

Surrey County Council

Report on Cost of Care exercises conducted in the summer of 2022 for 65+ care homes and 18+ home care services

1. Introduction

1.1 This report sets out the approach that Surrey County Council (SCC) took to conducting the cost of care exercises for Older People 65+ nursing and residential care homes and 18+ home care services in Surrey in the period June to October 2022 prior to submission of the required information to the Department for Health & Social Care (DHSC) by the stipulated national deadline of 14th October 2022.

1.2 The report summarises:

- Engagement undertaken by SCC with Surrey's large and diverse care provider markets.
- The tools used and approach adopted for the exercises.
- The response received from care providers.
- The methodology that SCC applied in analysing returns received from care providers and calculating the range and median cost rates from these returns.
- SCC's views on how representative the returns received from care providers are of Surrey's whole market in terms of meeting eligible Care Act needs.
- How SCC plans to use the results of the cost of care exercises in relation to future market management and sustainability.
- SCC's planned use of the 2022/23 Market Sustainability and Cost of Care funding and further expected funding in future years.

2. Approach to provider engagement

2.1 All eligible care providers operating in Surrey (whether located within Surrey or providing services from outside of Surrey) were invited to participate in SCC's Cost of Care (CofC) exercises for Older People 65+ nursing and residential care homes and 18+ home care services.

2.2 Notification of the opportunity was disseminated to all providers through close and early engagement with our partners Surrey Care Association (SCA), through updating SCC corporate webpages and directly emailing all providers on our provider database(s). Commissioning colleagues also led conversations with providers as part of BAU activity.

2.3 SCC staff, commissioners and finance colleagues attended online events and engagement sessions delivered by the Improvement and Efficiency Social Enterprise (IESE), Care & Health Improvement Programme (CHIP), Local Government Association (LGA) and Association of Adult Social Services (ADASS) to prepare for the exercise and throughout the process. SCC staff had individual meetings with both CHIP and IESE to ensure understanding of the cost of care tools and data submission / collection processes.

2.4 Further to the above SCC delivered a comprehensive approach to engagement.

- 13th and 16th June – open online engagement sessions for both 18+ Domiciliary Care and 65+ Care Home markets jointly delivered with SCA.

- Thereafter 2 separate weekly drop-in sessions were advertised online and through the dedicated email set up for the exercise – one for each market due to the specific requirements for each activity.
- SCC commissioned Campbell and Tickell Ltd consultants as an independent provider to provide bookable 1-2-1 sessions with providers to reduce initial anxiety for providers uncertain or unwilling to share information or concerns directly with SCC.
- Week commencing 27th of June, both drop-ins were moved to bookable slots to encourage provider take up.
- Week commencing 29th August, online open engagement seeking views of care providers pertaining to the content of the Market Sustainability Report.
- A regular schedule of meetings was maintained throughout – including but not limited to bi-weekly meetings with SCA for the ‘provider view’, weekly CofC internal board meetings and 3 weekly Market Sustainability meetings.
- Older Persons Commissioners continued to promote the opportunity for participation in the CofC exercises at existing provider meetings and contract monitoring meetings as well as pro-actively contacting strategic partners (based on volume, size and other relevant criteria) to try to increase take up.

2.5 It must be noted that this engagement and exercise took place at a time when SCC are currently transforming our approach to commissioning and purchasing care home capacity and including recently recommissioned home based care (domiciliary) services. Many providers expressed real concerns over workforce and business sustainability which led to many wanting to, but not feeling able to, contribute.

2.6 SCC feel considerable engagement was undertaken with the care provider markets in order to encourage participation in the limited timetable set by government to undertake this exercise.

2.7 Following completion of the initial Annex B submission SCC continues to work with the care provider market and Surrey Care Association to understand the implications of the findings from this exercise and the announcement to defer the Adult Social Care reforms. This exercise ran concurrently with new contracting arrangements for residential and nursing care which have been received positively from the Surrey care market and have been delivered as an integrated approach with health in the same way domiciliary contracts are also delivered.

2.8 SCC took the decision, in conversation with care providers, to allocate all of year one funding as grants to providers. These were based on size of operation and weighted to the domiciliary care market given the current in year cycle of uplifts and contracting pricing conversations. These grants have been essential in supporting care providers in difficult social-economic times and to ensure greater market sustainability. This approach has already yielded positive market responses opening up greater capacity for ASC to support placements and reduce pressure on acute hospitals for social care discharges.

2.9 Further to this SCC has planned a market engagement event for March 2023, the first in many years, in order to engage the market in conversations and joint action planning beyond simply pricing and costs. We intend to collectively discuss complexity of population needs and integrated system responses to market challenges. The event will focus on hospital discharges, technology and intermediate care and clinical support to enable care markets to meet the needs of future generations.

2.10 SCC has combined the limited additional insight provided by the Cost of Care exercise with its existing analysis and understanding of the pressure on operations for care providers in Surrey gathered through its ongoing engagement and have proposed a significant uplift for 2023-24. This has also highlighted the need for a more aligned approach to health procurement and purchasing in order to support the care provider market more equitably.

3. Tools used and approach adopted for the cost of care exercises

3.1 SCC adopted both of the recommended national templates for returns. This was to ensure consistency with most neighbouring authorities but also due to time constraints that limited the ability to design local tools. The primary cost of care tools used therefore were:

- The cost of care tool developed by IESE for Older People care homes which was developed in consultation with local government and providers specifically the CofC process.
- The cost of care toolkit developed by ARCC-HR Ltd for 18+ home care services, noting that this was not developed specifically for this CofC process but was the recommended tool to use for it.

3.2 SCC established a dedicated email for returns and the commissioning and contracts support team enabled the validation of returns with support from finance colleagues. This included a dedicated returns process and additional supplementary information form for 18+ home care services.

3.3 A supplementary set of questions was drafted to support the HBC submissions to enable SCC to confirm exactly which CQC registered providers had responded and to cover key areas not included in the ARCC-HR Ltd cost of care toolkit. This focused upon the following factors integral to accurate reporting:

- CQC registration details.
- Confirmation of time periods used for the cost of care information returned.
- Inflationary pressures being incurred in 2022/23.
- Funding categories, particularly the balance of provision between local authority funded, NHS funded and privately self-funded services.
- Age banding.
- Geographical coverage.

3.4 The IESE care home tool required providers to enter their operating costs for the 2021/22 financial year (i.e. 1st April 2021 – 31st March 2022) and indicate the extent to which these costs changed in 2022/23. SCC adopted the same approach for 18+ home care services, requesting that where possible providers complete the ARCC-HR Ltd cost of care toolkit for the 2021/22 financial year and indicate in the supplementary question template the levels of inflation being experienced for each category of costs in 2022/23. Home care providers were though able to submit their returns for a different time period (e.g. a single month in 2021/22 or current 2022/23 operating costs).

4. Market Response Rates

4.1 The response rates for both the Older People care home and 18+ home care sectors were lower than SCC had hoped for, although the very limited time available to meet the government deadlines meant this was probably inevitable to some extent.

4.2 The response received for the Older People care home market is summarised in Table 1 below. Although responses were received from over 40% of providers and almost half of market beds in Surrey, as set out in section 6 of this report SCC has substantial concerns that the sample received is not representative of meeting Care Act eligible needs.

Table 1: Response summary to CofC process from Older People care home

Completion rates	Homes (number)	Homes (%)	Beds (number)	Beds (%)
Responded - validated as usable	84	37%	4,507	40%
Responded - out of scope/ not usable	2	1%	24	0%
Did not respond	141	62%	6,815	60%
Total	227	100%	11,346	100%

4.3 The response received for the 18+ home care market is summarised in Table 2 below. This clearly represents a very small market share in terms of validated usable returns which therefore places serious doubt on the validity of the results of the exercise.

Table 2: Response summary to CofC process from 18+ home care providers

Completion rates	Providers (number)	Providers (%)	Hours per annum (number)	Hours per annum (%)
Estimated market total	230	100%	9,500,000	100%
Responses received	47	20%	2,703,406	28%
Validated as usable	22	10%	1,615,437	17%

N.B. the total number of hours of care delivered across the whole market outlined in the table above is estimated based on the estimated market share that SCC's current purchased hours represents.

5. Methodology used to calculate the 2022/23 cost rates and results of the analysed returns submitted by providers

5.1 SCC reviewed all of the cost of care returns submitted by Older People care home and 18+ home care providers to validate them for inclusion in the cost of care information to be analysed for each sector. SCC raised queries with providers via the IESE tool or by email for home care providers. Queries were raised either where key information was missing (e.g. if home care providers had not completed the supplementary questions meaning fundamental things were not clear such as their CQC registration or the period for which they had provided information) or some of the cost information submitted was very different to other providers or appeared to have been submitted in error.

5.2 As set out in Tables 1 and 2 in the previous section, most of these queries were resolved for care homes enabling 84 of the 86 cost of care returns to be validated as satisfactory for inclusion in the analysis of submitted cost information. The validation was much more difficult for home care providers and in spite of considerable effort to try to follow up queries with providers, it was only possible to include 22 of the 47 responses received in the analysis of the submitted cost information.

5.3 The following adjustments were applied to information submitted by providers to ensure consistency:

- Return on operations was set to 5% of operating costs across all validated care home and home care cost of care returns. This was done to set a fair level of return based on national advice and discussions with other local authorities.
- Return on capital for care homes was set to 5% of the property value. This was done to set a fair level of return based on national advice and discussions with other local authorities.
- Rent was set to £154 per week per bed across all care homes that rented rather than owned the site. This figure was equivalent to the average return on capital for homes that owned the site so that the cost of renting was set at a similar level to the return on capital cost.
- Care home occupancy was set to 90% of active beds across validated care homes included in the cost of care analysis.

5.4 The resultant 2021/22 costs for each home or home care provider were then inflated to represent an estimated 2022/23 cost (except if a home care provider submitted cost information for a period in 2022/23 thus not requiring it to be inflated). Inflation was applied based on the median level of inflation for different cost categories indicated in provider submissions. This is summarised in Table 3 and Table 4 below.

Table 3: 2022/23 inflation rates applied for Older People care home costs

Cost category	2022/23 median submitted inflation rate applied
Staffing	6.4%
Gas	59.0%
Electricity	50.0%
Insurance	15.5%
Other supplies & services, premises and head office costs	7.0%

Table 4: 2022/23 inflation rates applied for 18+ home care costs

Cost category	2022/23 median submitted inflation rate applied
Staffing	7.41%
Mileage	19.00%
Rents, rates & utilities	10.00%
Overheads & other operating costs	7.13%

5.5 When the adjustments set out in paragraph 5.3 and inflation rates set out in paragraph 5.4 were applied to returns received from providers and validated as usable for the analysis, this resulted in the spread of costs for 2022/23 set out Table 5 and Table 6 below.

Table 5: 2022/23 inflated cost per week received for Older People care homes

Basis	Nursing	Nursing excluding Funded Nursing Care	Residential
CoC survey Lowest returned cost*	£699	£490	£563
CoC survey Highest returned cost*	£2,256	£2,047	£1,765
CoC survey simple Mean*	£1,351	£1,141	£1,042
CoC Median*	£1,350	£1,141	£1,023
2022/23 SCC guide prices for Care Act eligible services** SCC is purchasing c. 80% of beds at guide prices in 22/23	N/A	£804	£724

* Based on Cost of Care exercise returns received from 37% of Older People 65+ care homes covering 40% of beds in Surrey and validated by SCC (see Table 1), although dominated by responses from larger operators whose business models are usually more focused on the private self-funder market (see Chart 1)

** For residential the average of SCC's residential dementia and non-dementia guide prices is used here

N.B. It should be noted that insufficient cost information was submitted by care home operators for enhanced needs to be able to calculate separate costs for services with and without enhanced needs. As such, the costs outlined above for nursing and residential care represent the total position across all care homes who operate services with or without nursing including any enhanced needs.

Table 6: 2022/23 inflated cost per hour received from 18+ home care providers

Basis	Cost per hour
CoC survey Lowest returned cost*	£19.75
CoC survey Highest returned cost*	£35.85
CoC survey simple Mean*	£28.13
CoC Median*	£27.75
Weighted average cost paid by SCC for commissioned Care Act eligible services as of 3rd October 2022	£22.23

* Based on Cost of Care exercise returns received from an estimated 10% of home care operators in Surrey representing an estimated 17% of total home care business in Surrey (see Table 2) with more responses received from providers who SCC commissions services from whose price for SCC services is above SCC's current weighed cost per hour of home care services (see Chart 2)

N.B. The 18+ home care exercise is supposed to be focused on short visit lengths of up to 1 hour. It should not include costs of live in care, waking nights or extended visits. SCC clearly communicated this to providers but cannot guarantee whether some providers may have included hours of care delivery and corresponding costs for these types of services.

5.6 Taken at face value the costs submitted by providers and inflated to 2022/23 represent a significant gap compared to the rates currently paid by SCC for Care Act eligible services.

5.7 It is important though to set the outcomes of the analysis of the cost information received from providers in the context of the cost of meeting eligible Care Act needs, recognising that some elements of the services delivered by care providers will be positioned above meeting eligible Care Act needs (for instance where people choose to purchase enhanced services). It is also necessary to consider whether the returns received from providers are representative of the whole market. This is commented on in the next section.

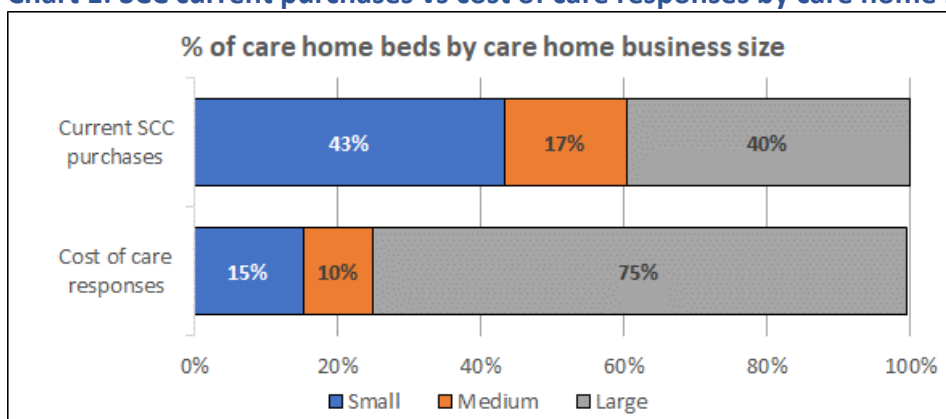
6. SCC's view on how representative the returns received from providers are of the whole market and therefore how they should be used

6.1 SCC has segmented Surrey's **Older People care homes** by size of business as follows:

- Small – Providers with 1-5 care homes
- Medium – Providers with 6-10 care homes
- Large – Providers with 11+ care homes

6.2 Chart 1 below compares the spread of current SCC purchases by size of operator to the spread of returns received from Older People care home providers.

Chart 1: SCC current purchases vs cost of care responses by care home business size



6.3 It is clearly evident from this analysis that the cost of care returns received were dominated by larger operators far in excess of the extent to which SCC currently purchases care home beds from these larger operators. The business models of larger operators are typically targeted more towards higher end services aimed at the private self-funder market in Surrey who represent 60-65% of Surrey's Older People care home market. This includes aspects of service delivery which would sit above the cost of meeting eligible Care Act needs that a local authority would normally expect to purchase. The results of the CoFC information submitted by these providers may also represent the price charged rather than the willingness of self-funders to pay the prices charged by these operators rather than being reflective of the cost of the services delivered. The provision of care to self-funders will often deliver high levels of profits operators due to the higher prices charged for services. This is supported by extensive analysis of the Older People care home market that SCC commissioned consultancy firm Care Analytics to undertake in 2021 as part of planning for the launch of SCC's new Dynamic Purchasing System (DPS) for Older People care home beds that went live in May 2022.

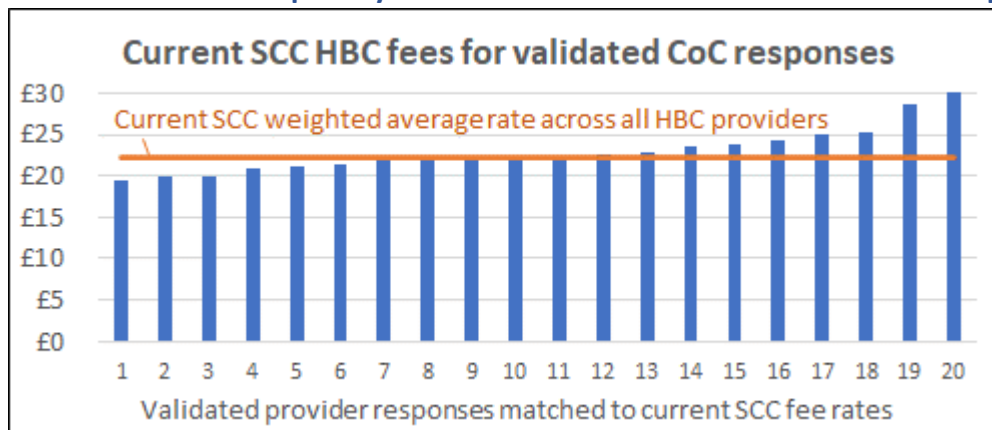
6.4 For these reasons SCC does not believe that the cost rates from the returns submitted by care home operators are fully representative of the cost of currently meeting eligible Care

Act needs in Surrey. SCC does though recognise that there will be a need to increase the rates SCC pays for care home beds in the future to support market sustainability and manage the impact of the Adult Social Care (ASC) charging reforms. Whilst SCC does not therefore consider that the costs from the exercises conducted and set out in this report represent the appropriate rates for meeting eligible Care Act needs, SCC will be using the information gathered from this exercise to inform its ongoing pricing strategy. This will include how guide prices, the prices at which SCC aims to commission care home beds in each financial year, are uplifted in future years and SCC will use future market sustainability funding received from government to support fee increases in line with this approach.

6.5 As set out in section 4, we estimate that the validated returns received from **18+ home care providers** only represent c. 10% of the home care providers operating in Surrey and potentially c. 17% of the total hours of home care delivered across the county. This level of responses cannot be considered to be in any way representative of the whole market or therefore the cost of meeting eligible Care Act needs. The nature of Surrey’s geography and how the population differs across the county has a significant impact on the cost of delivering home care services to different areas. The split between rural and urban areas is one obvious demarcation, but there are others. The cost of care information received from home care providers is not substantive enough to be able to analyse these nuances. In order to be representative, a statistically significant sample size would need to be carefully selected from across Surrey’s diverse HBC market and suitable cost of care returns gathered from all providers in the selected sample.

6.6 Of the 22 home care providers whose cost of care returns SCC was able to validate for inclusion in final cost analysis, SCC was able to match 20 of these to providers SCC purchases care from on its new home care framework that went live in October 2021. The comparison of the average price per hour paid by SCC across all of these 20 providers is set out in Chart 2 below.

Chart 2: Current fees paid by SCC for validated cost returns received from providers



6.7 The weighted average price per hour currently paid by SCC for these 20 providers is £23.71. This is £1.48 (7%) higher than the overall weighted average price of £22.23 per hour paid by SCC across all of the home care packages it currently purchases and indicates that the cost returns received from home care providers were weighted in favour of relatively more expensive providers from whom SCC currently purchases care.

6.8 Due to the small sample size and the issues outlined above in relation to the current cost of providers who participated in the cost of care exercises in the context of SCC’s total

home care purchases, SCC does not believe the calculated median rate of £27.75 per hour represents the current cost of meeting Care Act eligible needs in Surrey. However, SCC does recognise that an increase to the rates SCC pays for home care services will be required in future years in order to attract and retain care workers, maintain market sustainability and capacity and manage the impacts of the ASC Charging reforms. SCC will be using the information gathered from the cost of care exercise to inform its ongoing pricing strategy. SCC will also be lobbying for an appropriate funding settlement from government and will use this funding to support fee increases in the home care sector, recognising that a greater share of the market sustainability funding is likely to be allocated to home care services in line with SCC's Home First approach.

7. SCC's planned use of Market Sustainability and Fair Cost of Care funding

7.1 SCC confirmed in its Annex A template return to DHSC that Surrey's 2022/23 Market Sustainability and CofC funding would be utilised as set out in Table 7 below.

Table 7: Use of SCC's 2022/23 Market Sustainability and CofC funding

Use of funding	£000	%
To be allocated directly to support 18+ home care providers	2,015	74.7
To be allocated directly to support 65+ care home providers	672	25.0
To be retained for internal SCC costs	0	0.0
To be used to cover external consultancy costs for the CofC process	9	0.3
Total funding	2,696	100.0

7.2 SCC has dedicated significant officer time in conducting the CofC process and the grant conditions allow local authorities to retain up to 25% of their funding to cover internal and external costs of carrying out the CofC processes. Recognising though that the government's funding allocation in 2022/23 falls a long way short of the funding that SCC and Surrey's ASC providers would require to materially increase fees, SCC allocated all of the funding directly to support ASC providers except for a small amount retained to cover the cost of external consultants engaged to support providers with the cost of care process.

7.3 SCC's Cabinet approved this funding distribution in November 2022 and payments were made to all eligible providers in December 2022.

7.4 Market sustainability funding received in 2023/24 onwards will be used within the remit of the grant conditions to increase the fees SCC pays to ASC providers. SCC has identified that fee increases for Older People 65+ care home and 18+ home care services will have impacts on other sectors, particularly Learning Disability, Physical & Sensory Disability and Mental Health services. Although these sectors will be less directly impacted by the ASC Charging reforms, it would have adverse and unintended consequences on the viability of these other ASC market sectors if SCC fees increased at a much faster rate for 65+ Older People care homes and 18+ home care services than these other sectors. This is further accentuated by the fact that these other market sectors generally have very few if any service users who privately fund their own care. SCC will be raising this issue with government and seeking maximum flexibility and local discretion about how market sustainability funding is deployed locally to support sustainability across all relevant areas of the Surrey's ASC provider market. This will be set out more fully in the final Market Sustainability Plan that SCC will publish prior to the end of March 2023. This will consider SCC's role in supporting sustainability across Surrey's diverse care market, recognising that

SCC's market shaping role and commissioning strategies must take appropriate account of the services purchased by the NHS (often jointly with SCC) and the parts of the market that are focused on care provision to people who privately fund their own care.