£4	£4
Transport & Activities	£3	£3	£3	£3
Other.....	£3	£3	£3	£3
SUB TOTAL - SUPPLIES & SERVICES	£101	£101	£105	£105
Central/Regional Management	£24	£24	£24	£24
Support Services	£24	£24	£24	£24
Recruitment and Training	£4	£4	£5	£6
SUB TOTAL - HEAD OFFICE	£52	£53	£54	£54
TOTAL OPERATING COSTS (TOCS)	£661	£702	£853	£899

The table shows provision for total operating costs to be £661 PRW for residential older people, and £853 PRW for nursing service older people.

The net variance in total operating costs of £192 PRW can be primarily attributed to additional nursing costs (+£202) and medical supplies (+£4), which are partly offset by reduced expenditure on care staff (-£10) and service management (-£7).

Previous surveys have shown median expenditure per service user to be largely consistent between registration categories, except for service management and medical supplies.

In Valuing Care's experience, service management costs are usually lower in nursing homes compared to residential services. This may be due to the economies of scale from operating larger services.

Conversely nursing homes usually spend more on medical supplies than their residential counterparts.

The additional cost of providing residential dementia services (£702 PRW) over and above a residential older people service, can be entirely attributed to increased care staff inputs.

The additional cost of providing nursing dementia services (£899 PRW), over and above a nursing older people service, can be attributed to a combination of increased care staff inputs (+£62), partly offset by reduced nursing staff inputs (-£16).

The benchmark allocation for nursing staff costs in a service for older people (£202 PRW) and in a service for dementia (£186) are both more than covered by the current rate of FNC (£209).

13.3 Total Benchmark Rate

The following table summarises Valuing Care's benchmark rates for each needs group (at April 2022 prices).

Provision for return on capital and operations is consistent with the allocations included in the FPoC rates (please see section 14 of this report).

Table 32 – Total Benchmark Rate

Benchmark Summary	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Total Operating Costs	£661	£702	£853	£899
Return on Capital	£121	£121	£121	£121
Return on Operations	£33	£35	£43	£45
Total VFM Rate	£815	£857	£1,016	£1,065
% ROCO / EBITDAR	18.9%	18.2%	16.1%	15.6%

13. Comparison of FPoC and Benchmark Allocations

The following table summarises the variance in total operating costs, between the FPoC and benchmark allocations.

Table 34 – Comparison of Total Operating Costs by Expenditure Type

Expenditure Types	Residential	Residential	Nursing Older	Nursing
Nursing Staff	-	-	£0	£15
Care Staff	£23	-£17	£12	£60
Activity Coordinators	£4	£4	£4	£4
Service Mangement	-£12	-£12	-£5	-£5
Reception & Admin staff	£3	£3	£3	£3
Chefs / Cooks	-£2	-£2	-£2	-£2
Domestic Staff	£53	£53	£53	£53
Maintenance & Gardening	£12	£12	£12	£12
SUB TOTAL - STAFFING	£81	£41	£77	£140
Fixtures & fittings + repairs & m'tce	£15	£15	£15	£15
Furniture & equipment	£5	£5	£5	£5
SUB TOTAL - PREMISES	£19	£19	£19	£19
Food supplies	£17	£17	£17	£17
Domestic and cleaning supplies	£5	£5	£5	£5
Medical supplies excluding PPE	-£1	-£1	-£6	-£6
PPE	£0	£0	£0	£0
Office supplies (home specific)	£0	£0	£0	£0
Insurance (all risks)	£0	£0	£0	£0
Registration fees (incl DBS checks)	£0	£0	£0	£0
Telephone & internet	-£1	-£1	-£1	-£1
Council tax / rates	-£1	-£1	-£1	-£1
Electricity, Gas & Water	£4	£4	£4	£4
Trade and clinical waste	-£1	-£1	-£1	-£1
Transport & Activities	£2	£2	£2	£2
Other.....	£7	£7	£7	£7
SUB TOTAL - SUPPLIES & SERVICES	£31	£31	£27	£27
Central/Regional Management	-£13	-£13	-£13	-£13
Support Services	£17	£17	£17	£17
Recruitment and Training	£6	£5	£4	£4
SUB TOTAL - HEAD OFFICE	£9	£9	£8	£7
TOTAL OPERATING COSTS (TOCS)	£141	£101	£131	£193

The table shows the FPoC allocations for total operating costs to exceed the benchmark between £101 for residential dementia and £193 for nursing dementia.

The adverse variances can be primarily attributed to a combination of median expenditure on domestic staff (+£53), supplies & services (+£31 / +£27), and premises (+£19). The FPoC allocations for care staff also exceed benchmark for residential older people (+£23), nursing older people (+£12), and nursing dementia (+£60).

To some extent the relatively high expenditure reported in B&NES may reflect decisions by local care homes to provide higher levels of service to their customers.

In VC's experience undertaking cost surveys for Councils across the country, benchmark provision for operating costs is likely to be a good indication of the usual cost of providing care home services. VC also acknowledge that there is likely to be variation in the average service offer between areas, likely reflecting levels of income deprivation amongst older people, and the percentage of self-funders procuring services.

To provide further understanding of the reasons for the nursing and care staff variances, the following table presents the difference between median expenditure per resident week, median staff inputs, and the median hourly rates. This is also presented as price and usage variance in the subsequent table.

Table 35 – Variance in staff inputs and hourly rates

	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Nursing Hours per Resident Week	-	-	-0.1	0.5
Care Hours per Resident Week	1.6	-1.2	0.7	4.0
Median Cost per Nursing Hour	-	-	£0.28	£0.28
Median Cost per Care Staff Hour	-£0.02	-£0.02	£0.09	£0.09
Median Exp. on Nursing Staff	-	-	£0	£15
Median Exp. on Care Staff	£23	-£17	£12	£60

Table 36 – Price and Usage Variances (Care & Nursing Staff)

	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia
Nursing Staff Pricing Variance	n/a	n/a	£2	£2
Nursing Staff Usage Variance	n/a	n/a	-£2	£13
Total Nursing Staff Variance	n/a	n/a	£0	£15
Care Staff Pricing Variance	£0	£0	£2	£3
Care Staff Usage Variance	£23	-£17	£10	£57
Total Care Staff Variance	£23	-£17	£12	£60

The tables show the adverse variances in weekly expenditure on nursing and care staff are mainly caused by the relatively high number of hours identified in the local survey results (usage variances).

In contrast, the cost of nursing and care staff per hour has been corroborated by Valuing Care’s independent review of local job advertisements. The Council may therefore take confidence in the usual cost of employing nursing and care staff in B&NES.

14. Appendices

15.1 Appendix 1 – About Valuing Care

Valuing Care Ltd (formerly OLM Financial Management Ltd) is a company which specialises in reviewing the cost of health and social care services.

Since its inception in 2006, Valuing Care have advised and assisted 114 Councils and 70 NHS groups in reviewing the cost of local care home services, making recommendations as to what represents a fair price for services. This experience has allowed the company to develop and refine its processes for surveying care home providers and identifying the usual costs of care.

Valuing Care have used the collective intelligence from previous surveys to construct a range of cost models that calculate benchmark rates for care home services. This review specifically uses Valuing Care's cost model for care home services for older people which has been adjusted to reflect local costs, including local rates of pay and property values. Valuing Care prides itself on its independence in the market and its objective approach to identifying usual costs.

15.2 Appendix 2 – Survey Engagement

To demonstrate a fair and equitable approach, the Council was keen to invite all care homes for older people and dementia located in B&NES to participate in the survey.

Valuing Care subsequently wrote to 32 care homes on the 7th June, inviting them to participate in the survey by completing the iESE tool.

The letter included guidance as to how to register with iESE and contact details for key members of staff involved in the project.

Each provider was subsequently telephoned to ensure receipt of the letter and to provide an opportunity to ask any further questions, and a reminder email or telephone call was actioned each week thereafter.

The iESE returns were analysed and queries raised with the providers until final approval for submission was granted.

All templates received up to the 6th September 2022 have been included in the survey results. No further templates were received after this date.

15.3 Appendix 3 – Survey Analysis

Valuing Care have consolidated the information reported by each provider and have used statistical percentiles to identify the range of costs and values reported across the sample and subsample groups.

The percentile analysis includes:

- The count of records within each sample
- The 25th percentile or 1st quartile amount
- The 50th percentile or median average
- The 75th percentile or 3rd quartile amount
- The interquartile range

The count of providers reporting each operating measure/expenditure type is important, as the more records included in each sample, the greater confidence can be taken from the result.

To calculate the usual cost of providing services, Valuing Care aggregate the median amount reported by service providers for each expenditure type. A cost structure based on the 50th percentile (or median amounts), could be used to describe a notional provider with average or usual costs across all expenditure types.

Valuing Care recommend use of the median average in preference to the mean average, as the mean can potentially be distorted by outliers arising from providers reporting particularly high or low costs.

Valuing Care also refer to the interquartile range (IQR) as a measure of variability, being equal to the difference between the upper and lower quartiles [IQR=Q3–Q1]. The inter-quartile range provides a clearer picture of the overall dataset by removing/ignoring the outlying values.

In assessing a benchmark cost structure that meets service user needs, it is important that cost allocations are fair to allow for the long-term sustainability of the services and allow for a reasonable return for the care provider. However this requirement must be balanced with an expectation that costs are not disproportionately high for delivery of the required service and represent a cost-effective purchase for the commissioner of the service.

Valuing Care believe the median amounts (from the survey results), achieve the required balance between fairness and efficiency, and use the same principle to construct the benchmark rates (presented later in this report).

15.4 Appendix 4 – Benchmark Staffing Costs

Care home staffing includes all the staff who work predominantly at the care home. This will usually include care and nursing staff, service management, reception/administration, kitchen, and domestic staff. It does not usually include the cost of central management and support services based either at head office or procured from third parties.

The total cost of care home staff will typically represent between 55%–70% of Valuing Care’s benchmark rates and is therefore a key component in determining a fair price.

A potentially significant variable between areas/regions are the rates paid to care home staff, which are likely to reflect the local employment market. To ensure Valuing Care’s benchmark rates reflect the local employment market, Valuing Care have undertaken an independent review of jobs recently advertised by care home providers operating in B&NES.

Rates of Pay

The following table summarises Valuing Care’s independent estimate of the total cost of employing care home staff locally.

The rate of basic pay reflects the median average rate of pay from Valuing Care’s research of recently advertised jobs in B&NES.

Valuing Care have made further allowance for employer’s on-costs and staff cover requirements on the following basis:

- Employers National Insurance Contributions – calculated as 15.05% of earnings above the secondary threshold of £9,100 per annum, assuming all employees are fulltime (37.5 hours per week)
- Employers Pension Contributions – calculated as 3% of earnings (the minimum required under automatic enrolment) above the lower level of qualifying earnings (£6,240), assuming all employees are fulltime
- Cover for holidays – based on the statutory annual leave entitlement of 5.6 weeks or 28 days for a full-time member of staff
- Cover for sickness and training – based on the consolidated results of previous cost surveys

Table 37 – Independent estimate of the cost of employing care home staff

Cost Type	Care Assistant	Senior Care Assistant	Nurse	Chef / Cook	Domestic Staff
Basic Pay per Hour	£10.90	£11.81	£19.69	£12.00	£10.13
NI	8.6%	9.1%	11.5%	9.2%	8.1%
Pension	2.1%	2.2%	2.5%	2.2%	2.1%
Sub Total	£12.07	£13.15	£22.44	£13.37	£11.16
Cover - Holiday	28.0	28.0	28.0	28.0	28.0
Cover - Sickness	3.0	3.0	3.0	3.0	3.0
Cover - Training	5.0	5.0	5.0	5.0	5.0
Total Cover Days	36.0	36.0	36.0	36.0	36.0
Cover - %	16.0%	16.0%	16.0%	16.0%	16.0%
Total Cost per Hour	£14.01	£15.25	£26.04	£15.51	£12.95

The table shows the median advertised rate in B&NES for care assistants at £10.90/hour, for senior care assistants at £11.81/hour and for registered nurses at £19.69/hour. These rates are based on a total of 9 adverts for care assistants, 6 for senior care assistants and 10 for nurses.

Please note that service management has been excluded from the above table. The infrequent advertisement of service manager/deputy manager positions does not usually provide Valuing Care with sufficient data to identify a statistically reliable result for a particular Council/CCG area.

To make provision for service management Valuing Care’s cost model allows a percentage mark up on total care home staff costs (excl. service management), based on the intelligence gained from previous cost surveys. This ensures Valuing Care’s provision for service management adjusts to reflect the local employment market for other care home jobs.

Staffing Input Hours per resident week

Valuing Care’s model for care home services for older people allows a defined number of staff hours per resident week (PRW). These are based on the average staff inputs reported in previous cost surveys.

Valuing Care acknowledge that there is likely to be variation in the average staffing hours between areas, likely reflecting levels of income deprivation amongst older people, and the percentage of self-funders procuring services.

The following table sets out Valuing Care’s standard provision for each needs group recognised within its database.

Table 38 – Valuing Care provision for Staff Input Hours per resident week

Type of Staff / Service	Residential Older People	Residential Dementia	Nursing Older People	Nursing Dementia	CHC
Care Worker	15.43	17.39	17.05	20.49	20.01
Senior Care Worker	6.39	7.20	4.30	5.17	5.05
Total Care Workers	21.82	24.59	21.35	25.66	25.06
Nursing Staff	0.00	0.00	7.75	7.15	7.74
Kitchen Chef/Cooks	2.17	2.17	2.17	2.17	2.17
Domestic Staff	3.30	3.30	3.30	3.30	3.30

The table shows higher allocations for care homes providing dementia services compared to standard services for older people.

The table also shows lower allocations for senior care assistants in nursing homes compared to residential. This may be due to the employment of nurses, who provide an extra layer of management in nursing homes.

Valuing Care’s model allows equal provision for kitchen and domestic staff in residential and nursing services, as previous surveys have previously indicated little difference in expenditure between registration categories.

Valuing Care’s allowance for staff inputs are based on the delivery of an average level of care to service users within each needs group. Valuing Care recognise that higher or lower levels of care may be required to meet the needs of some service users within each needs group.