

**REPORT OF THE CABINET MEMBER, ADULT SOCIAL CARE AND PUBLIC
HEALTH**

MARKET SUSTAINABILITY AND FAIR COST OF CARE FUND 2022 TO 2023

ANNEX B: COST OF CARE REPORT – AGE 65+ CARE HOMES

CONTENTS		
Section	Title	Page
1	Background and context	2
2	Introduction	2
3	Approach to the exercise	3
4	The survey	4
5	Survey responses	5
6	Return on Capital and Return on Operations	6
6.1	Return on Capital	6
6.2	Return on Operations	7
7	Survey analysis by type	8
	Residential services	8
	Nursing services	9
	Residential and nursing median	10
8	Interpretation of Annex A results	11
9	Next steps	11
10	Nottinghamshire’s care market	12
Appendix A: The questionnaire		13

SECTION 1: BACKGROUND AND CONTEXT

1. The Market Sustainability and Fair Cost of Care Fund ('the fund') set out funding parameters in support of local authorities to prepare their markets for reform, including the further commencement of Section 18(3) of the Care Act 2014 in October 2023, and to specifically support local authorities to move towards paying providers a fair cost of care.
2. The fund parameters later changed to defer the implementation of section 18(3) in response to a consultation on statutory guidance to implement the government's flagship funding reforms. This meant the date for full implementation of this section was moved to October 2025 with councils required to work towards this implementation date.
3. As a condition of receiving future funding, local authorities are required to evidence the work undertaken to prepare their markets for wider charging reform and thereby increase market sustainability. This required them to produce:
 - Cost of care exercises for 65+ care homes and 18+ domiciliary care.
 - A provisional market sustainability plan, using the cost of care exercise as a key input to identify risks in the local market, with consideration given to the further commencement of Section 18(3) of the Care Act 2014, which is currently in force only for domiciliary care.
 - A spend report detailing how funding allocated for 2022 to 2023 is being spent in line with the fund's purpose.
4. The remainder of this report sets out the approach adopted in meeting the conditions of the fund and how the cost of care estimates submitted to DHSC were determined.

SECTION 2: INTRODUCTION

5. This report sets out the engagement and work undertaken with a range of care providers in responding to the Department of Health and Social Care (DHSC) Fair Cost of Care (FCoC) Guidance.
6. The report sets out the initial cost of care findings to satisfy the DHSC conditions in supporting the Council to secure important future grant funding based on meeting the specific conditions. These will help support some of the pressures that are being experienced across the local care marketplace but also seeks to present any gaps identified during the process.
7. The Council notes at the time of writing, that the national conditions for the adult social care market remain under significant challenge for the following reasons:

- Persistent capacity gap between demand and workforce supply due to recruitment and retention.
- Provider and staff wellbeing and resilience continue to be impacted by managing Covid and not yet recovered from the continued response.
- High demand from the NHS as the Council moves toward winter.
- The cost of living increases and impact on the workforce, such as fuel, and lower income care workers.
- Unstable and increasing inflation increasing costs.

SECTION 3: APPROACH TO THE EXERCISE

8. The Council, alongside other East Midlands local authorities, commissioned the services of Care Analytics, a specialist in the financial analysis of care markets and the cost of care, to undertake an independent 'Fair Cost of Care' (FCoC) detailed cost analysis exercise.
9. From May 2022, the Council engaged with the local and national care forums regarding the Cost of Care exercise, and the approach and tools Nottinghamshire County Council would use.
10. By connecting with national care forums, this provided insight into how other Councils and care providers have approached the national DHSC Fair Cost of Care Guidance and methodology allowing for a better quality of response.
11. It was essential that the Council was confident that contact was made with the correct people in organisations. Initial work was undertaken, prior to launch, to contact all care providers to ensure information held for each provider was accurate.
15. Several engagement approaches were used with care providers to promote the work and improve quality of responses, including:
 - Individual calls to care providers
 - Online interactive forums
 - In person forums
 - Presentations
 - Coordinated communication over email
12. All providers operating in the care market within the area of the Council were sent a detailed survey designed to capture the necessary operational and contextual detail to draw out the inherent costs of delivering care in the local market.

13. Responses were received directly by Care Analytics, rather than by the Council, to address any concerns regarding anonymity of business data. These returns have been reviewed by Care Analytics, with responses clarified where needed, to produce the resulting data analysis of median and quartile costs required from this exercise.
14. The Council tracked response rates and provided support throughout the period to encourage providers to respond. The Cost of Care Survey formally closed 9 September 2022 and was then sent to Care Analytics.
15. As queries arose, Care Analytics requested additional data from several providers to ensure accuracy of information.
16. The Council deemed the engagement to be well received and collaborative, despite coming at a time of great challenge for the care providers.

SECTION 4: THE SURVEY

17. The survey was designed by Care Analytics. It is an adapted version of the survey they have used to conduct their existing market review service. As Care Analytics' market reviews have a wider scope than the FCoC exercise required by DHSC, the survey includes a wider set of questions. This will enable a thorough analysis of the marketplace to be undertaken after the current FCoC process.
18. The survey asked detailed questions about the care home's facilities and residents. It asked for a detailed breakdown of current staffing, wage rates by role, employment terms and conditions, and use of agency staff. Non-staff operating costs are collected from previous or current financial years at a granular level. Finally, there were a range of free text questions that providers could answer in their own words to inform the market review.
19. To promote engagement, providers were offered the opportunity to submit financial information in whatever format was exported from their finance system or was already available in their accounts. This was collected during the summer of 2022 asking for the 2022/23 financial year data. Where older data was provided, i.e., old year accounts, it was uplifted using Consumer Price Indices to 2022/23 prices at that time. Where the data was for a previous year, many providers took advantage of this opportunity as it saved them considerable time.
20. To support the data submissions received from providers via the survey, two financial years' worth of accounts data were also requested, to help identify outlier costs or exceptional spends in any one particular year.

21. Care Analytics then standardised the data into the required format for analysis including the non-staff costs to fit the necessary structure of the Fair Cost of Care template. This is not an exact science as costs are recorded in diverse ways in finance systems. Wherever possible, the Council has sought not to leave costs as 'other,' as this makes meaningful comparison between homes difficult.
22. Providers were also asked to identify any costs that had, or would, increase for 2022/23 to an extent that would not be reflected using CPI measures of inflation. Many providers took advantage of this by providing details about structural cost increases, notably utilities and insurance. Each provider's costs were updated to reflect any new baseline where data was supplied.
23. Payroll data was collected from a recent payroll period in the 2022/23 financial year to inform employer national insurance and pension contributions as a percentage of wages.
24. Care Analytics noted that utility costs have been far more variable than is usually the case during the period of the cost of care exercise and cautioned the utility analysis could have a significant error margin in relation to this.

SECTION 5: SURVEY RESPONSES

25. Care providers were not obligated to participate in the cost of care exercise and were not required to send any cost information to the Council as part of the process. As such, some care providers decided not to get involved, despite the Council actively encouraging all care providers to engage.
26. There are 155 care homes registered in the county for residents aged 65+ years. Of these, 84 are older adult residential homes and 71 are older adult nursing homes though some nursing homes are known to operate as residential only homes.
 - 59 care homes submitted a survey
 - 52 older adult care homes in Nottinghamshire submitted a usable survey (34%)
 - 25 (32%) older adult nursing homes
 - 27 (32%) older adult residential care homes
 - The Council has been able to use 52 of the 59 care home surveys as useable returns
 - 7 returns could not be used but will influence future commissioning plans.
 - Only 23 (92%) of the nursing homes in the survey sample had nursing residents. The other two homes' feedback has only been used for residential analysis.

- 12 (52%) of the remaining 23 older adult nursing homes reported a substantial number of residential residents and so have been used for both the residential and nursing analysis. Where nursing homes reported only a handful of residential residents without nursing, all residents were classified as nursing.

27. The sample of care homes with usable surveys were considered well balanced in terms of:

- Residential and nursing status
- Proportionate mix of small providers and larger groups
- Spread of occupancy reflective of the wider market
- A mix of homes based on the age of the care home.

28. It is likely the sample is at least broadly representative of the wider market.

29. It should be emphasised that Nottinghamshire has care homes operating with varying operational business models meaning direct comparisons are not easily like-for-like.

SECTION 6: RETURN ON CAPITAL AND RETURN ON OPERATIONS

30. DHSC has provided some guidance to support the calculation of a return on capital and a return on operations. There is a large amount of discretion around the underlying calculation of both elements and expectations of a level of return will differ across provider business structures. The level of return needs to address both the layers of risk and desired profit. The Council has set out below its proposed approach for both elements.

Section 6.1: Return on Capital

31. The Council has provisionally used the 'Potential Approach 1' as set out in the DHSC guidance whereby the return on capital value has been calculated using the median freehold value per bed (note: separate valuations have been obtained from this exercise for 65+ residential care and 65+ residential care with nursing care homes).

32. The Council has additionally included a provision in the calculation to reflect an estimate for the value of the equipment and furniture in a care home, the equivalent of depreciation. A return on capital has then been calculated using a rate of return on capital of 6.0%. It should be noted that there was a large range of asset values within the survey responses that may not be reflective of the homes that the Council are commissioning from. Some of the values did not correlate with the recent sale and purchase data being reviewed by Care Analytics. The cost difference of applying 6% to the asset values between the 25th and 75th percentile amounts to a difference of £40-50 per bed per week. This difference is significant. Further

work needs to be undertaken to understand whether the median values in the Care Analytics report are reflective of what the Council is commissioning.

33. The above method is a similar approach to that used within the existing fees model. The alternative DHSC suggested method 'Potential Approach 2' using the Local Housing Allowance for Nottinghamshire would potentially generate a lower return.

Section 6.2: Return on Operations

34. Return on operations is a mark-up on operating costs. To maintain a working market, providers need a reasonable rate of return on operations. The public sector should not be rewarding care home operators with excess profits, but equally it is recognised that providers need to make a return to remain in the market and maintain provision.

35. The Council has provisionally input 5% for a return on operations. It believes this is a fair minimum plausible mark-up, noting that different operating models can produce very different needs for a rate of operating return. The figure should be seen as a guide rather than representing a robust assessment.

SECTION 7: SURVEY ANALYSIS BY TYPE

Residential services - derived from usable surveys

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	
Total Care Home Staffing	
Nursing Staff	
Care Staff	
Therapy Staff (Occupational & Physio)	
Activity Coordinators	
Service Management (Registered Manager/Deputy)	
Reception & Admin staff at the home	
Chefs / Cooks	
Domestic staff (cleaning, laundry & kitchen)	
Maintenance & Gardening	
Other care home staffing (please specify)	
Total Care Home Premises	
Fixtures & fittings	
Repairs and maintenance	
Furniture, furnishings and equipment	
Other care home premises costs (please specify)	
Total Care Home Supplies and Services	
Food supplies	
Domestic and cleaning supplies	
Medical supplies (excluding PPE)	
PPE	
Office supplies (home specific)	
Insurance (all risks)	
Registration fees	
Telephone & internet	
Council tax / rates	
Electricity, Gas & Water	
Trade and clinical waste	
Transport & Activities	
Other care home supplies and services costs (please specify)	
Total Head Office	
Central / Regional Management	
Support Services (finance / HR / legal / marketing etc.)	
Recruitment, Training & Vetting (incl. DBS checks)	
Other head office costs (please specify)	
Total Return on Operations	
Total Return on Capital	
TOTAL	

Supporting information on important cost drivers used in the calculations:	
Number of location level survey responses received	
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	
Number of residents covered by the responses	
Number of carer hours per resident per week	
Number of nursing hours per resident per week	
Average carer basic pay per hour	
Average nurse basic pay per hour	
Average occupancy as a percentage of active beds	
Freehold valuation per bed	

	1st quartile	Median	3rd quartile
Count of answers	All residential placements (excluding nurses)	All residential placements (excluding nurses)	All residential placements (excluding nurses)
41	£386.02	£447.69	£490.40
41	£264.83	£295.70	£331.72
34	£8.82	£11.80	£15.25
41	£29.04	£37.92	£49.12
32	£10.01	£11.57	£16.64
39	£14.84	£20.57	£30.51
41	£49.49	£52.53	£59.35
39	£7.89	£10.05	£15.01
41	£22.03	£29.60	£44.35
14	£7.95	£17.75	£22.40
41	£16.88	£21.31	£29.17
34	£0.34	£3.49	£8.25
41	£95.06	£113.95	£129.99
41	£29.18	£32.22	£37.89
39	£7.00	£8.93	£14.60
33	£1.13	£2.51	£4.72
14	£1.01	£2.43	£5.27
35	£1.95	£4.64	£6.61
41	£3.76	£5.32	£6.95
40	£3.24	£3.53	£4.46
40	£0.94	£1.73	£2.13
35	£0.67	£1.08	£1.50
41	£27.28	£34.65	£43.28
36	£3.74	£5.04	£6.32
40	£0.59	£2.14	£4.69
35	£2.80	£4.90	£10.79
41	£35.39	£55.71	£76.04
17	£20.40	£30.36	£49.71
38	£2.32	£9.44	£22.35
37	£0.84	£2.45	£3.70
17	£13.68	£68.39	£81.78
	£26.92	£32.35	£37.04
	£81.15	£102.19	£131.79
	£646.57	£781.48	£909.61

Count of answers	All residential placements (excluding nurses)	All residential placements (excluding nurses)	All residential placements (excluding nurses)
41	41	41	41
84	84	84	84
1,489	1489	1489	1489
41	21.1	24.6	26.2
41	£9.93	£10.08	£10.39
41	81.8%	89.5%	93.9%
24	£55,327	£73,566	£99,215

Nursing services - derived from usable surveys

		1st quartile	Median	3rd quartile
Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	Count of answers	All nursing placements	All nursing placements	All nursing placements
Total Care Home Staffing	23	£596.29	£656.85	£764.79
Nursing Staff	23	£140.94	£187.44	£225.78
Care Staff	23	£271.36	£297.67	£348.09
Therapy Staff (Occupational & Physio)				
Activity Coordinators	20	£9.12	£10.87	£12.97
Service Management (Registered Manager/Deputy)	23	£32.83	£40.25	£53.78
Reception & Admin staff at the home	21	£12.51	£16.95	£19.63
Chefs / Cooks	22	£16.83	£23.83	£32.95
Domestic staff (cleaning, laundry & kitchen)	23	£51.77	£59.15	£76.70
Maintenance & Gardening	22	£10.03	£13.59	£15.53
Other care home staffing (please specify)				
Total Care Home Premises	23	£24.29	£32.91	£41.59
Fixtures & fittings	8	£3.69	£6.07	£13.05
Repairs and maintenance	23	£17.15	£22.77	£31.93
Furniture, furnishings and equipment	18	£0.91	£1.93	£10.67
Other care home premises costs (please specify)				
Total Care Home Supplies and Services	23	£102.41	£125.02	£157.82
Food supplies	23	£29.46	£33.78	£44.71
Domestic and cleaning supplies	21	£5.21	£10.66	£13.61
Medical supplies (excluding PPE)	23	£1.78	£4.74	£17.43
PPE	14	£2.17	£3.48	£7.02
Office supplies (home specific)	18	£4.54	£5.23	£9.07
Insurance (all risks)	23	£4.00	£5.45	£8.21
Registration fees	23	£3.19	£3.56	£4.24
Telephone & internet	23	£1.05	£1.66	£2.29
Council tax / rates	23	£0.85	£1.39	£1.61
Electricity, Gas & Water	23	£26.33	£31.56	£43.82
Trade and clinical waste	23	£5.04	£6.59	£7.73
Transport & Activities	23	£1.78	£3.50	£4.86
Other care home supplies and services costs (please specify)	18	£4.95	£7.92	£13.01
Total Head Office	23	£20.34	£46.92	£62.12
Central / Regional Management	9	£11.00	£23.70	£30.35
Support Services (finance / HR / legal / marketing etc.)	23	£2.06	£13.56	£26.58
Recruitment, Training & Vetting (incl. DBS checks)	22	£1.50	£3.39	£6.42
Other head office costs (please specify)	6	£8.42	£32.49	£55.35
Total Return on Operations		£37.17	£43.09	£51.32
Total Return on Capital		£81.66	£109.74	£126.68
TOTAL		£862.16	£1,014.53	£1,204.32
Supporting information on important cost drivers used in the calculations:	Count of answers	All nursing placements	All nursing placements	All nursing placements
Number of location level survey responses received	23	23	23	23
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	71	71	71	71
Number of residents covered by the responses	23	674	674	674
Number of carer hours per resident per week	23	23.1	25.4	27.3
Number of nursing hours per resident per week		6.3	7.6	8.9
Average carer basic pay per hour	23	£9.86	£10.08	£10.65
Average nurse basic pay per hour		£18.59	£19.14	£19.83
Average occupancy as a percentage of active beds	23	72.4%	89.3%	94.5%
Freehold valuation per bed	10	£55,768	£80,104	£94,792

Residential and Nursing Median - derived from usable surveys

	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
Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.				
Total Care Home Staffing	£423.69	£471.68	£633.42	£680.28
Nursing Staff			£187.44	£187.44
Care Staff	£271.70	£319.69	£274.24	£321.10
Therapy Staff (Occupational & Physio)				
Activity Coordinators	£11.80	£11.80	£10.87	£10.87
Service Management (Registered Manager/Deputy)	£37.92	£37.92	£40.25	£40.25
Reception & Admin staff at the home	£11.57	£11.57	£16.95	£16.95
Chefs / Cooks	£20.57	£20.57	£23.83	£23.83
Domestic staff (cleaning, laundry & kitchen)	£52.53	£52.53	£59.15	£59.15
Maintenance & Gardening	£10.05	£10.05	£13.59	£13.59
Other care home staffing (please specify)				
Total Care Home Premises	£29.60	£29.60	£32.91	£32.91
Fixtures & fittings	£17.75	£17.75	£6.07	£6.07
Repairs and maintenance	£21.31	£21.31	£22.77	£22.77
Furniture, furnishings and equipment	£3.49	£3.49	£1.93	£1.93
Other care home premises costs (please specify)				
Total Care Home Supplies and Services	£113.95	£113.95	£125.02	£125.02
Food supplies	£32.22	£32.22	£33.78	£33.78
Domestic and cleaning supplies	£8.93	£8.93	£10.66	£10.66
Medical supplies (excluding PPE)	£2.51	£2.51	£4.74	£4.74
PPE	£2.43	£2.43	£3.48	£3.48
Office supplies (home specific)	£4.64	£4.64	£5.23	£5.23
Insurance (all risks)	£5.32	£5.32	£5.45	£5.45
Registration fees	£3.53	£3.53	£3.56	£3.56
Telephone & internet	£1.73	£1.73	£1.66	£1.66
Council tax / rates	£1.08	£1.08	£1.39	£1.39
Electricity, Gas & Water	£34.65	£34.65	£31.56	£31.56
Trade and clinical waste	£5.04	£5.04	£6.59	£6.59
Transport & Activities	£2.14	£2.14	£3.50	£3.50
Other care home supplies and services costs (please specify)	£4.90	£4.90	£7.92	£7.92
Total Head Office	£55.71	£55.71	£46.92	£46.92
Central / Regional Management	£30.36	£30.36	£23.70	£23.70
Support Services (finance / HR / legal / marketing etc.)	£9.44	£9.44	£13.56	£13.56
Recruitment, Training & Vetting (incl. DBS checks)	£2.45	£2.45	£3.39	£3.39
Other head office costs (please specify)	£68.39	£68.39	£32.49	£32.49
Total Return on Operations	£31.15	£33.55	£41.91	£44.26
Total Return on Capital	£102.19	£102.19	£109.74	£109.74
TOTAL	£756.28	£806.68	£989.92	£1,039.13

	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
Supporting information on important cost drivers used in the calculations:				
Number of location level survey responses received	41	41	23	23
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	84	84	71	71
Number of residents covered by the responses	1489	1489	674	674
Number of carer hours per resident per week	22.6	26.6	23.4	27.4
Number of nursing hours per resident per week			7.6	7.6
Average carer basic pay per hour	£10.08	£10.08	£10.08	£10.08
Average nurse basic pay per hour			£19.14	£19.14
Average occupancy as a percentage of active beds	89.5%	89.5%	89.3%	89.3%
Freehold valuation per bed	£73,566	£73,566	£80,104	£80,104

SECTION 8: INTERPRETATION OF ANNEX A RESULTS

36. Whilst it is fair to say that the median is less skewed by high outlier values as opposed to mathematical averages, the median values themselves can be skewed if the dataset does not comprise an appropriate and representative sample of the existing make-up of care providers in the local market. Although Nottinghamshire's survey response resulted in a reasonably good sample size for care homes, work is still being undertaken on whether this was representative of the care home market.
37. It is difficult to draw sound conclusions from incomplete or inaccurate data. Some providers did not respond to queries raised leaving their information incomplete.
38. In some instances, providers submitted data that was unable to be substantiated through queries or financial analysis.

SECTION 9: NEXT STEPS

39. The Council will use this data to influence the market sustainability plan and future fee strategy which will be published in March 2023. In addition to the survey responses, the following will also be considered when determining the fee uplift:
- National Living Wage and statutory changes
 - National Inflation
 - Care Analytics wider market analysis has not yet concluded
 - Grant funding available
 - Occupancy rates
 - Asset valuation
 - The market position where nursing beds are occupied by residential placements and the impact this has on the residential cost analysis
 - Likely market capacity required to meet adult social care demand locally in line with our strategy
 - Factoring in Funded Nursing Care (FNC) payments on top of our rates for nursing homes
40. The Fair Cost of Care exercise was undertaken at a significantly challenged and volatile point in time with unprecedented levels of cost changes in a number of areas that significantly impact on the care market. The Council needs to determine which areas are likely to become permanently changed.

SECTION 10: NOTTINGHAMSHIRE'S CARE MARKET

41. Now, and in the coming years, Nottinghamshire County Council will be required to meet the care and support needs of an ever-increasing proportion of the elderly population. Resident expectations, and those of their families and unpaid carers, will rightly require innovation and modernisation of services through maximising the use of public funding to provide a variety of options to meet an increasingly diverse range of need.
42. The draft Market Sustainability Strategy (2023 to 2026) will be developed to strengthen a care and support marketplace that helps us to deliver the ambition underpinned by the [Council Plan](#) to be *Healthy, Prosperous, Green*, and the [Health and Wellbeing Strategy 2022-2026](#) focused on *wellness and the benefits of longer term integration with health....on the communities we all support*.
43. The care sector provides valuable care that has a significant role in supporting prevention, delaying the escalation of needs and in empowering people to live more independently. The initial findings of this exercise are the start of a journey to collaborate with local care partners and better understand how services can be shaped and improved to support A Life, Lived Well for all. In this ambition work has commenced in engaging, consulting, and coproducing, what the future could look like through Better Together and Your Voice.

[Better together | Nottinghamshire County Council](#)

[Co-production: working together | Nottinghamshire County Council](#)

APPENDIX A: The questionnaire template



Care Analytics care
home commissioning

The Council want to thank care providers that took part in the local cost of care exercise, and we look forward to furthering our engagement.