

## Durham County Council

### Fair Cost of Care Report: Older People's Care Homes October 2022

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#### Exercise Background and Overview

##### Introduction

- In July 2022, Peopletoo were commissioned by Durham County Council to support to undertake and deliver a 'Fair Cost of Care' ('FCOC') exercise for 65+ Care Home Provision locally, in line with Department of Health and Social Care Guidance released in the Spring of 2022, which sets out the Government's expectations on Local Authorities in ensuring that they have the right health and care architecture in place to underpin and support the delivery of the Government's long term plan for Adult Social Care, 'People at the Heart of Care.'
- The exercise is designed as an opportunity for local authority commissioners and local care providers to work together to increase shared understanding of what it costs to run quality and sustainable care provision in the local area, while remaining reflective of local circumstances including those of funders. It is also a way for commissioners and providers to work together to shape and improve the local social care sector and identify improvements in relation to workforce, quality of care delivered, and choice available for people who draw on care.
- The objective of the work undertaken by Peopletoo was to provide the Council with information submitted by the Care Home provider market via the web-based Iese 'Fair Cost of Care' Toolkit. The aim is to provide detailed information on Service Providers' actual delivery costs for 2021/22, upon which **data can be used to inform on sustainable fee rates for the future as the Council uses available grant funding to move towards the 'Fair Cost of Care' for older persons care homes and domiciliary care. However, the median values**

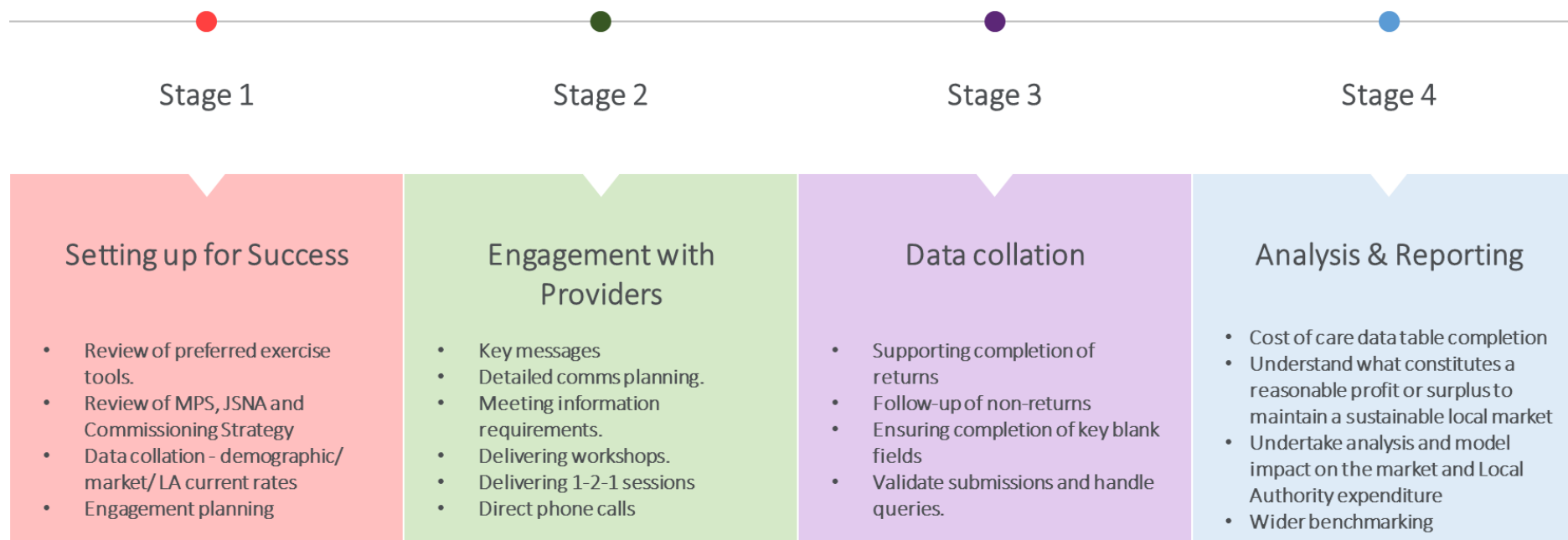
presented in this report are derived from local provider data and do not represent what the Council would recognise as a required or published fee/rate. The Council notes that DHSC have explicitly confirmed that the 'FCOC' exercise is not intended to be a replacement for the fee setting element of local authority commissioning processes or individual contract negotiation. The completion of this exercise lays an indicative foundation, alongside the Councils market information and established indicators, upon which future fee level negotiations with providers can progress.

- This Cost of Care report provides the Council with the detail surrounding Peopletoo's methodology and approach to ensuring provider engagement and the approach to validating returns submitted by providers to ensure accuracy and clarification in relation to the approach to outliers following the validation stage, where issues with returns remained.
- We also provide detail in relation to the returns received (anonymised and aggregated) by care home category, prior to providing the detailed outcome in relation to the 'FCOC' exercise results locally. The care home categories analysed for this exercise include:
  - Standard residential care,
  - Residential care for enhanced needs,
  - Standard nursing care,
  - Nursing care for enhanced needs.

## Project Methodology

### Cost of Care Exercise Stages

- The following diagram sets out the detailed four stage process followed by Peopletoo to deliver this exercise in partnership with Durham County Council.

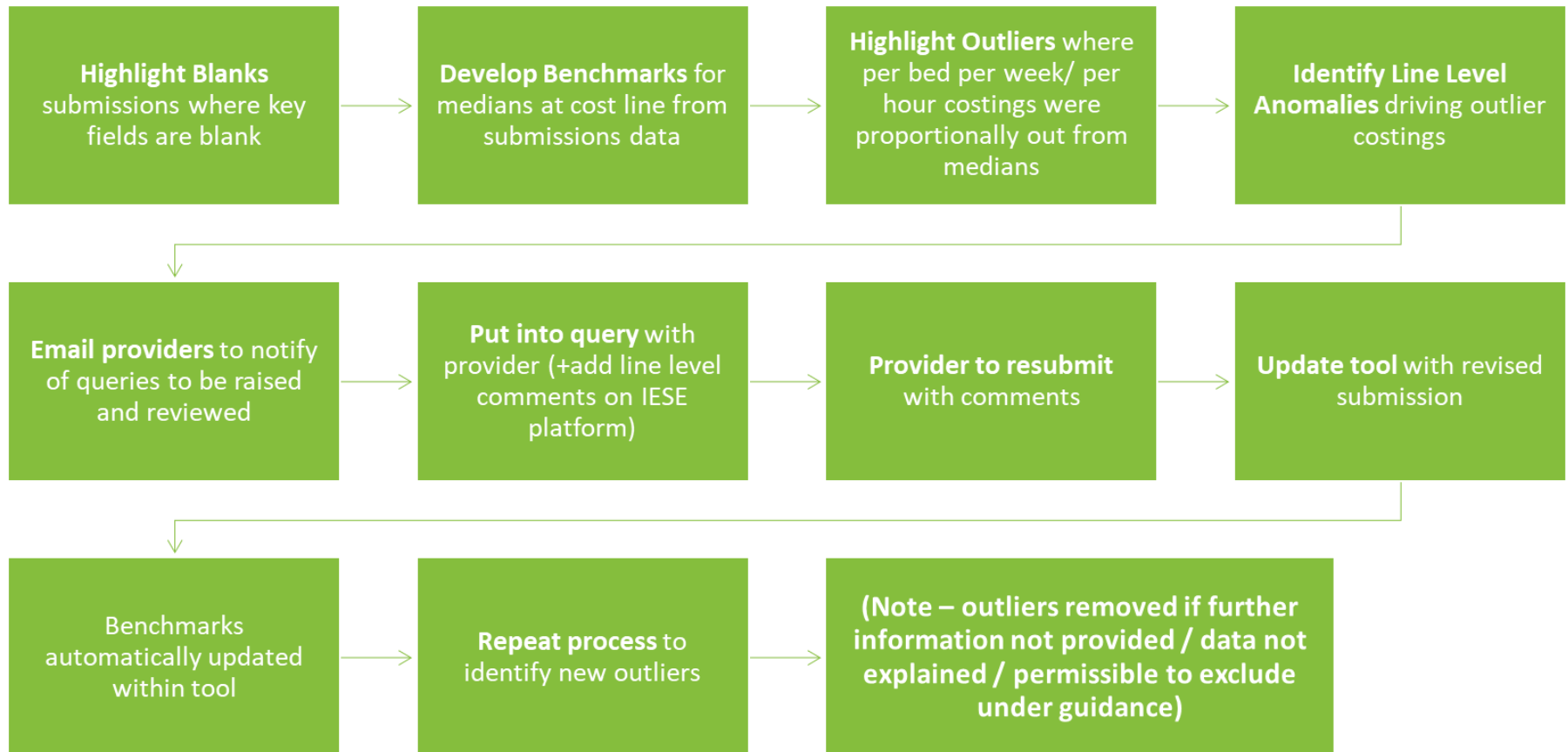


## Tool Used for Exercise

### Care Home Iese Care Cubed Tool

- Durham County Council's preference was for Peopletoo to utilise the Care Home 'Fair Cost of Care' Toolkit developed by Iese and recognised Nationally as the preferred tool to complete this exercise.
- IESI tools are recognised nationally and already in use by a third of councils & 50 providers across the UK to support cost management and commissioning process for adults and children's services.
- The tool was designed and developed specifically to include key cost fields for data collection, with specific reporting functionality to enable analysis in line with DHSC requirements.
- The tool also provided a communication channel between commissioners, supporting consultancy organisations, and local providers to enable in-depth validation and query relating to the specific detail included in provider's returns.
- The following diagram details Peopletoo's validation process implemented throughout the analysis and review stage of the exercise.

Validation Process



## Challenges in the Data

- The 'Fair Cost of Care' Exercise set out by the DHSC is one which is predominantly driven by the input of provider cost data, and as the exercise only sets loose guidance around validation parameters and the ability of local commissioners to challenge and interrogate the data in depth, several challenges in relation to data accuracy should be raised and noted.
- Specially for County Durham, these challenges include:

### The impact of Covid-19.

- The requirement to base a fair costing exercise on a year in which care homes and commissioners faced significant pressures in relation to occupancy and costs as a result of the Covid-19 pandemic is a challenge raised at a national level.
- Care Home providers locally have indicated that there may be potential for an element of their 2021/22 expenditure to include grant monies which were awarded to the provider market in response to the Covid-19 pandemic. In Durham, the amounts of grant funding distributed across Infection Control & Testing Funds; Workforce Capacity & Recruitment and Retention Funds; and Omicron Support Funds were substantial.
- The validation process implemented by Peopletoo has enabled mitigation against this as far as possible, including removal of outliers where these remain unverified / explained; however, it is important to note that this expenditure may still sit across several database cost lines, making detecting these instances challenging.

### The challenges in calculation of higher occupancy and lower ROO/ROC figures at the time of writing.

- In setting a fair cost of care locally, commissioners would like to be able to model several scenarios such as for example higher occupancy and lower Return on Operations and Return on Capital figures to better reflect an accurate local position.
- At the time of writing this report, there is limited availability in the toolkit to undertake this modelling.
- This is a challenge gaining ground at a National level, with other commissioners wishing to undertake similar modelling activity and it hoped that further work can be done on this issue, both nationally and locally, between October 2022 and February 2023.
- The Council will also further explore these issues locally in the coming months.

### Treatment of Outliers

- Following the validation process and direct engagement with providers to understand the way in which costings had been arrived at and apportioned within the toolkit, outliers have been excluded from the exercise in agreement with local commissioners.
- Validation processes have provided the opportunity for discussion with providers, to challenge unusual values and give providers the opportunity to explain, refine and correct data.
- These exclusions have been made in line with the guidance made available by DHSC to support local authorities to undertake this exercise in the most transparent and accurate way. The validation process followed has enabled the County Council to use their best judgement on ensuring cost lines are not inflated or deflated, on account of COVID-19 expenditure and grant activity for example, but rather reflect as accurately as possible the actual operating cost of delivering care.
- These submissions have been excluded from the exercise post in-depth validation for the following reasons:
  - Providers have submitted costs which are significantly above the overall median cost (above 100%) on a per person per bed basis,

- There remain questions regarding the accuracy of provider data which were not responded to during validation processes,
- The data provided against key cost lines within the tool indicate conflated costs which, following engagement with the provider market, may indicate that grant monies have been included in the expenditure return – for example, specifically in relation to workforce costs, PPE, wider care home supplies and medical provisions.
- As a result of these exclusions from the exercise, County Durham’s data sample is representative of 29 care home providers locally. We understand from national discussions on response rates that this figure remains at a level at which DHSC would consider appropriate and is broadly in line with, if not greater than, the percentage of homes in the data sample in other LA areas.



## Care Home Providers

### Engagement Plan



- ✓ **Introductory Event**
- ✓ Introductory Session
- ✓ Event presentation email follow ups

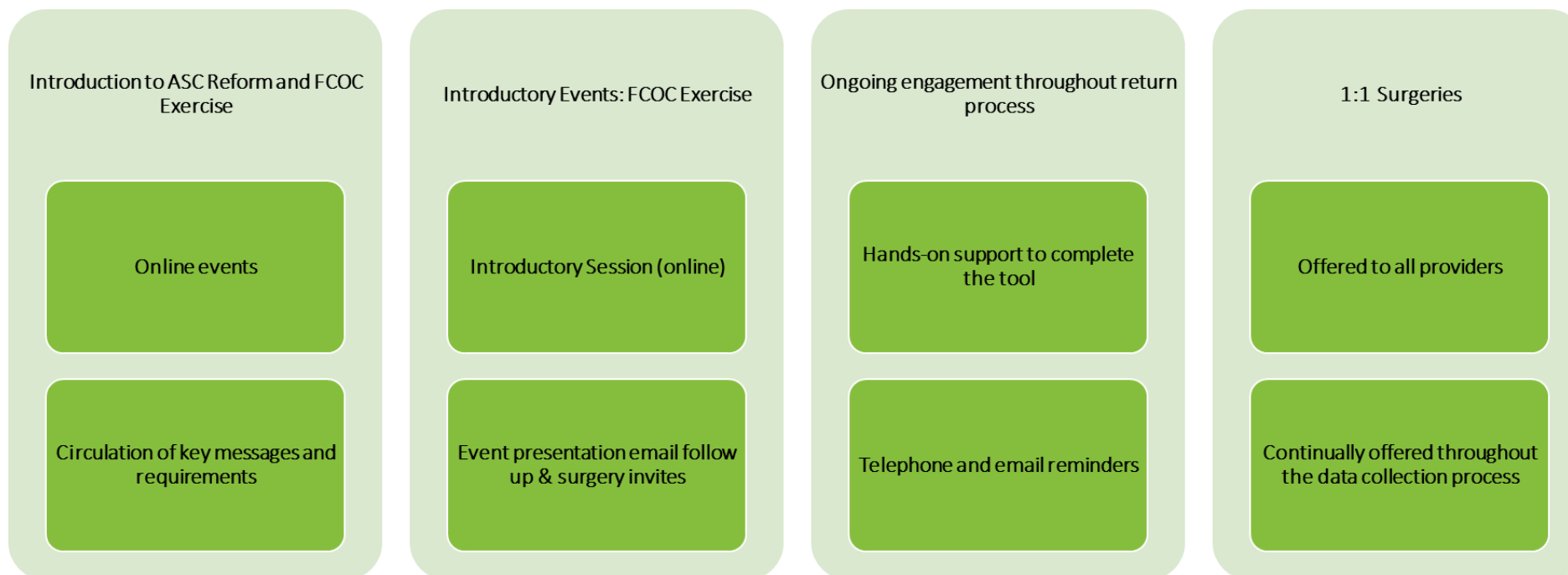
- ✓ **Reminders**
- ✓ Deadline Reminder & CPA Session Invites
- ✓ Final Reminder & CPA Session Invites

- ✓ **1-2-1 Sessions**
- ✓ Offered to all providers

- ✓ **Direct Calls**
- ✓ Before Deadline (all providers)
- ✓ After Deadline to offer extension & 1-2-1 support (providers yet to submit)
- ✓ After Extension (providers yet to submit)

- ✓ **Further opportunity to respond following a letter sent to Care Home Providers by the Council on 3 October 2022**
- ✓ This letter set out the considerations the Council was making in relation to potential adjustments to the data in future to ensure an accurate local reflection, providing further opportunity for providers to review and revise submissions.

## Market Engagement Approach



## Summary of Care Home Provider Engagement

- Critical to the success of the Fair Cost of Care exercise was engagement with commissioned and registered care providers in County Durham, where the strength of strategic, trusted relationships with the Council varied. Peopletoo were commissioned to lead this

exercise, bringing with them a wealth of experience and skill in engaging providers from across the breadth of adult social care services, building relationships, and exploring difficult questions to enable and provide access to key information.

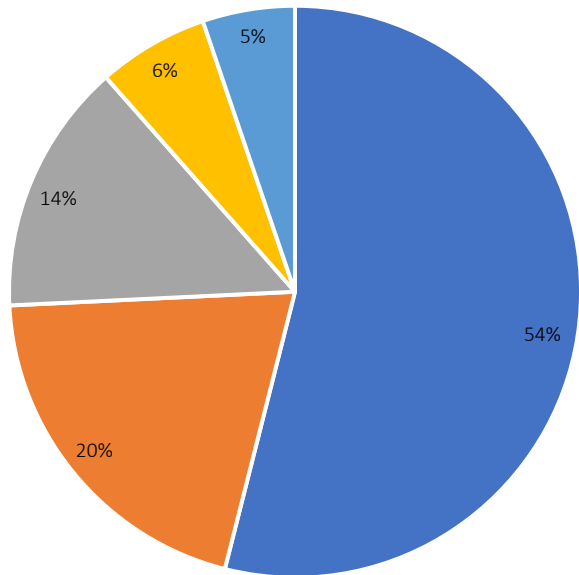
- The framing around the exercise at the outset was crucial in supporting engagement with providers, and collaboration with local commissioners was central to the development of an effective communication plan, with key messages focusing on strategic relationship-building, mutual sustainability for the future and improving outcomes together. Effective and timely communication with the provider market prior to the commencement of the exercise was critical – clearly setting out exercise goals, timescales, and information requirements, plus a named key point of contact to ensure that providers could receive continual feedback throughout the process.
- As well as utilising key forums and the local Association, which it is believed represents between 50% and 60% of local care home providers although this is not fully verified, Peopletoo were supported by National and Regional engagement and support opportunities which all providers locally were supported and enabled to access to ensure a breadth of information, advice and guidance was available.
- A range of engagement and feedback tools to make participation in the exercise easy for providers were established; creating opportunities to meet collectively and individually, both virtually and in-person, to discuss and explore the specific information requirements. Peopletoo ensured that an auditable process for recording provider engagement and relevant outcomes of engagement was established, which also captures those that complete the cost of care tool kit, and those who chose not to register on the lease tool.
- Peopletoo's skills and experience in provider engagement provided a high level of independence to the exercise, creating open space between providers and local commissioners which often enabled greater discussion and freer information sharing. Barriers to provider engagement included capacity and the availability of time to undertake the exercise, the inability to complete the toolkit due to the way in which accounts were collated at provider level and the inability to split data out against the required cost lines. 24 providers chose not to register on the lease Fair Cost of Care Toolkit and therefore not to participate in the exercise.

## Care Home Participation and Returns

Introductory Sessions	Registered for FCOO Toolkit	Engaged by Peopletoo	Submitted Returns	Submissions which can be used
<ul style="list-style-type: none"> <li>• 96 Homes Invited to attend.</li> <li>• Information, advice and guidance shared with 96 homes.</li> <li>• 9 providers in attendance.</li> </ul>	<ul style="list-style-type: none"> <li>• 84 Homes.</li> <li>• 87.5% of Homes in Scope.</li> </ul>	<ul style="list-style-type: none"> <li>• 96 Homes.</li> <li>• 100% of homes in scope.</li> </ul>	<ul style="list-style-type: none"> <li>• 60 submissions received.</li> <li>• 62.5% response rate.</li> </ul>	<ul style="list-style-type: none"> <li>• 60 submissions received.</li> <li>• 31 submissions removed from the exercise post validation.</li> </ul>

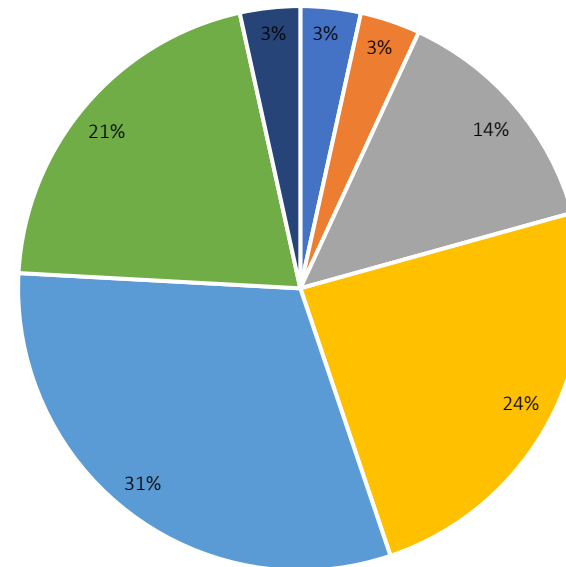
- The following charts provide detail in relation to the valid submissions used in this exercise, demonstrating the size of provider (by number of CQC registered beds), returns by 'Bed-Split' (by DHSC categorisation for the purpose of this exercise) and by resident funding type.

21-22 Bed Split Represented in Returns (by DHSC categorisation)



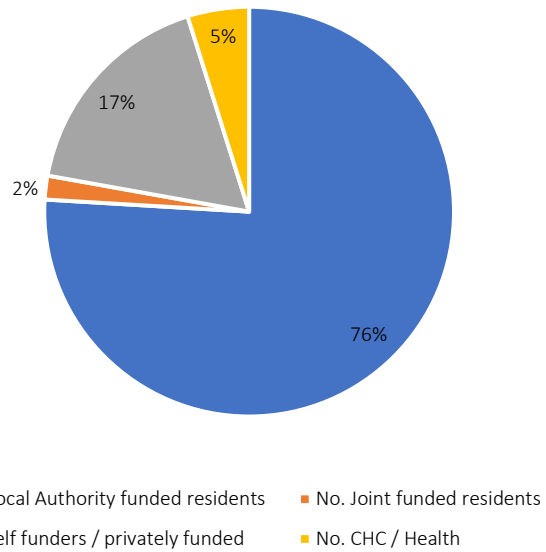
- Vacant Beds
- Care Home occupied beds without nursing
- Care Home occupied beds without nursing, with dementia
- Care Home occupied beds with nursing
- Care Home occupied beds with nursing, dementia

Returns Received by Size of Provider (no. of registered beds)



- 20-30
- 31-40
- 41-50
- 51-60
- 61-70
- 71-80

Total Split of Residents Represented in 21-22 Returns by Funding Type



## Outcome of Cost of Care Exercise – Care Homes

### Fair Cost of Care Outcome – 65+ care Homes

- Following the removal of outliers from the Fair Cost of Care Exercise for 65+ care home provision in County Durham, the resulting lower quartile, median and upper quartile for each category of bed as required by the exercise are summarised in the table below (2021-22):
- As a data challenge identified earlier in this report, nursing costs as reported in the table below require further deep-dive investigation with providers post report publication. Due to sample size across each category of care, costs to deliver higher-needs nursing care appears lower than costs to deliver general-needs nursing care which commissioners recognise to be an inaccurate reflection.

### Fair Cost of Care Outcome – 65+ care Homes

Bed Type	Lower Quartile	Median	Upper Quartile
Care Home occupied beds without nursing: Final total	£737.04	£789.09	£856.57
Care Home occupied beds without nursing with dementia: Final total	£751.82	£808.06	£858.58
Care Home occupied beds with nursing: Final total *includes FNC	£979.29	£1,068.17	£1,189.12
Care Home occupied beds with nursing, dementia: Final total * includes FNC	£962.44	£1,031.24	£1,183.40
<i>Care Home occupied beds with nursing: Final total excluding FNC</i>	<i>£769.76</i>	<i>£858.64</i>	<i>£979.59</i>
<i>Care Home occupied beds with nursing, dementia: Final total excluding FNC</i>	<i>£752.91</i>	<i>£821.71</i>	<i>£973.87</i>



### Approach to Inflation of 21-22 Costs

- At the outset of the Fair Costing exercise, Care Home providers were requested to submit their full year costs for 2021/2022, with the tool providing an option for providers to apply an uplift to take data up to their anticipated 2022/23 cost base.
- Care Home Staffing (Nursing and Residential), care home premises costs including utilities and insurances and care home supplies and services were the key areas identified by providers as significant areas of pressure moving into 2022/23.
- The narrative submitted by care home providers and explored in market sustainability workshops in County Durham is not dissimilar to the National narrative. Due to the increasingly competitive nature of recruitment and retention of care staff and increasingly attractive NHS terms and conditions, providers report experiencing and fully expecting to continue to experience increasing staffing costs in order to retain their skilled members of staff.
- Within County Durham specifically, providers have reported losing many skilled and valuable members of the workforce to alternative industry, especially retail and hospitality.
- Uncertainty surrounding the cost of utilities is a further issue being raised at a national level by providers and as such, providers are again fully anticipating ongoing increasing pressures across these key cost lines. The predicted increases in many cases have been provided following the receipt of quotes from energy suppliers which providers have openly shared details around to demonstrate anticipated pressure. However, commissioners are also aware that a reasonable proportion of the market is operating under fixed energy contracts at any one time, meaning that they are protected from such increases for a variety of time periods. This demonstrates again that the position is complex across a diverse local market.
- Not all providers chose to provide anticipated inflationary/uplift detail in their returns, therefore due to the limitations in the availability of uplift data submitted, and due to the uncertainty of the current financial, political, and environmental factors surrounding the Health

and Care Sector, Durham County Council have chosen to take the following approach to uplifting the costs submitted by providers during this exercise:

- In calculating final medians, the council will:
  - Discount any uplifts paid to providers for 22/23.
  - Inflate the 21/22 reported costs by an estimated inflation rate for 22/23 – this will be 7% in line with the latest uplift offered to the care home market. Note that the 7% uplift offer was above the Council’s formula calculation and included ‘FCOC’ grant funding for 2022-23. The Council also notes the changing picture on National Insurance employer contributions which the Council formula calculation included allowance for in 2022-23 and has since been reversed by the Government. This has not been adjusted in the return, but will form part of discussions with providers on ‘moving towards’ the ‘FCOC’ and separate future fee rates.
  - Undertake analysis against current fee rates for 22/23 and identify the gap between current fees and provider submissions to inform and support future fee setting discussion and direct negotiation with providers post completion of this exercise. This recognises that Market Sustainability and Fair Cost of Care Fund guidance outlines clearly that the exercise will not replace the fee-setting element of local authority commissioning processes or individual contract negotiation.
  - Undertake further modelling relating to occupancy levels at a more sustainable local level of between 90% and 92%. This is in line with the Council’s strategic direction; responsibility for public funding; and broadly the current National and regional position in terms of sustainable occupancy rates. This will inform future fee setting discussions with providers.
  - Consider as part of its further modelling the optimum approach to the application of medians in terms of individual or total cost lines.

Bed Type	Current Medians (21-22 Data)	22-23 Medians (Calculated using the Council's agreed approach for inflation 7%)	DCC Current Rates	Gap
Care Home occupied beds without nursing: Final total	£789.09	£844.33	£685.56	£158.77
Care Home occupied beds without nursing with dementia: Final total	£808.06	£864.62	£710.8	£153.82
Care Home occupied beds with nursing: Final total *includes FNC	£1,068.17	£1,142.94	£922.95	£219.99
Care Home occupied beds with nursing, dementia: Final total * includes FNC	£1,031.24	£1,103.43	£922.95	£180.48
<i>Care Home occupied beds with nursing: Final total excluding FNC</i>	<i>£858.64</i>	<i>£918.74</i>	<i>£713.42</i>	<i>£205.32</i>
<i>Care Home occupied beds with nursing, dementia: Final total excluding FNC</i>	<i>£821.71</i>	<i>£879.23</i>	<i>£713.42</i>	<i>£165.81</i>

### ROO & ROC Approach – supporting onward fee setting

- To arrive at final fair cost of care outputs for each category as required by DHSC, an amount for return on operations and return on capital for care home providers needs to be arrived at in a way which reflects consistency and ensures a reasonable rate of return to safeguard a sustainable local market.
- The DHSC guidance advises that these amounts are to be based on local judgement as to what is needed to ensure a sustainable market - informed by returns received, local market analysis and engagement with providers. While the cost of care template is expected to collect some relevant information from provider markets, such as the freehold value of a care home (to which a percentage net rental yield can be applied), some local judgement must remain. It is a requirement, however, that the Council's justification for its approach to return on operations and return on capital is explored further with its provider market.
- Durham County Council have indicated a provisional view that 5% ROO and 5.5% yield ROC is a fair and acceptable rate locally to ensure sustainable provision for current and future demand in the local market. This is in line with national guidance, and mirrors positions that we understand are being taken by other LAs. However, the Council would prefer to carry out further work, including with the local market, before making a final determination on the issue.
- The Council would welcome further national clarity on LHA options, as highlighted during recent engagement events. The figures in the return relating to ROO and ROC are therefore unchanged at this stage.

## Summary/Durham Position

- Durham County Council has completed the 'Fair Cost of Care' exercise required by DHSC. Despite removing a number of submissions which are classed as outliers within the guidance, the results still capture data from a proportion of the market which we understand to be of a level at least similar to many of the other Local Authorities carrying out the exercise. However, a number of significant concerns remain regarding the validity of the data and its usefulness in terms of accurately contributing information related to what local fees will need to be in the future.
- Specifically, the Council has received a range of data relating to Return on Capital (ROC) and Return on Operations (ROO). Some providers have told us they operate on the basis of all returns being covered by ROO, with no separate ROC, which further calls the usefulness of this data into question. As set out in the DHSC briefing note of 25 August 2022, the Council would propose to set some parameters on these costs, using DHSC recommended national approaches and will discuss this with the market to gather further views post initial submission.
- In addition, carrying out the survey on the 2021-22 year when we know that both occupancy and provider costs were significantly affected by the Covid pandemic has, we believe, led to some validity issues. The Council view is that a functioning market, balancing the need for people to have choice in their provision of care and the Council's responsibility for public funding, should operate at a range of c90% – 92% occupancy. The current local position remains some way short of this, and while some recovery in occupancy has taken place since the Covid-19 pandemic, this has not yet returned to previous levels, and it remains unclear if / when it will (note that previous occupancy levels had in any case been lower than the range above for some time).
- The Council has commissioned a specific demand modelling exercise from a third-party organisation which is expected to report in full before the end of 2022 and is designed to aid planning of future strategic commissioning intentions. Early indicative feedback from this modelling exercise suggests that demand for Council care home placements is likely to reduce slightly in the coming years, though we anticipate that may at least partly be offset by increased demand from self-funders and NHS placements if trends towards higher acuity

are confirmed. While the Council accounts for 60% plus of care home placements in Durham, given these wider factors we feel it is prudent at this stage to therefore plan for a generally stable to small increase in care home bed days in the period covered by the 'FCOC' grant.

- As outlined in this report, the Council has also removed some outliers using its best judgement, where national guidance supports this position, and this includes provider returns where costs appear to have been inflated by Covid-19 grant funding. The various Infection Control & Testing, Workforce Recruitment & Retention and Omicron Support funds were all distributed in this period and amounted to a substantial amount of funding for providers. While removing some outliers may mitigate the impact of this, it is possible that the grant funding is still reflected in cost lines for many providers whose data remains in scope. As with occupancy, it is currently unclear to what extent the impacts of the covid pandemic will be felt in the longer term, however it appears to be unlikely that costs will remain as significant in all of the areas for which grant funding was provided as they were in the period covered by the exercise.
- Given the issues and challenges in the self-reported data from the provider market as described earlier in this report, the Council will carry out its own modelling on the data from this exercise, applying indicative percentages / validation based on the 'FCOC' national guidance and supplementary information provided by DHSC to ROO; ROO; Occupancy and grant funding.
- While we have utilised the reporting functionality of the Iese tool to access the costs reported by providers, it should be noted that we have not been able to determine how the tool arrives at the overall end medians in itself and this also makes comparisons difficult.
- We intend to use the results of our further modelling, along with the indicative 'FCOC' return data reported in the Annex A 'Cost of Care Data Table' to inform further discussion with providers on strategic direction and future fee levels in Durham. This information will be used alongside the Council's own strategic market information and local indicators on the health of the local care home economy.
- These discussions will also be informed by the rapidly changing position on provider costs both since the period covered by the 'FCOC' exercise and in the coming months / years. As an example, we are aware that some providers face rises in energy costs, though the position is complicated by the fact that a proportion of the market have fixed term contracts, and Government support has now been



provided to the business sector; and that currently inflation is high but is forecast by many analysts to reduce in the next year and beyond. This reinforces the timing issues highlighted by carrying out the 'FCOC' exercise on the period selected, and that, as outlined in national guidance, this cannot replace the need for Council strategic market management and associated local fee negotiation and setting.