# West Sussex Cost of Care Report Annex B
# 65+ Care Homes

| Response Rate as a % of those invited |
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There were 229 registered care homes in scope (predominantly for older people, aged 65+) located within the boundaries of West Sussex County Council (WSCC), after removing homes primarily for younger adults. DHSC guidance states that only older people's care homes in contact with local authorities are in scope, but since nearly all older people's care homes have at least one council-funded resident, predominantly privately funded homes were interpreted as being in scope as well.

WSCC, in partnership with Laing Buisson (LB), fully validated 58 toolkit submissions and partially validated 28 toolkit submissions, the latter being those for which one or more (but not all) of the cost lines had been validated. Adding the two together, the 86 fully or partially validated toolkits represents a response rate of 38% of care homes in scope. The overall validated and partially validated response rate was higher than the 32%[1] achieved across all local authorities in England in the summer 2022 cost of care exercise.

For some individual cost lines the effective response rate was higher and for some it was lower, see Table 4 for the number of respondents (in brackets) for each individual cost line.

However, the median results presented in Tables 1 and 4 are derived from a response rate of completed and validated toolkits which was lower than usually achieved in cost of care exercises carried out by LB over the last decade. One reason suggested by LB was the challenging timescale for the national cost of care programme. Feedback received from providers during the engagement process identified some of their reasons for hesitancy to respond:

- Demanding toolkit and insufficient time to complete it (exacerbated by current staffing challenges);
- Concern about confidentiality, since local authorities are able to inspect individual respondents' data (previous LB exercises have guaranteed confidentiality);
- Lack of confidence that the exercise would lead to financial benefits for providers

A number of providers were considered out of scope due to the nature of the service provided and were notified via Carecubed.

| Steps taken to engage with local providers |
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Both the council and LB engaged extensively with local providers to maximise the number of respondents to the local cost of care exercise.

LB worked with the council over the summer of 2022 to engage with providers through a variety of communication channels, the most important being intensive, direct telephone contact to encourage participation and completion of the toolkit. In addition, support was given to providers who were in process of completing their submissions. Over the course of the project, a total 451 calls and support discussions were made to care home providers in West Sussex. Validation of completed toolkits, including querying anomalies via CareCubed, took place in parallel.

[1] Data from the Care Providers Alliance at September 2022

In terms of WSCC engagement (and aside from service user engagement which also took place as part of the development of the Market Sustainability Plan or MSP) provider engagement between May and September 2022 included the following:

- Attended 5 provider forums to brief on the cost of care exercise and MSP, raise greater awareness and encourage participation (June 9/16/20 Aug 9, Sept 26)
- Held 4 virtual sessions for providers with presentations and discussion on the cost of care exercise and MSP in order to increase awareness and understanding of the cost of care tools, encourage participation and answer questions
- Held 4 virtual workshop discussions with providers on issues affecting market sustainability in order to jointly identify and analyse the key local issues and actions required to address them
- Held 3 analysis sessions with providers looking at specific issues identified at the workshops in order to have the opportunity for a deeper understanding of the issues from both council and provider perspectives
- Held 9 meetings with the West Sussex Partners in Care (May 27, June 13/27, July 11/22/25, Aug 22, Sept 1/22) including co-production of the Market Sustainability Plan
- Managed a specific 'cost of care' mailbox and responded to 100s of queries which were managed between WSCC and LB
- Weekly briefings to providers with information, links and contacts whilst the cost of care exercise was running.

Approach to Return on Capital and Return on Operation

DHSC guidance indicates that councils should determine, on the basis of available evidence, the appropriate return on capital and return on operations rates that should be added to operating costs (calculated at medians from validated toolkit responses) in order to arrive at the median total cost for each of the four modalities of care in the cost of care returns, and that these rates should be evidence based. The rates recommended to WSCC by LB were:

a) Return on capital 6% per annum
b) Return on operations 10% mark-up on operating costs

In order to determine the £ value of return on capital, it is necessary to apply the rate of return to a capital value per resident. This can be derived from the toolkit submissions as the median of freehold valuation per bed (see Supporting Information at the foot of Table 4), divided by occupancy per registered bed (see also Supporting Information at the foot of Table 4), to express the £ value on a 'per resident' basis. The calculation for WSCC based on validated toolkit submissions at the date of this report is: 6% TIMES £83,108 DIVIDED BY 89.1% TIMES 7/365 = £107.36 per resident per week, see Table 4.

Return on operations based on validated toolkit submissions at the date of this report is calculated at 10% of the Operating cost subtotals in Table 4.

For the purposes of the cost of care exercise, it was necessary to specify fixed percentages to allow comparable data to be compiled. In that context, WSCC has followed the advice of LB which enabled the data submitted by providers to remain unaltered (other than for statistical outliers) and supported the straight-forward and robust approach we wished to adopt.

However, this should not be interpreted as target amounts and use of a 10% ROO within the cost of care exercise is distinct from this being a standard for future commissioning. In reality, uniform rates cannot be applied to return on operations because the circumstances of individual providers and care markets are always unique. WSCC's overriding concern is to ensure that local care markets are vibrant and sustainable. As such it will take a flexible approach to return on operations, allowing for market conditions and our strategic commissioning priorities. In

certain situations (e.g. where supply needs to be incentivised) higher rates may be appropriate. In others (e.g. where there is an excess of supply) the position will be different.

Table for each service type and each cost line

See Table 4. An early iteration of DHSC guidance required reporting of upper and lower quartile cost data, but this requirement no longer appears in the DHSC reporting template (Annex A) for the four modalities of care.

Data Period used in the collection of information (base price year)

22/23 (including uplifts to 22/23 where providers used 21/22 figures)

Approach used to uplift figures to 2022/23 values

All cost of care exercise results cited in this report are expressed at April 2022 prices. They have been calculated by multiplying the 'uplift' factors entered in the toolkit submissions by the 2021/22 (base year) costs per resident, for each cost line, to arrive at costs per resident at April 2022 prices.

In any normal year, costs at April (the beginning of the financial year) would be expected to prevail over the full financial year (April 2022 to March 2023) because staffing is the main driver of cost and pay rates are usually set at the beginning of the financial year for the whole year in the light of the National Living Wage settlement which is implemented in April. The surge of inflation in 2022/23, however, means that care home costs per resident may well change significantly over the course of the new financial year, over and above this report's results at April 2022.

For submissions with a 2021/22 base price year and no uplifts entered in the toolkit submission, uplifts have been interpolated based on

- the National Living Wage for low-paid staff (care and domestic)
- the monthly earnings index for other staff
- CPI (Consumer Price Index) and
- CPIH (Consumer Price Index with Housing) percentage change figures for non-staffing costs for the 12 months up to April 2022[2].

These figures have been chosen on a point-by-point basis, where appropriate figures have been identified to account for relative price effects[3], with overall CPI inflation figures used where no appropriate, goods/services-specific CPI figure has been identified. Uplift figures with CPI codes for each cost heading can be found in Table 3.

Questions asked and template used as part of the exercise

WSCC and Laing Buisson registered with the IESE CareCubed portal to use their toolkit. No additional questions were asked of providers except regarding those areas within the toolkit.

[2] Table 22, https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation

[3] Our approach to uplifting is broadly in line with guidance on inflationary adjustment set out in The Green Book 2022, Section 5.13, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1063330/Green_Book_2022.pdf

## Methodology

LB was commissioned by WSCC in June 2022 to undertake a Cost of Care exercise, as described and specified in government guidance[4], covering registered care home services for adults (65+) within the council's boundaries.

This report is based on validated submissions of CQC registered providers, using the toolkit developed by CareCubed in partnership with the Local Government Association. In the validation process, toolkit submissions were checked by LB for sense and consistency and anomalies were amended as necessary with the agreement of providers.

The median total costs set out in Table 4 are sensitive to the following factors:

- The efficacy of the validation process in eliminating implausible and incorrect toolkit submissions for individual cost lines
- The validity of the rules adopted for elimination of outliers before calculating the medians for each cost line
- Calculation of capital cost per occupied bed, including the return on capital benchmark adopted
- Adjustment for occupancy, if any
- The approach to calculating confidence intervals for the median total costs

Validation Process

We believe that the validation process was effective. Toolkit submissions were checked by LB for sense and consistency and anomalies were amended as necessary with the agreement of providers. Checking of toolkits was conducted individually through a comparison of submissions from similar care homes, and through comparisons between submissions and LB's historic Care Cost Benchmarks dataset[5]. Toolkit submissions for individual cost lines were queried when they were found to be significantly outside of expected ranges, with particular attention paid to the plausibility of figures which contribute most notably towards total costs, such as staffing.

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

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

[4] Market Sustainability and Fair Cost of Care Fund 2022 to 2023: guidance, updated 29 June 2022 https://www.gov.uk/government/publications/market-sustainability-and-fair-cost-of-care-fund-2022-to-2023-guidance

[5] LaingBuisson has collected cost data from UK wide care home surveys and local Fair Price exercises commissioned by councils, the NHS and independent care associations over more than a decade. They provided a useful source of benchmarking data against which 2022 toolkit submissions could be compared, in particular with regard to staff hours per resident per week, which is the single most important driver of care home costs.

Rules for the elimination of outliers

We wished to restrict the removal of outliers as much as possible and we believe the rules adopted, as described below, were appropriate. In partnership with LB, we reviewed two basic approaches to optimising value from survey results where, even after a robust validation process, some cost lines in any given toolkit submission may be zero or empty (null), and some may be outside a reasonable range:

- **Interpolation**, in which null, zero or extreme outlier data for any individual cost line in any given toolkit submission is substituted by the median (or mean) value among those toolkits that submitted valid, in range data for that cost line. By this means, otherwise valid toolkits can avoid being discarded due to the absence of minor cost items. In this approach it is reasonable to interpolate values for minor cost lines, though not for major cost lines, such as staffing costs, which are major drivers of total costs; Interpolation maximises the number of valid toolkit responses, from which the median numbers for each individual cost line, as well as the median total cost for all validated toolkits can be calculated. A downside of the interpolation approach, however, is that the nature of medians (the DHSC's preferred measure of central tendency) means that the individual cost line medians do not add to the subtotal medians and the subtotal medians do not add to the total cost median.

- **Outlier exclusion** is an approach in which median values are calculated separately for each cost line, using all submitted toolkits where that particular cost line was validated, and excluding all 'outliers' whether they be null or zero values or outside a defined range. The full output required by DHSC can then be built up from individual cost line medians. A positive feature of this method is that the median total cost line required by DHSC is equal to the sum of the median subtotals and the median subtotals are equal to the sums of the relevant individual cost lines.

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

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

With respect to b), WSCC was advised by LB to adopt Double Median Absolute Deviation (Double MAD) as the approach to setting outlier boundaries for each individual cost line.

$$MAD = median(|X_i - \bar{X}|)$$

Median Absolute Deviation (MAD) is calculated by finding the absolute difference between each validated data point and the validated sample median and then calculating the median of these absolute differences. For normally distributed data, MAD is multiplied by a constant b = 1.4826, however, the distribution is unknown and not symmetric in our data sample. Furthermore, statistically testing for skewness in the sample confirms that the data suffers from a highly asymmetric distribution across all categories. Using a singular Median Absolute Deviation value, disregarding the asymmetry in the distribution, would produce unreliable results. For this reason, LB recommended that we opt for an enhanced method called "Double MAD".

The premises of this method are similar to the classic version, with the only difference being the calculation of two Median Absolute Deviations: 1) the median absolute deviation from the median of all points less than or equal to the median and (2) the median absolute deviation from the median of all points greater than or equal to the median. This allows us to set pertinent outlier thresholds taking into account skewness in the data sample. Finally, for each cost line, we have defined as an outlier any data point which is more than 2 X MAD above or below the median. All such outliers have been excluded from the calculation of median costs in Table 4.

Calculation of capital cost per occupied bed

Actual values of capital costs per occupied bed are calculated from the toolkits as freehold valuation divided by number of residents. In some cases, particularly in affluent areas where developers have targeted the private pay market in recent years, land and build costs for high specification homes may be considerably greater than the council is able to pay for a standard physical environment for council placements. For the purpose of the cost of care exercise, therefore, LB advised us that we may reasonably wish to supersede the freehold valuations per occupied bed reported in toolkits with a suitable benchmark value.

LB has addressed this issue in its *Care Cost Benchmarks* model by gathering evidence on the cost of developing a new-build care home constructed to a standard specification in an area of moderate land costs.

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

LB recommended that, for the purposes of a cost of care exercise, the median freehold valuation per bed derived from toolkit submissions should be capped at a maximum of £110,000, being the estimated build+land cost of developing a new care home to a standard mid-market specification, and that freehold valuation per occupied bed should be capped at £122,000, assuming 90% occupancy. The cap however was not required in West Sussex as the median freehold valuation per occupied beds from submitted toolkits was £81,995 (Table 4).

Adjustment for occupancy

Care home occupancy rates in many council areas are still recovering from excess deaths during the Covid pandemic, and possibly from a dampening of demand as a result of negative experiences during Covid. There is a case, in principle, for adjusting the median costs in Table 4 (which are based on 2021/22 occupancy levels) to take account of possibly higher average occupancy rates by April 2022, or to adjust costs to an 'efficient' benchmark, which might be in the region of 90%. The data from providers in this cost of care exercise reflected an occupancy rate of 89.1%.

While WSCC may take occupancy rates into consideration when looking at market sustainability and setting fee rates for 2022/23 and beyond, we have not made any occupancy-based adjustments to the median costs set out in Table 4 for the purposes of the exercise, for the following reasons:

- Based on validated submissions to date, occupancy rates in most council areas are not substantially different from national, sector-wide pre-Covid averages;
- Occupancy adjustments would need to make assumptions about fixed and variable costs of care homes, which may be contentious; and
- Any adjustment introduces potential contention and keeping the rate as is reflects the information actually submitted by providers

For illustration, however, the potential impact of adjusting calculated median costs, to reflect a benchmark occupancy rate of 90%, is set out in Table 5. It requires an assumption on fixed and variable costs. For illustration we have arbitrarily assumed that 75% of average care home operating costs would remain fixed as occupancy

changed within the observed rate and the selected benchmark, and that 25% would be variable, varying pro rata with occupancy. The resulting counterfactual differences in median total costs are illustrated in Table 5 and show a relatively minimal impact on the medians.

The approach to confidence intervals for the median total costs

While we have no reason to believe that the toolkit responses were biased in any systematic way, the number of respondents in any given area of the county was limited and there was a *high degree of variance* in many of the cost lines submitted by respondents. In particular staff input per resident per week, which is the largest single driver of costs, was highly variable across homes within each of the four modalities of care considered[6].

Due to the number of validated responses and the high degree of variance among the sample of toolkits in most of the cost lines, we asked LB to give us an indication of confidence limits for the cost of care data, and particularly whether confidence limits for the medians do or do not overlap with average fees currently being paid by councils in financial year 2022/23. Our calculations are set out in Figure 1.

Analysis of the data

Summary results for care homes located in West Sussex are presented in Table 4, in the form prescribed by the DHSC guidance. All operating costs have been derived from validated toolkit submissions, after applying the outlier exclusion rules described in the Methodology section above. Return on capital and return on operations are based on the benchmarks set out above.

The medians emerging from the WS cost of care exercise are shown in the table 1 and summarised below:

- **Residential £1,016.98**
- **Residential enhanced £1,054.3**
- **Nursing £1294.63**
- **Nursing enhanced £1283.52**

Further in this section we look at the differential between these medians and the current average fees paid by WSCC in these areas of the care market.

There are however a number of challenges to the data and caveats which are important to establish. LB advised us that there was a high degree of variance as well as the number of validated responses means that we need to look at the median emerging from the exercise within the far wider margins of error (Figure 1). The number of respondents in any given area of the county was limited.

While the cost of care exercise provides a key source of data to be considered in future fee setting, it should not be relied upon in isolation and needs to be considered alongside other information and intelligence. The following section provides some of the key points arising from the cost of care data as well as the challenges presented by the data itself.

[6] Variability in staff input is consistent with all previous cost of care exercises carried out by LaingBuisson. It may be attributed to a number of factors including the dependency levels of residents, the capacity of staff to cater of difference levels of need and the scale and physical layout of homes. The absence of homogeneity means that cost of care exercises cannot aspire to identifying a single 'true' cost of care for all efficient providers, not even when segmented into the four modalities of residential / nursing / enhanced / not enhanced. In the absence of any more developed needs matrix than exists at present, cost of care exercises can only aspire to identifying a reasonable sector wide average, or median, around which the costs of individual homes inevitable vary.

General comments

We have used Laing Buisson's *Care Cost Benchmarks* model as a broad check on the plausibility of the results in Table 4.

- We would expect nursing care costs to be about £250 per week higher than residential care costs - made up from registered nursing staff input at around the 2022/23 NHS FNC rate of £209.19, plus some additional non-nurse carer staff input.
- We would also expect a differential between 'enhanced' (i.e. dementia) and non-enhanced residential care, the former being more costly.
- But we would *not* expect any differential between enhanced and non-enhanced nursing care.

Any divergence from the expected pattern in the Table 4 median results may be a result of normal variance within small numbers of validated toolkits. The results in Table 4 should also be seen in the context of the latest policy from DHSC, dated 25 August 2022, which recognises that '*median figures for the broad service types within scope (standard residential care, residential care for enhanced needs, standard nursing care and nursing care for enhanced needs)' … 'may oversimplify what is a complex picture of care and support needs.'*

This oversimplification has inevitably led to certain anomalies within the West Sussex data, particularly due to the inclusion of services with unusually high costs due to the specialist nature of the service e.g. handling people with high levels of need and requiring greater staffing ratios and specialist training. These have not been treated as outliers and therefore influence the data despite the fact that they are not typical of the provider base.

Under and over-representation of respondents

Table 2 segments response rates according to key care home characteristics which might have a bearing on costs.

In summary, the segments which are over-represented include large service scale care homes and large corporate group operated homes. Conversely, small group and non-affiliated homes are at present under-represented. There is variable representation of the constituent Districts of West Sussex.

(a) Provider Size: A significant proportion of respondents were large corporate providers, far higher than the market share represented by this section of the local care home market. Large corporate national providers represent a small share of the local market with 80% of the capacity provided by small and medium providers, most of which are local. However, this balance was not reflected within the respondents to the survey:

- Residential
    - 17 large corporate national providers in the local market with an 82% response from these providers
    - 92 small providers in the local market with a 23% response from these providers

- Nursing
    - 30 large corporate national providers in the local market with a 73% response from these providers
    - 62 small providers in the local market with a 27% response from these providers

The cost of care data therefore does not necessarily reflect the costs of small and medium sized providers which were largely under-represented and so creates a weakness in the usefulness of this information.

A further limiting factor is that the responses included a return from a provider with whom WSCC has a block contract. 590 beds are available under this contract for which the provider is paid in full, irrespective of occupancy. The nature of that agreement is a distorting factor because it reduces the risk faced by the provider and is therefore an example of why a median, based on occupancy of 89.1% cannot be regarded as a blanket target.

(b) WSCC commissioned providers: Only 27% of respondents stated that they had more than 50% of their market business being commissioned from WSCC.

Cost differentials between providers being commissioned by WSCC and predominantly by self-funders

Based on the data provided by the respondents:

- Two-thirds of respondents in the residential sector reported operating costs ranging between £560 and £1000. This was regardless of the extent to which they were being commissioned by WSCC or self-funders.
- Nursing operating costs largely ranged between £1,000 to £1,500, again, regardless of the extent to which a provider was focused on being commissioned by WSCC or self-funders.
- Where providers reported costs above these parameters in both the residential and the nursing sectors, they tended to be provided with a stronger focus on self-funders (with more than 40% of their business focused on self-funders).

Quality of data

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

Nevertheless, within the timescale available, for the most part information needed to be taken at face value. It was not practicable to carry out a range of checks (as used by LB in other cost of care exercises) including requesting evidence of staff costs from payroll records and correlating returns against published accounts. Without the evidence base behind the costs submitted, neither WSCC or LB can rule out the possibility that some providers may have overstated their costs due to double counting or by error.

Notable points from the data

- Because of the way in which CareCubed calculates costs, the differential (if any) between 'enhanced' (usually interpreted as dementia) and non-enhanced total costs is entirely due to the staffing costs. All other cost lines are identical for enhanced and non-enhanced care.

- Median staff costs represent
    - 60% of total provider costs with residential
    - 61% of total provider costs within residential enhanced and 66% within nursing

- Average basic care worker pay per hour was £11.07 in residential and £11.23 in nursing. This is above National Living Wage (£9.50 from April 2022) and above Real Living Wage levels (£10.90 from Sept 2022).

- LB's analysis of the residential sector data was that there was no evidence that more training days/expenditure influenced profit in any way and no evidence that more training days/expenditure affected cost.
- However, there was a positive correlation between training days and cost in nursing homes. This means that the cost of providing care in nursing homes increases as more training days are allocated. One possible explanation is that the cost of nursing staff (being already much higher than carer staff) would increase the agency cost for nurses and the staff required in those days of training.

Comparing the emerging medians with average WSCC fees

| | WSCC average price for purchased care | West Sussex cost of care exercise median (rounded) | % increase | Lower 95% confidence boundary (see below) | % increase |
|---|---|---|---|---|---|
| **Residential 22/23** | **£803** | **Residential £1,016.98**<br><br>**Residential enhanced £1,054.30** | **27%**<br><br>**31%** | **Residential £917**<br><br>**Residential enhanced £939** | **14%**<br><br>**17%** |
| **Nursing 22/23 With FNC @ 209.19** | **£1070.19** | **Nursing £1294.63**<br><br>**Nursing enhanced £1283.52** | **21%**<br><br>**20%** | **Nursing £1214**<br><br>**Nursing enhanced £1201** | **13%**<br><br>**12%** |

Taken at face value, this a significant gap which (alongside the gap reflected in the cost of care exercise for home care) would cost up to £34m if WSCC were to assume the median as the standard fee for purchasing care. For context, the size of the Adult budget in 2022/23 is £216m so an increase in fees of that magnitude would be unaffordable because of the scale of the savings that would be required to pay for it both in the Adult budget and elsewhere in WSCC.

It is essential that this is understood and that providers recognise that paying higher fees without sufficient additional resources may have implications for the mix, type and volume of care services WSCC would be able to afford purchasing from the market.

There are two important factors to consider:

- The level of the additional resources that will be made available to WSCC in 23/24 and 24/25 through the Market Sustainability and Fair Cost of Care Fund will be critical in determining the feasibility and extent of moving towards these cost of care medians. A commitment also needs to be provided by Government to continue providing those resources on a recurring basis from 25/26. Without that, there will be a risk of a significant cost burden transferring to the local authority. If there is insufficient funding available to local authorities, the potential to reduce the gap between current averages and the median costs will be limited.
- As the data has potential margins of error, it will be important to adopt a financially prudent approach and consider additional wider intelligence and information when setting fees. This will include considering how to use available resources to tackle the key risks in the market including areas where providers require further investment and support.

Due to the limitations of the data including the high degree of variance within the reported provider cost lines, the medians are subject to margins of error. LB used a standard mathematical approach to the data in order to give greater assurances of probability. With a confidence interval with a 95% confidence level, there is confidence that 95 out of 100 times the estimate will fall between the upper and lower values specified by the confidence interval (See Figure 1). Below, we review the data in light of the margins for error and compare WSCC paid rates with the lower of the 95% confidence interval related to the cost of care data set.

The average **residential care** fee rates being paid by WSCC (post April 2022) stood at £803 per month. This is £214 lower than the calculated median for standard residential care and £114 below the lower 95% confidence bound of the calculated median. This suggests we can be 95% confident of the following:

- There is a gap between the average rate being paid by WSCC now and the median provider costs calculated from the toolkits.
- Although we cannot be certain what the quantum of the gap really is, we can be 95% confident that it is at least £114.

The average residential care fee rates being paid by WSCC (post April 2022) is £251 lower than the calculated median for enhanced residential care and £136 below the lower 95% confidence bound of the calculated median. This suggests we can be 95% confident of the following:

- There is a gap between the average rate being paid by WSCC now and the median provider costs calculated from the toolkits.
- Although we cannot be certain what the quantum of the gap really is, we can be 95% confident that it is at least £136.

The average **nursing care** fee rates being paid by WSCC (post April 2022) stood at £1070.19 (including FNC) per month. This is £224.4 lower than the calculated median for standard nursing and £144 below the lower 95% confidence bound of the calculated median. This suggests we can be 95% confident of the following:

- There is a gap between the average rate being paid by WSCC now and the median provider costs calculated from the toolkits.
- Although we cannot be certain what the quantum of the gap really is, we can be 95% confident that it is at least £144.

The average nursing care fee rates being paid by WSCC is £213.3 lower than the calculated median for enhanced nursing and £130 below the lower 95% confidence bound of the calculated median. This suggests we can be 95% confident of the following:

- There is a gap between the average rate being paid by WSCC now and the median provider costs calculated from the toolkits.
- Although we cannot be certain what the quantum of the gap really is, we can be 95% confident that it is at least £130.

WSCC has been investing strongly in local care markets to reduce cost pressures on local providers including significant inflationary increases from April 22 which averaged approximately 8%. 100% of the Market Sustainability and Fair Cost of Care Fund grant for 22/23 was used to fund these fee increases along with considerable additional investment from WSCC funds. A key risk for West Sussex care markets is for the actual cost of care to continue to be outside of the resources available within the local authority and the important (albeit minority) market share that it influences. Self-funders in West Sussex are clearly paying fees well above the levels currently affordable to WSCC, though this may be for a higher level of service than needed to meet Care Act requirements.

The challenges posed to WSCC of moving towards these higher rates are matched by the challenge to providers of reducing the fees charged to self-funders so that a more affordable and sustainable set of rates can be established in the care home market.

Standard and variable approach to ROO and ROC

WSCC, with support from LB, adopted a standard approach to return on capital and operations and our approach is detailed within this report. This enabled a consistent approach across a variety of providers and removed an important variable factor, assisting the focus on the operational costs facing providers in the local sector.

In a market that requires targeted intervention and support as well as enabling key areas of required growth to be suitably incentivised, we do not propose assuming a standard approach to ROO, ROC and fee setting across the services we commission. We plan to continue to work with providers and agree variable fee rates (including variable assumptions to ROO and ROC) depending on the nature of the service being commissioned. We are particularly interested in incentivising providers to move to market areas requiring growth as outlined in the fee setting section below, for example, by increasing levels of return on operations in these areas.

WSCC fee setting

WSCC uses a range of rates with market providers, including agreed and/or enhanced rates where these are required, for example, to secure supply in those parts of the county where provider costs are highest. We apply % uplifts to this range of rates so, although we have used average commissioned price paid in the table above, there is a wider spectrum of rates used. In the case of the block contract highlighted on Page 8, indexation is built into the agreement, giving certainty to the provider and warranting a different pricing arrangement than where beds are bought on a spot basis.

In setting rates for commissioned services, WSCC rates will be informed by the cost of care exercise as part of a broader spectrum of information including areas of the market in need of development or growth, assessment of local markets including specific market conditions operating in West Sussex, benchmarking with other neighbouring areas and feedback from providers.

In this, we are in keeping with DHSC guidance (August 2022) which states that:

- *The median figures for the broad service types within scope may oversimplify what is a complex picture of care and support needs.*
- *The outcome of the cost of care exercise is not intended to be a replacement for the fee setting element of local authority commissioning processes or individual contract negotiation.*
- *In practice we will expect actual fees to be informed by the fair cost of care, which is the median value rate local authorities will be moving towards. Fee rates will also continue to be based on sound judgement, evidence, and through a negotiation process, as is the case currently.*
- *As such there will be variation in the rates providers are paid to reflect the quality and level of service. Ultimately paying a fair cost of care does not mean that all providers are paid the same rate, but rather the fair cost of care is the median value which fee rates will be "moving towards".*
- *As many local authorities move towards paying the fair cost of care, it is expected that actual fee rates paid may differ due to such factors as rurality, personalisation of care, quality of provision and wider market circumstances.*

WSCC, with support from LB, adopted a standard approach to return on operations and our approach is detailed within this report. This enabled a consistent approach across a variety of providers and removed an important variable factor, assisting the focus on the operational costs facing providers in the local sector.

However, in a market that requires targeted intervention and support as well as enabling key areas of required growth to be suitably incentivised, we do not propose assuming a standard approach to ROO and fee setting across the services we commission. We plan to continue to work with providers and agree variable fee rates (including variable assumptions to ROO) depending on the nature of the service being commissioned. We are particularly interested in incentivising providers to move to market areas requiring growth, for example, by increasing levels of return on operations in these areas.

WSCC budget setting and use of the Market Sustainability and Fair Cost of Care Fund ('the Fund')

WSCC has been investing in local care markets to reduce cost pressures on local providers. More recently, with the objective of sustaining markets and mitigating market fragilities, the council approved significant inflationary increases from April 22 with an average uplift of 8%. 100% of the £2.23m DHSC Market Sustainability and Fair Cost of Care Fund for 22/23 was used to fund these fee increases along with an additional investment of £16m from WSCC funds, an overall investment of £18.4m.

WSCC will follow a similar process in 23/24 and 24/25 combining its allocation of the Fund with the resources that it will provide from its own budget to create a funding envelope that will be available to fund increases in rates. However, it will be difficult to set sustainable rates for the future without knowing the extent and longevity of the Fund. Without this, rate increases in 23/24 and 24/25 will necessarily have to be set at lower levels which WSCC can be confident will be affordable. To do otherwise will risk disrupting the market further in future years and so would not be prudent.

Given the nature of the care market in West Sussex, blanket rate increases will not be appropriate or desirable either for WSCC as commissioner nor for providers. Consequently, opportunities will be explored to use the Fund variably to support areas of required growth, areas facing particular challenge and to incentivise providers able to adapt to the requirements highlighted in our Market Sustainability Plan. In line with the this, the ASC strategy and our published commissioning intentions, resources will be targeted at market areas requiring development including

- Supporting the capacity of providers to support people with dementia and more complex care
- Supporting the growth of extra care and supported living
- Support to people to remain in community settings
- Initiatives developed in partnership with providers which assist in addressing workforce challenges within the sectors in scope
- Infrastructure costs to support the council in its work with the market

Table 1

Median total costs[1] calculated from wholly or partly validated toolkit submissions by providers located in West Sussex (including return on capital and operating profit) at 2022/23 prices

| | Standard | Enhanced Care | A) Fully validated submissions | B) Partially validated submissions (with one or more validated cost lines) | C) Services in scope | Response rate (A+ B) / C * 100 |
|---|---|---|---|---|---|---|
| | £ per week | £ per week | Number | Number | Number | % |
| Nursing homes (65+) | 1,294.63 | 1,283.52 | 33 | 12 | 107 | 42% |
| | | | | | | |
| Residential homes (65+) | 1,016.98 | 1,054.30 | 25 | 16 | 122 | 33% |

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

- Return on capital 6% pa applied to median freehold valuation per resident [2]
- Return on operations 10% mark-up on median operating costs derived from validated toolkit responses

[1] Derived from Table 4

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

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

| | Nursing Homes | | | Residential Homes | | |
|---|---|---|---|---|---|---|
| | Respondents | Homes in scope with the relevant characteristic | Response rate (%) | Respondents | Homes in scope with the relevant characteristic | Response rate (%) |
| Total | 45 | 107 | 42% | 41 | 122 | 34% |
| **Provider sector** | | | | | | |
| For-profit | 39 | 97 | 40% | 30 | 106 | 28% |
| Not-for-profit | 6 | 10 | 60% | 11 | 15 | 73% |
| **Build status** | | | | | | |
| Purpose built | 16 | 33 | 48% | 11 | 14 | 79% |
| Not purpose built | 16 | 74 | 22% | 25 | 108 | 23% |
| **Operator scale** | | | | | | |
| Large corporate group [1] | 22 | 30 | 73% | 14 | 17 | 82% |
| Medium group [2] | 6 | 15 | 40% | 4 | 13 | 31% |
| Small group or independent [3] | 17 | 62 | 27% | 21 | 92 | 23% |
| **Service scale** | | | | | | |
| Large service scale( 50+ beds) | 25 | 38 | 66% | 7 | 9 | 78% |
| Medium service scale( 20-49 beds) | 18 | 67 | 27% | 24 | 90 | 27% |
| Small service scale (<20 beds) | 2 | 2 | 100% | 10 | 23 | 43% |
| **CQC ratings** | | | | | | |
| Good or Outstanding | 31 | 74 | 42% | 32 | 100 | 32% |
| Not Good or Outstanding | 11 | 26 | 42% | 7 | 22 | 32% |
| **District Council (Counties only)** | | | | | | |
| Adur District Council | 4 | 6 | 67% | 2 | 7 | 29% |
| Arun District Council | 9 | 21 | 43% | 11 | 35 | 31% |
| Chichester City Council | 5 | 14 | 36% | 10 | 19 | 53% |
| Horsham District Council | 9 | 17 | 53% | 1 | 5 | 20% |
| Mid Sussex District Council | 6 | 18 | 33% | 7 | 16 | 44% |
| Worthing Borough Council | 5 | 18 | 28% | 4 | 25 | 16% |
| Crawley Borough Council | 1 | 2 | 50% | 1 | 3 | 33% |

[1] 11 or more care homes for older people across the UK

[2] 4 - 10 care homes for older people across the UK

[3] Fewer than 4 care homes for older people across the UK

Table 3 - Uplifts from 2021/22 to 2022/23 Source: Office for National Statistics for different CPI series

| | CPI Code | CPI Item | 12 Month % change to April 2022 |
|---|---|---|---|
| Low paid staff (carers and domestic staff) | - | National Living Wage % increase, April - April[7] | 6.6 |
| Other staff (nurses and back office) | - | Average earnings index, April – April | 4.1 |
| Fixtures & fittings | D7GW | 05.3 Household appliances, fitting, and repairs | 9.9 |
| Repairs and maintenance | D7GR | 04.3 Regular maintenance and repair of the dwelling | 7.6 |
| Furniture, furnishings, and equipment | D7GU | 05.1 Furniture, furnishings, and carpets | 15.0 |
| *Other care home premises costs* | D7G7 | CPI (overall index) | *9.0* |
| Food supplies | D7G8 | 01 Food and non-alcoholic beverages | 6.7 |
| Domestic and cleaning supplies | D7GZ | 05.6 Goods and services for routine maintenance | 6.8 |
| Medical supplies (excluding PPE) | D7NO | 06.1 Medical products, appliances, and equipment | 1.3 |
| PPE | D7NO | 06.1 Medical products, appliances, and equipment | 1.3 |
| Office Supplies | D7IH | 05.6.1 Non-durable household goods | 10.3 |
| Insurance (all risks) | D7HF | 12.5 Insurance | 11.7 |
| Registration fees | D7G7 | CPI (overall index) | 9.0 |
| Telephone & internet | D7GF | 08 Communication | 2.8 |
| Council tax / rates | CRQT | Council tax and rates (CPIH)[8] | 7.9 |
| Electricity, Gas & Water | D7GB | 04 Housing, water, electricity, gas and other fuels | 19.2 |
| Trade and clinical waste | D7G7 | CPI (overall index) | 9.0 |
| Transport & Activities | D7GG | 09 Recreation and Culture | 5.9 |
| *Other care home supplies and services costs* | D7G7 | CPI (overall index) | 9.0 |
| Central / Regional Management | D7NN | All services | 4.7 |
| Support Services (finance / HR / legal / marketing etc.) | D7NN | All services | 4.7 |
| Recruitment, Training & Vetting (incl. DBS checks) | D7NN | All services | 4.7 |
| *Other head office costs (please specify)* | *D7OB* | *12.7 Other services (NEC)* | *-3.1* |

[7] https://www.gov.uk/government/news/national-living-wage-increase-boosts-pay-of-low-paid-workers#:~:text=The%20improvement%20in%20the%20economic,2.2%20per%20cent)%20in%202021.

[8] Tables 8 and 22, https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation

Table 4

Median costs of care homes (65+) located in West Sussex, £ per week at 2022/23 prices

| Cost of Care exercise results - £ per resident per week | 65+ care home places without nursing | | 65+ care home places without nursing, enhanced needs | | 65+ care home places with nursing | | 65+ care home places with nursing, enhanced needs | |
|---|---|---|---|---|---|---|---|---|
| | (The numbers in brackets represent the number of fully or partially validated toolkits from which the given cost line median was derived) | | | | | | | |
| **Staffing** | **612.02** | | **645.95** | | **864.43** | | **854.33** | |
| Nursing Staff | - | | - | | 234.52 | (31) | 201.41 | (14) |
| Care Staff | 388.05 | (39) | 421.98 | (34) | 405.94 | (29) | 428.95 | (16) |
| Therapy Staff | 3.05 | (3) | 3.05 | (3) | 3.05 | (3) | 3.05 | (3) |
| Activity Coordinators | 14.02 | (48) | 14.02 | (48) | 14.02 | (48) | 14.02 | (48) |
| Service Management | 52.86 | (64) | 52.86 | (64) | 52.86 | (64) | 52.86 | (64) |
| Reception & Admin | 13.37 | (42) | 13.37 | (42) | 13.37 | (42) | 13.37 | (42) |
| Chefs / Cooks | 43.73 | (52) | 43.73 | (52) | 43.73 | (52) | 43.73 | (52) |
| Domestic Staff | 61.66 | (64) | 61.66 | (64) | 61.66 | (64) | 61.66 | (64) |
| Maintenance & Gardening | 12.94 | (62) | 12.94 | (62) | 12.94 | (62) | 12.94 | (62) |
| Other Care Home Staff | 22.34 | (23) | 22.34 | (23) | 22.34 | (23) | 22.34 | (23) |
| **Care Home Premises** | **47.15** | | **47.15** | | **47.15** | | **47.15** | |
| Fixtures & Fittings | 5.79 | (34) | 5.79 | (34) | 5.79 | (34) | 5.79 | (34) |
| Repairs and Maintenance | 32.49 | (62) | 32.49 | (62) | 32.49 | (62) | 32.49 | (62) |
| Furniture, Furnishings and Equipment | 4.25 | (52) | 4.25 | (52) | 4.25 | (52) | 4.25 | (52) |
| Other Care Home Premise Costs | 4.62 | (39) | 4.62 | (39) | 4.62 | (39) | 4.62 | (39) |
| **Care Home Supplies and Services** | **116.00** | | **116.00** | | **116.00** | | **116.00** | |
| Food | 35.52 | (65) | 35.52 | (65) | 35.52 | (65) | 35.52 | (65) |
| Domestic & Cleaning | 10.48 | (63) | 10.48 | (63) | 10.48 | (63) | 10.48 | (63) |
| Medical Supplies | 4.23 | (65) | 4.23 | (65) | 4.23 | (65) | 4.23 | (65) |
| PPE | 1.28 | (24) | 1.28 | (24) | 1.28 | (24) | 1.28 | (24) |
| Office Supplies | 2.3 | (55) | 2.3 | (55) | 2.3 | (55) | 2.3 | (55) |

| Cost of Care exercise results - £ per resident per week | 65+ care home places without nursing | | 65+ care home places without nursing, enhanced needs | | 65+ care home places with nursing | | 65+ care home places with nursing, enhanced needs | |
|---|---|---|---|---|---|---|---|---|
| Insurance | 7.42 | (63) | 7.42 | (63) | 7.42 | (63) | 7.42 | (63) |
| Registration Fees | 3.92 | (64) | 3.92 | (64) | 3.92 | (64) | 3.92 | (64) |
| Telephone & Internet | 2.84 | (63) | 2.84 | (63) | 2.84 | (63) | 2.84 | (63) |
| Council Tax / rates | 1.09 | (67) | 1.09 | (67) | 1.09 | (67) | 1.09 | (67) |
| Electricity, Gas & Water | 34.16 | (58) | 34.16 | (58) | 34.16 | (58) | 34.16 | (58) |
| Trade and Clinical Waste | 4.8 | (65) | 4.8 | (65) | 4.8 | (65) | 4.8 | (65) |
| Transport & Activities | 2.63 | (59) | 2.63 | (59) | 2.63 | (59) | 2.63 | (59) |
| Other Care Home | 5.33 | (60) | 5.33 | (60) | 5.33 | (60) | 5.33 | (60) |
| **Head Office** | | **52.88** | | **52.88** | | **52.88** | | **52.88** |
| Central / Regional Management | 16.06 | (55) | 16.06 | (55) | 16.06 | (55) | 16.06 | (55) |
| Support Services | 19.34 | (61) | 19.34 | (61) | 19.34 | (61) | 19.34 | (61) |
| Recruitment, training & vetting | 8.1 | (57) | 8.1 | (57) | 8.1 | (57) | 8.1 | (57) |
| Other head office costs | 9.38 | (29) | 9.38 | (29) | 9.38 | (29) | 9.38 | (29) |
| **Sub-total Operating Costs** | | **828.05** | | **861.98** | | **1,080.46** | | **1,070.36** |
| **Return on Operations** | | 82.81 | | 86.20 | | 108.05 | | 107.04 |
| **Return on Capital** | | 106.13 | | 106.13 | | 106.13 | | 106.13 |
| **Total** | | **1,016.98** | | **1,054.30** | | **1,294.63** | | **1,283.52** |

| **Supporting information on important cost drivers used in the calculations:** | 65+ care home places without nursing | 65+ care home places without nursing, enhanced needs | 65+ care home places with nursing | 65+ care home places with nursing, enhanced needs |
|---|---|---|---|---|
| Number of fully or partially verified location level survey responses received | 41 | 25 | 45 | 24 |
| Number of locations eligible to fill in the survey (excluding those found to be ineligible)[9] | 122 | 122 | 107 | 107 |

[9] For both residential and nursing care, numbers given for standard and enhanced locations eligible to fill in the survey are equal. This is a result of this information not being made available through care cubed for in-scope locations that did not make a submission.

| | | | | |
|---|---|---|---|---|
| Number of residents covered by the responses | 1019 | 857 | 1553 | 676 |
| Number of carer hours per resident per week | 33 | 30 | 30 | 30 |
| Number of nursing hours per resident per week | - | - | 9 | 9 |
| Average carer basic pay per hour | £11.07 | £11.18 | £11.23 | £11.11 |
| Average nurse basic pay per hour | - | - | £20.92 | £21.18 |
| Average occupancy as a percentage of active beds | 88.9% | 88.9% | 88.9% | 88.9% |
| Freehold valuation per bed | £81,995.2 | £81,995.2 | £81,995.2 | £81,995.2 |

All data derived from toolkit responses except for return on capital and return on operations, which have been superseded by the council based on a 6% annual return on capital for premises and a 10% mark-up on operating and head office costs for return on operations

**Table 5**

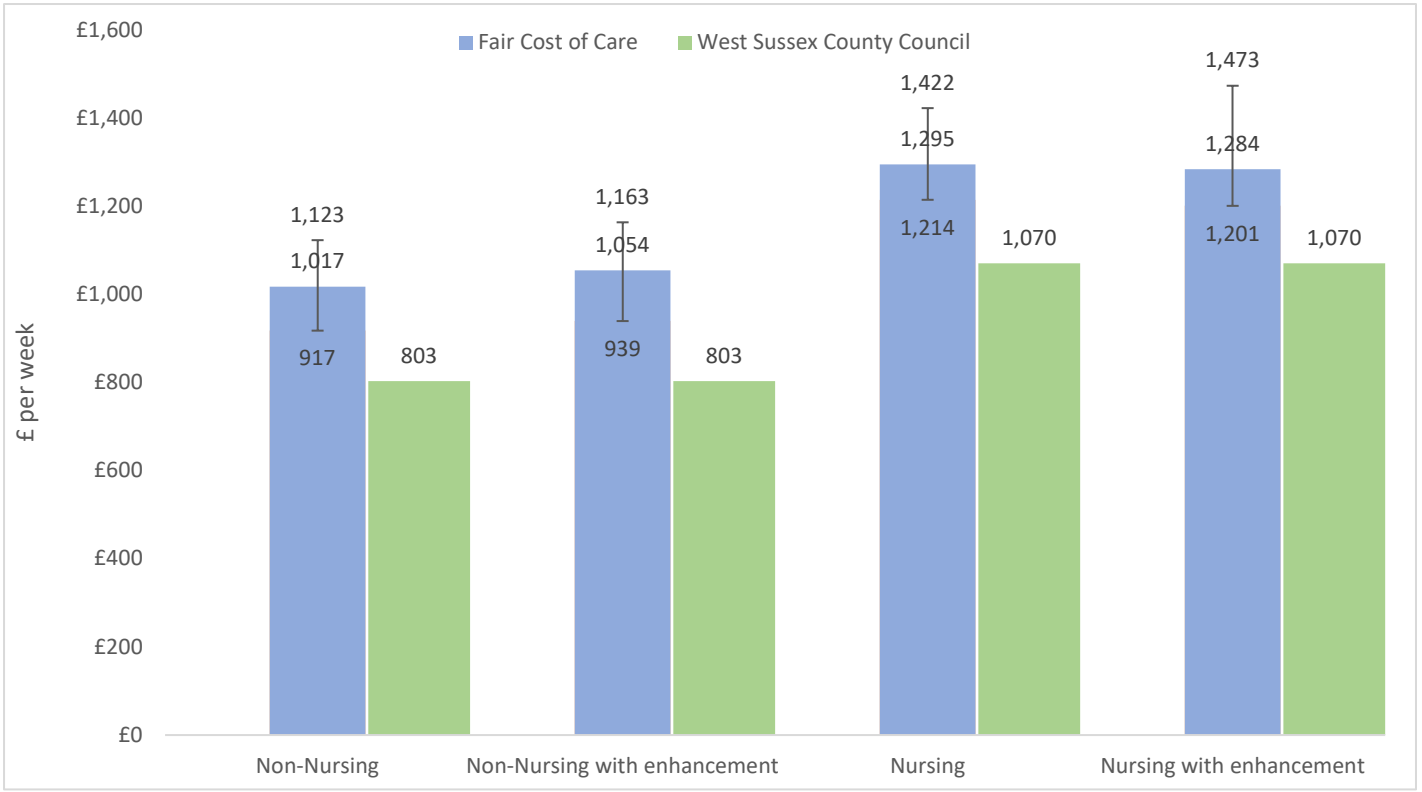
**Illustrative impact of superseding the median toolkit occupancy rate with a 'counterfactual' benchmark occupancy rate of 90%, assuming that 30% of operating costs are fully variable and 70% are fixed within the range bounded by the benchmark occupancy and the toolkit median occupancy**

| | Non-Nursing | Non-Nursing with enhancement | Nursing | Nursing with enhancement |
|---|---|---|---|---|
| **Calculated value of the occupancy adjustment (£ pw)** | **-£3** | **-£3** | **-£4** | **-£4** |

**Figure 1.**

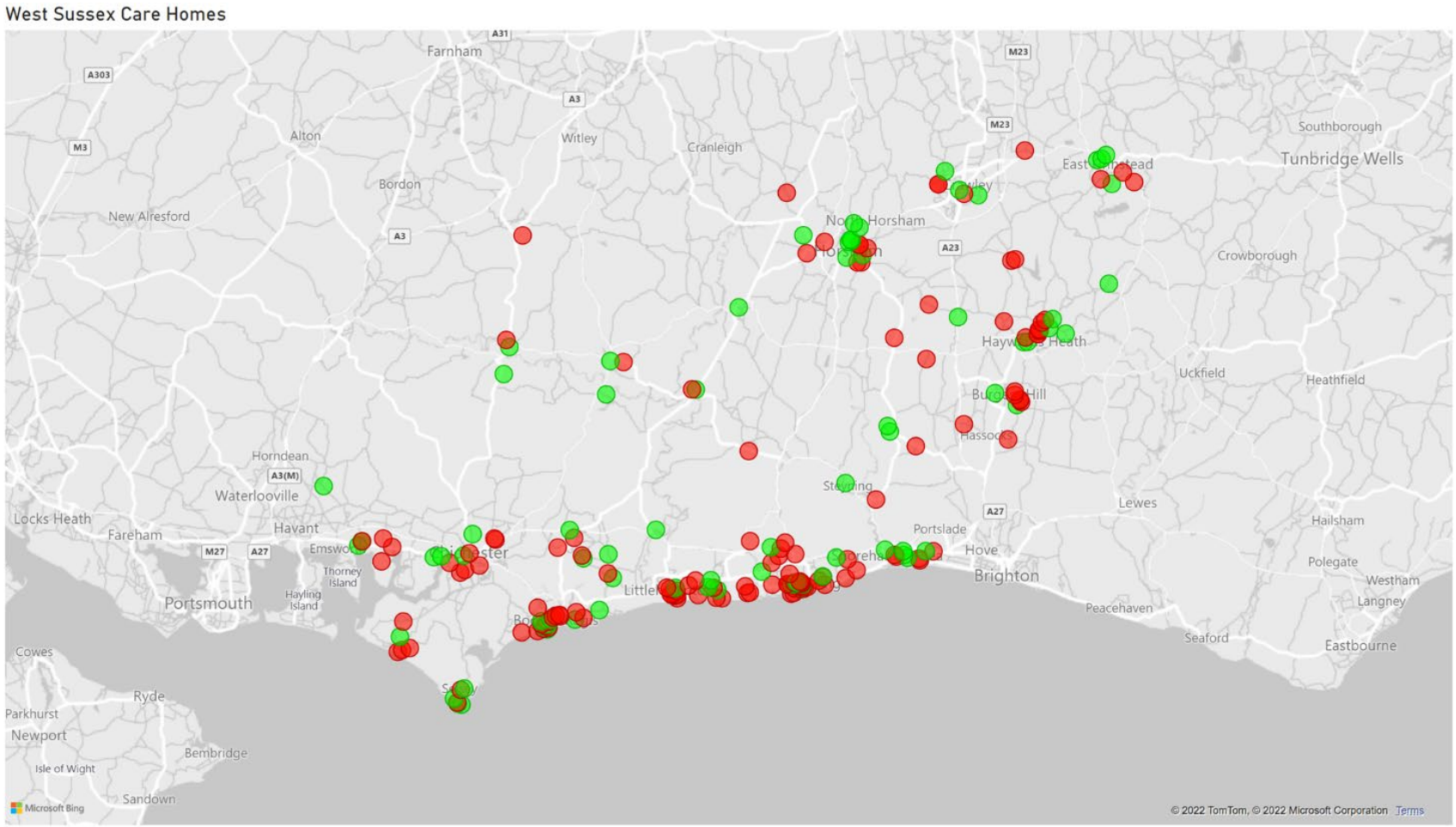
**Median costs for April 2022 with 95% confidence intervals, and comparison with post-April 2022 fee rates paid by councils to independent sector providers**

Note: The LA nursing care rates include £209.19 per week funding contribution from NHS FNC




It is important to emphasise that the four modalities of care specified by DHSC represent a basic segmentation only, masking what would be a wider range of costs if further sub-segmented. The latest DHSC guidance, dated 25 August 2022, recognises this as follows: '*median figures for the broad service types within scope (standard residential care, residential care for enhanced needs, standard nursing care and nursing care for enhanced needs)' … 'may oversimplify what is a complex picture of care and support needs.' …' As many local authorities move towards paying the fare cost of care, it is expected that actual fee rates paid may differ due to such factors as rurality personalisation of care quality of provision and wider market circumstances*.'

Figure 2 - Geographical spread of care homes in West Sussex (respondents in comparison to non-respondents)




- Respondents
- Non-respondents