

Scrutiny Briefing Note

The Health & Adult Social Care Scrutiny Panel has asked for a summary of the work that was undertaken to arrive at a fair cost of care rate for adult social care residential settings.

Residential care – fair cost of care process and outcome

Introduction

On behalf of the council, the CCG has delegated powers to manage adult social care budgets and within that to negotiate care fee rates. The CCG has an annual process for fee setting in relation to services provided to adults in receipt of social care. However, historically this process had been based on applying inflationary uplifts and reflecting the cost of the minimum wages and adding to existing fee rates. It became apparent through discussions with care home providers that this did not reflect the cost to deliver care in the local area. This is part was due the trend over time towards making care placements much later into an individual's care journey, as most people prefer to remain in their home. This has resulted in people with more complexity and frailty being supported in local homes and needing more care within the setting, leading to greater costs. North East Lincolnshire had one of the lowest fee rates in the country. Councils must be able to demonstrate that they have a rational basis for setting their care fees and that these fees are sufficient to meet care costs. Providers justifiably may challenge councils, who do not pay the cost of care, through the court system. This process is costly and time consuming, can result in councils being forced to undertake a cost of care exercise and being mandated to pay higher fees in any event. North East Lincolnshire had been in the position of being able to maintain lower fee levels due to over supply in the market place. However this also can result in market instability and issues with quality and effectiveness.

What is a cost of care exercise?

This is a process whereby providers cost data for the provision care is shared with service commissioners, in order to arrive at a view of usual service costs. The exercise also provides a methodology and basis for future fee setting. To do this, a sufficiently representative sample of local providers must agree to co-operate with the process and share their financial data. Embarking on such an exercise is risky in that it can result in overall fee rates being increased. This risk has to be balanced against the need to have a stable and effective market for quality care.

What were the aims of the cost of care exercise?

The exercise was started in March 2018 in response to feedback from providers in the previous year's fee setting round. The CCG had a historic quality scheme which meant that not all providers were receiving the same payment. There were some issues with the quality scheme which resulted in some providers receiving higher fees than the quality they were delivering, whereas others were in the reverse position. The quality scheme was time consuming and was not enabling the maintenance of consistently high standards of care across the market. A view was taken that all providers should be offering the same quality and that the fee structure should reflect this and be based on the consistent achievement of contractual standards.



What did we do?

We looked at how other councils had approached their cost of care exercises, including North Lincolnshire; we assessed the likely financial impact of fee uplifts, based on benchmarking outcomes from cost of care exercises; we looked at modelling tools such as the Laing Buisson model and held a dialogue with the local residential care market. We also considered local occupancy rates, which can impact on provider sustainability.

Three options were considered:

- 1) Doing nothing
- 2) Engaging external consultants to run the process at a cost of between £40-£60K
- 3) Undertaking a locally developed process in partnership with providers with expert input at a cost of c£7k

Option 3 was selected - this was the preferred approach of providers and officers since it offered the opportunity of a locally tailored approach and “ownership” of the process and outcomes for the system. Professor John Bolton was engaged due his experience in both conducting cost of care exercises and evaluating councils’ approaches from a national perspective. He provided guidance in relation to the process, which was developed locally, and offered challenge and objectivity throughout. The exercise was applied to residential, continuing health care funded, nursing and funded nursing care placements.

Method

The approach involved establishing a standing committee which included residential care providers, the director of adult services, service officers and financial support. The committee’s remit was to ensure that the approach to data collection was systematic, to ensure a representative data set could be collected to discuss the data once received. Transparency in the process was key to the successful negotiation of a fair rate for the local market.

Some of the challenges were that there:

- Is no agreed level of staffing in England nor an agreed management structure for a care home—this needs to be agreed including variances
- Needed to be a return on investment for providers of residential care
- Needed to be an agreement on whether a quality premium is paid (or not)
- Should be an agreement on occupancy levels and how this is funded
- Needed to be an agreement on profit for providers which is separate from return on investment

Other considerations included the agreement of a management structure and a staffing skill mix for each type of care home:

- One size may not suit all.
- Larger care homes have lower costs per resident than smaller homes
- Homes with older people with dementias require higher staffing levels than for older people with other care needs



- Homes owned by larger companies can spread their overhead costs efficiently (often larger homes)
- Some homes face particular challenges e.g. rural area may have more challenges in staffing and ensuring occupancy.
- Some providers will have had to borrow money at higher interest rates to sustain their business.

Professor Bolton set out a process for the work:

Step 1: Agree what you need to agree, who needs to agree it, what information do you need and how will you agree

- Establish a standing committee of stakeholders to consider the issues arising from the cost of care. Ensure the process is transparent and open
- Establish a group of providers who are willing to share their accounts with the standing committee (or include these providers on the standing committee)
- Consider who else might be part of this group

Step 2: Gather the data and intelligence

- Establish a spread sheet that can collect the data from the care homes – agree the components that might be included in the spread sheet
- When required, collect additional information from all providers in the area through a questionnaire (contents agreed with the standing committee)
- Populate the spread sheet and discuss the findings considering any outliers that should be removed from the average figures.
- Calculate the average figures based on:
 - Staffing and management costs
 - Other non-staffing costs

Step 3: Make a set of decisions

Agree an approach to the following areas:

- Profit margins and return on investment
- Occupancy Levels
- Quality Premiums
- Add together the decision made (as above) with the agreed average cost and arrive at a figure
- Consider any exceptions for specific care homes (be transparent)
- Recognise that there may need to be compromises to reach a full agreement. Negotiate a final figure.



Results

Of 44 homes within North East Lincolnshire providing residential care, which excludes those supporting people with learning disabilities, 20 responses were received.

- 17 Templates completed
- 1 Declined
- 1 Delayed
- 1 Partial return of information

This provided an overall response rate of 39%

What did we want to achieve?

From the discussions with the standing committee we arrived at an agreed funding formula and settled on a new fair cost of care rate. This could be used to establish a base residential fee level nursing care, funded nursing care and bespoke packages of care (since the “accommodation” cost element is now largely understood).

It has been accepted by providers that the fair cost of care be calculated on an assumption of an efficient market which is defined as the average occupancy rate being at 90 per cent or above.

Proposed approach to fee uplifts in future years

The approach suggested is to offer the national minimum wage increase against pay costs plus the current RPI rate against non-pay costs. The agreed percentage profit is then applied to arrive at the total weekly fee rate.

Financial implications

Based on data at October 2019 when there were 504 “in area” packages of residential care of which 27 were bespoke packages:

- 477 packages were on base fee rates plus quality awards, with an annual quality awards value of £187k
 - 164 packages had no quality award
 - 139 packages were on basic quality award
 - 115 packages were on silver quality award
 - 59 packages were on gold quality award

The estimated additional annual cost at 19/20 prices to move 477 packages to fair cost of care rate of £491.75 per week aligned to the new quality contract was £400k or an average of £16.00 per person per week.



Moving to the new fee rate

The CCG issued a new long-term care contract in January 2019 intended to ensure that all providers deliver a consistently high standard of care and moved away from the previous quality payment scheme. Only homes assessed as contractually compliant (where a compliance visit has taken place in the past six months), or where their most recent quality rating achieved the previous “silver” quality standard, or homes rated as CQC overall “good” in the past year were paid the new fee rate.

Homes not currently achieving contractual compliance or CQC good rating, remained on their current fee rate until April 2020 giving them time to achieve the contract standard and allowing time for the contract team to make assessments and visits to those requiring improvement. Homes not meeting the current contract standard at April 2020 had to demonstrate how they would achieve and sustain compliance by submission of an improvement plan to the contracts team.

All care homes are now operating to the new contract and are at then new weekly fair cost of care rate.

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