

North Yorkshire County Council

Health and Adult Services

Executive Members Meeting

Wednesday 25 January 2023

REPORT TO Corporate Director of Health and Adult Services (HAS) in consultation with the Executive Member for Health and Adult Services

Cost of Care Publication

1.0 Purpose Of Report

To agree the content and publication of Adult Social Care cost of care reports for 18+ Domiciliary Care and 65+ Residential and Nursing Care

2.0 Executive Summary

This report sets out the requirement of the Department of Health and Social Care for all Local Authorities to publish cost of care reports by 1 February 2023.

The Cost of Care reports set out the process undertaken to establish cost of care rates and the conclusion of each exercise. The reports take into account any challenges and limitations to the data collection process and the consequent impact.

3.0 Background

On 16 December 2021 the Department of Health and Social Care (DHSC) announced details of the Market Sustainability and Fair Cost of Care Fund. The primary purpose of the fund was to support local authorities to prepare their care market for reform, including the further commencement of Section 18(3) of the Care Act 2014 in October 2023 (now deferred), and to support local authorities to move towards paying providers a fair cost of care.

The Market Sustainability Fund was linked to a wider piece of Central Government policy on Charging Reform and North Yorkshire County Council were confirmed as one of six Trailblazer sites nationally who would work with DHSC on early implementation of Charging Reform and Cost of Care.

As a condition of receiving market sustainability funding over the next two years, all Local Authorities are expected to complete cost of care exercises for 18+ Domiciliary Care and 65+ Residential and Nursing Care. Despite the delay in Charging Reform, DHSC has requested that Local Authorities publish cost of care reports on gov.uk websites no later than 1 February 2023.

Alongside the completion of the cost of care exercises, the Council undertook the procurement of its Approved Provider Lists (APL). This process updated the specification for care services and involved providers submitting their rates for the coming five years. This process was a thorough one undertaken by all providers working with NYCC and therefore provided a reliable source of information directly from care providers which reflects the demographic variation of delivering care in North Yorkshire. The APLs set out North Yorkshire's over-arching approach to commissioned care services.

4.0 Issues

The Cost of Care report for 65+ Residential and Nursing Care can be found at Appendix A and the cost of care report for 18+ Domiciliary Care can be found at Appendix B. The reports detail the engagement and data collection process of each exercise, details of the analysis of this data and the outcome from this analysis. Each report sets out any limitations and challenges with each of the cost of care exercises with a rationale to the concluding cost of care.

The Council previously undertook a Cost of Care exercise for 65+ Residential and Nursing Care and this began to be implemented in April 2022. The DHSC agreed that the Council did not need to undertake a further exercise and therefore appendix A is based on the work undertaken by that exercise.

A previous Cost of Care exercise for Domiciliary Care had not been undertaken by the Council, and, therefore, the DHSC recommended Fair Cost of Care (FCoC) model was used to undertake this exercise in line with the Government's market sustainability grant conditions and the tight timelines set by DHSC. Unlike the residential and nursing exercise, the response rate for this (largely due to the constricted timetable) was very low with only 28 fully completed responses with a 22% response rate, compared to the Residential and Nursing response rate of 36%. Therefore, the output from this exercise should be viewed in the context of a low return from providers.

However, the output of the recent APL procurement exercise, which we conducted at the same time, but with more time for providers to complete the response and submit their costs, has been a useful and reliable benchmark. In addition, all providers who work with NYCC for the delivery of domiciliary care responded to the APL, providing us with a full response rate.

Appendix B therefore also includes details of the APL given it was a more comprehensive process and actively reflects the cost of care and demonstrates the limitations of the FCoC exercise. Given the statistical relevance of the APL procurement data, and the significant limitations of the FCoC exercise which has only given very a limited picture of the cost of delivery of domiciliary care, the APL rates are therefore what will inform fee setting going forwards.

5.0 Performance Implications

None noted

6.0 Financial Implications

Both cost of care reports gives an overview of the outcomes reached as a result of the exercises completed. DHSC has an expectation that all Local Authorities have plans in place to work towards these rates over time and recognise the challenges this may bring to some Councils given the statutory duty to balance budgets each year. It should be noted that, as part of its corporate budget, the Council has identified substantial funding to support implementation of care market support. Moreover, in-year, the Council has already funded an additional £1.8m in supporting care provider sustainability.

6.0 Legal Implications

None noted

7.0 Risk Management Implications

It is recognised that certain limitations as described within the reports may create an expectation by care providers of an immediate change in cost of care approach which may not be affordable to the Council or in line with agreed processes for setting fees.

The Council continues to work closely with the Independent Care Group for North Yorkshire, representing many care providers in the County, to understand and work to mitigate any risk associated with the publication of these reports.

8.0 Equalities Implications

It is the view of officers that the proposals should not have significant adverse impact on any groups of people with protected characteristics identified in the Equalities Act 2010.

9.0 Climate Change Implications

No significant change is expected; however, it is acknowledged that the wider adult social care transformation programme will provide further opportunities to make improvements.

10.0 Recommendation/s

10.1. Executive Members are asked to note the contents of this report, and to recommend:

- i) Publication of the adult social care Cost of Care reports from 1 February 2023

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Date of Report: 25 January 2023

Appendices:

Appendix A Cost of Care Report for 65+ Residential and Nursing Homes – to follow
Appendix B Cost of Care Report for 18+ Domiciliary Care – to follow



North Yorkshire Cost of Care Report – 65+ Care Homes

1.0 Introduction

As a condition of receiving market sustainability funding over the next two years, all Local Authorities were expected to complete a Fair Cost of Care (FCoC) exercise for 65+ Residential and Nursing Care in 2022.

As NYCC had only begun to implement (from April 2022) its latest Actual Cost of Care Exercise for this sector, DHSC agreed that this could be used in place of any new work. We were still required to complete the proforma set out by the Department to other local authorities but were able to use the data received through our own exercise. The following therefore reflects that original work which was the latest of several multi-year Actual Cost of Care Exercises completed in North Yorkshire over the last 10 years.

1.1 Engagement and Data Collection

North Yorkshire County Council (NYCC) worked collaboratively with the North Yorkshire and York Independent Care Group (ICG), City of York Council (CYC) and local Clinical Commissioning Groups (now Integrated Care System) to co-commission an Actual Cost of Care (ACoC) exercise for residential and nursing care services in care homes for people aged over 65 for both North Yorkshire and City of York areas.

Commissioning Authorities worked with The Kings Fund to design a specification for the procurement of an independent company to undertake the exercise and Niche Health and Social Care Consulting were successfully appointed.

The Niche team worked independently with care home operators across the localities covered by NYCC and CYC. They undertook a survey of care homes who provide local authority and NHS funded placements to gather relevant cost information across care home categories, including residential, nursing and dementia care provision. The work also considered an approach to the costs of care for care home residents with complex needs including Continuing Health Care (CHC) funded placements.

The project took place over the period from October 2019 to February 2020. The core elements of the approach were:

- a survey to collect specified data on costs, hours of care and other care home characteristics;
- the target sample size;
- the costing model;
- the validation of data submissions;
- the outputs and analyses.

A comprehensive engagement programme with care homes across each of the localities was also undertaken by NYCC, CYC and ICG. This included sharing an information pack and holding briefing meetings for providers in each of the eight localities required by commissioners.

Support was provided through drop-in sessions across the region, a dedicated telephone helpline and email address developed and led by Niche.

The approach to the survey design aimed to maximise engagement with the exercise by making survey completion as simple as possible for participating care homes whilst allowing for the collection of the detailed cost information required to generate robust outputs from the costing model.

1.2 Data Analysis

Niche calculated statistical targets based on their analysis and stratification of the care home population to provide assurance on the statistical relevance of the survey results.

Review, amendment and testing of the cost of care model to ensure it meets the requirements of the exercise was completed.

Niche collated and validated the survey submissions received and ensured rapid resolution of queries with participants.

An outcomes report identifying the key findings was presented back to commissioning authorities and ICG who approved the exercise and report as factually correct in December 2020.

1.3 Outcomes

All providers were invited to complete the exercise and the response rate was 36%. This was considered statistically relevant and representative of the North Yorkshire care home market

The Niche model includes an approach to uplifting the base costs collected over a 5 year period (pay cost lines were inflated in line with National Living Wage increases and non-pay lines were inflated by CPI). The 21/22 projected costs supplied by Niche were inflated by 5% to determine the 22/23 rate of care. This was negotiated with the ICG and agreement reached on an implementation of the model over a 3 year period.

The Niche methodology uses a Return on Capital Employed (ROCE) approach using local information collected from the survey. The ROCE is defined as Operating Profit/Capital Employed.

1.3.1 Operating Profit

For operating profit, Niche have used the definition: Earnings before Interest, Tax, Depreciation, Amortisation, Rent and Management Charge (EBITDARM) which is a commonly used measure for operating profit in the sector. This measure aims to ensure sensible comparisons between organisations by removing the distorting effects of financing and investment decisions on profits.

To provide a local comparison, Niche calculated the average operating profit per resident/week for the year to September 2019 from the data provided by survey participants.

The average operating profit margin calculated (for the 15 homes) (EBITDARM/Income) was 27%. This is comparable with industry benchmarks. Knight Frank's Care Home Trading Performance Review, 2018/19 reported national operating profit margins in the sector of 27-29% for 2018/19.

The overall, estimated average operating profit was £228 per resident/week based on the 15 homes who submitted this data. This was based on actual occupancy at the survey submission.

The operating profit margin was stated before rent, i.e. the EBITDARM definition. Niche derived average rents from the survey data to assess whether this element of the return on capital employed is covered by the margin calculated. Rent information was provided by 11 survey participants.

1.3.2 Capital Employed and ROCE Margin

Niche have calculated capital employed based on data provided in the survey. They considered four ways of establishing a value for capital employed. These were:

- care home valuation as a “going concern”;
- replacement value for insurance purposes;
- acquisition cost indexed to 2019; and
- application of the national Laing Buisson toolkit to value accommodation area with local land values (Laing Buisson’s Care Cost Benchmarks – eighth edition, January 2017).

The percentage ROCE rates used in this analysis are based on the following rationale:

- The lower rate of 6.5% is the value used by the CMA in its base case calculations in the Care Homes Market Study of 2017. The CMA used a range of 5-8% based on comparisons with other industries and trends in market data.
- 11.5% is the upper rate applied based on the required rate of return average obtained through the survey.
- A value of 9% is presented to illustrate a mid-point

1.3.3 Findings

The outcome of the exercise has been inflated to represent 2022/23 rates as detailed in the table below:

	2022/23 Rate
65+ care home places without nursing	£742.00
65+ care home places without nursing, enhanced needs	£784.00
65+ care home places with nursing	£819.00
65+ care home places with nursing, enhanced needs	£826.00

2.0 Summary

Given NYCC had previously undertaken a Cost of Care exercise for 65+ Residential and Nursing Care, which was statistically relevant, plans to move towards these rates are already underway.

The result of the cost of care exercise, have been introduced from 1st April 2022 for new contracts and will be moved towards over a maximum three-year period for existing contracts, taking into account annual inflation considerations. Annual inflation adjustments will be subject to consultation with the North Yorkshire care home market via the Independent Care Group.

In addition to this it should be noted that, as part of its corporate budget, the Council has identified substantial funding to support implementation of care market support.

North Yorkshire Cost of Care Report – 18+ Domiciliary Care

1.0 Introduction

As a condition of receiving market sustainability funding over the next two years, all Local Authorities were expected to complete a Fair Cost of Care (FCoC) exercise for 18+ Domiciliary Care in 2022.

Unlike for Residential and Nursing care costs, no previous Cost of Care exercise for Domiciliary Care had been undertaken by the Council prior to this date. North Yorkshire County Council (NYCC) therefore used the Department of Health and Social Care (DHSC)-recommended FCoC model to undertake this in line with the Market Sustainability Grant conditions. The exercise was undertaken in May-June 2022 as required by the DHSC Guidance.

Alongside, but separate to, this NYCC undertook a comprehensive procurement of its Approved Provider Lists (APL) which commenced in June 2022. This included the provision of Home-Based Support, and it was a requirement of all domiciliary care providers wanting to work with NYCC in the delivery of domiciliary care in the future.

This report outlines the process followed for each exercise, exploring the benefits and limitations to ensure an outcome is achieved which is representative to the Care Market in North Yorkshire and informs the fee setting process going forwards.

The government has been quite clear that:

“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. We expect local authorities to use the insight gained from their cost of care exercises to support their commissioning and contract negotiation for the relevant services in practice.” (DHSC)

The FCoC exercise therefore is only intended to *support* each LA in setting rates – it does not provide a definitive rate in itself. Nevertheless, there is a risk that the process, and publication of one average rate based on a small number of returns, will lead to expectations and conclusions within the sector about that rate.

As set out in more detail below, it is clear that the national FCoC exercise was limited and simplistic, it provided a very short window for the exercise to be completed due to national timescales being set and only provided one median rate. The national FCoC was much less representative than our own separate APL exercise. (28 FCoC returns compared with 98 APL returns for home based support) Feedback from other councils has highlighted similar concerns in that the national exercise did not enable a good understanding of local care provider markets.

2.0 National Fair Cost of Care Exercise

2.1 Engagement and Data Collection

NYCC commissioned the North Yorkshire Independent Care Group (ICG) to carry out an engagement programme with all Home Care providers across North Yorkshire with the aim of supporting as many providers as possible to complete the survey. This offer was open to all providers working in North Yorkshire and not just ICG members.

A decision was taken by NYCC to use the ARCC Homecare Cost Toolkit to collect cost data from providers, as recommended in the government guidance. In addition to the support provided by ICG, the guidance was shared with providers on the completion of the excel tool ([Home | Cost of Care Toolkit](#)). Prior to the full roll-out of the data collection, the ICG undertook a case study with a provider to understand and appreciate the complexity and time requirements needed to complete the FCOC submission. This was used continually as a reference point throughout the process.

From the initial launch of the exercise at the end of April, the ICG undertook the communication and clarification of the FCoC process throughout North Yorkshire. This involved several communications by E mail to providers on an individual basis over the period. They also sent out a weekly mass communication to providers updating them on the FCoC process.

To assist in clarifying and simplifying the process the ICG undertook four webinars on a weekly basis which was open to all Social Care Providers in NYCC. In addition, NYCC provided updates in its weekly care provider webinar.

The ICG have held daily conversations with registered providers to assist them in the completion of the process and their ultimate submission.

Given the capacity and workforce challenges in the domiciliary care market NYCC agreed to fund a £250 incentive payment for each completed return with the aim of encouraging as many providers as possible to engage in the process. We sought feedback from the ICG on the value of this incentive payment to ensure it covered costs to providers and this has proven to be a valuable incentive.

To encourage a representative sample of the domiciliary care market, NYCC made contact with the most used providers in each part of the County to make them aware of the exercise, this was in addition to the county wide communications and webinars to all providers undertaken by both NYCC and the ICG. Despite very best efforts to encourage a representative sample of data from the domiciliary care market, the result were low in number and not proportionate to the diversity of the North Yorkshire Care Market.

2.2 Data Analysis

Each providers' completed data returns were provided to NYCC who carried out the following analysis:

- The output from all provider surveys were collated in a consistent format, broken down by the cost lines required

- Each survey return was reviewed, and any possible anomalies identified in the data were queried with the provider. Where there were multiple potential anomalies, NYCC met with the provider to go through each in detail. Survey results were updated where necessary following clarifications with providers and any other known errors were corrected, for example National Insurance Thresholds
- Outlier analysis was carried out on the provider data using Tukey's rule for outliers (as mentioned in the government guidance as a possible approach to outliers)
- Median (straight median), upper and lower quartiles were calculated for each cost line and at a sub-total level
- Return on operations- the median return on operations was used as this is representative of the sample of providers who completed the returns and means that this cost element was treated consistently with all other cost lines. The median return on operations (as a % of the operating costs) comes out at 5.6%
- Base data - it has been assumed that all data provided is based on 22/23 costs, with the exception of overhead costs, where 21/22 costs have been provided, as per the guidance provided by the ICG to providers on survey completion
- Inflation- 5% has been applied to the costs to bring them in line with 22/23 costs- this is consistent with the care home inflation award.

2.3 Outcomes

All domiciliary care providers on the NYCC Approved Provider List were invited to take part in the national FCoC exercise. Despite the significant efforts of both the ICG and NYCC in promoting and supporting providers with the FCoC process, the response rate was only 22%, consisting of 28 provider responses used. The cohort of providers was small and not representative of the diverse care market in North Yorkshire. The output from this exercise should be viewed in the context of a low return from providers.

A further limitation to the national FCoC exercise was that it only generated one rate for the delivery of domiciliary care. This rate does not represent the significant cost differences of delivering care in urban, rural or super-rural parts of the county, nor does it acknowledge the provision of generic and complex care to ensure people's needs are sufficiently met. NYCC did not receive enough returns to split the results into these categories and generate a statistically relevant outcome.

The results of the cost of care exercise, provided one median rate of £26.69. The results are in line with DHSC's specifications around fair cost of care exercises being based on median actual operating costs.

In practice, whilst informed by the fair cost of care exercise, actual fee rates implemented may differ due to both local and wider market circumstances and will be subject to a negotiation process, and specifically to the rates quoted in the APL by each provider. The process sets out the median rate based on the information provided from a sample of providers, it does not represent the fair cost of care that we should be using to inform fees moving towards.

3.0 Approved Provider List Procurement Exercise

During the same period, NYCC undertook a detailed procurement of its Approved Provider Lists (APL), one of which relates to Domiciliary care. The APL sets out NYCC's over-arching approach to commissioned care services. All providers wanting to work with NYCC in the delivery of domiciliary care were required to respond to the procurement exercise.

This process updated the specification for care services and involved providers submitting a detailed breakdown of their proposed rates for the delivery of domiciliary care in Urban, Rural and Super-Rural parts of the County and for generic, and complex domiciliary care services for the coming five years. This was done to reflect the complex nature of the North Yorkshire geography and the results generated a range of rates used by providers based on the circumstances of delivery of care. Alongside the completion of the cost of care exercises, the Council undertook the procurement of its Approved Provider Lists (APL).

This process was a thorough one undertaken by all providers working with NYCC and therefore provided a reliable source of information directly from care providers which reflects the demographic variation of delivering care in North Yorkshire. The APLs set out North Yorkshire's over-arching approach to commissioned care services.

In proposing their fees as part of the procurement, providers were given a guide as to the full year locality-based averages paid in the financial year 2021/22. Where providers submitted rates which were over 10% above these rates, providers were asked to include a rationale to explain the importance of the rate in delivering sustainable care, this was reviewed by the NYCC APL procurement team prior to contract award.

3.1 APL Outcome

The APL procurement generated responses from all providers who wish to receive commissioned contracts from NYCC for the delivery of domiciliary care for the next five years.

The response rate represents 100% of the market we will contract with going forwards, 98 providers in total. Providers submitted a breakdown of their hourly rates and stipulated prices based on locality and urban, rural or super rural areas of the County. They also provided a rate for generic domiciliary care and Intensive/enhanced domiciliary care.

The table below provides the results of the procurement exercise.

	Personal Care Hourly Rate (Generic)	Personal Care Hourly Rate (Intensive/Enhanced)
Urban	£23.55	£24.52
Rural	£24.91	£25.73
Super Rural	£27.30	£27.55

4.0 Summary

Given the limited response rate from the national FCoC exercise and lack of detail to enable NYCC to confirm a rate for each aspect of the provision of domiciliary care, NYCC cannot use this rate as a true reflection of the cost of care.

NYCC conducted its APL procurement at the same time at the national FCoC. The APLs set out North Yorkshire's over-arching approach to commissioned care services. This exercise generated a response from all providers from which the Council will be commissioning services in the future,

and also provided a detailed set of costs representing the market diversity in North Yorkshire. It is therefore a much better reflection of the cost of care.

The APL procurement has given providers more time to complete their response and submit their costs, and as it reflects the costs which providers say they require. It is therefore a useful and reliable benchmark. Its comprehensiveness also helps to demonstrate the limitations of the national FCoC exercise. Given the statistical relevance of the APL procurement data, and the significant limitations of the FCoC exercise which – however well-intentioned – have only given very a limited picture of the cost of delivery of domiciliary care, the APL rates are therefore what will inform fee setting going forwards.

In addition to this it should be noted that, as part of its corporate budget, the Council has identified substantial funding to support implementation of care market support.