# Annex B: Cost of Care Report – Lewisham Older People’s Care Homes (65+)

This report outlines the process followed by the London Borough of Lewisham to complete the cost of care exercise for the Market Sustainability and Fair Cost of Care Fund, working with local providers of older people’s care homes. This includes the borough’s approach to analysis of provider cost of care data to produce the information detailed in Annex A.

This exercise presented significant and fundamental constraints, including issues with data quality, lack of clarity in the structure and guidance for the exercise and unreliable results being produced by the mathematical median calculation method. These challenges are detailed further under Part Two. These limitations are such that the results produced by this exercise cannot be treated as wholly reliable or accurate. *Lewisham intends to continue working with providers across the rest of 2022/23 to agree local fee rates that are sustainable for the Lewisham market*.

**Part One: Overview of the process for completing the exercise:**

**Defining the scope of the older people’s care home market**

* With reference to the DHSC Fair Cost of Care guidance, and after clarifying scope with the LGA, Lewisham identified the scope of the market for this exercise as all care homes whose primary purpose is to provide care to older people aged 65+. This excluded homes that primarily provide specialist care (mental health, physical disability, learning disability).
* Lewisham wrote to all 15 Lewisham care homes within the scope of the Fair Cost of Care exercise to invite them to participate in the exercise and to register for the iESE platform in readiness to submit their cost of care information.

**Response rate**

* Six Care homes **(40%)** responded to the exercise and return cost of care information to the local authority, via the iESE platform.

**Engagement with providers to promote completion of cost of care toolkits**

* The 15 OP homes were invited to participate in the exercise and submit their cost of care information to Lewisham by the end of August 2022.
* LB Lewisham commissioning and Finance leads hosted a Fair Cost of Care engagement session for the older people’s care homes in scope to discuss the exercise and answer questions. This included sharing a step-by-step overview of registration for the iESE tool and the data submission workflow within the website.
* LB Lewisham circulated guidance, information and event invitations relating to the national programme including engagement sessions run by iESE in relation to the FCC tool. LB Lewisham extended the final deadline repeatedly to the end of July to ensure providers had sufficient time to submit their cost information.
* Lewisham contacted providers who had not yet registered or had not yet submitted information prior to the Lewisham deadline to confirm if they were experiencing any issues. Where this was the case, the finance lead for the exercise offered to meet with providers if they needed clarification of the process or were experiencing difficulties with data entry.
* All 6 OP homes submitted FCC information via the iESE FCC tool that Lewisham used for the exercise, in line with national guidance.

**Quality assurance and provider queries**

* After closing the final window for provider toolkit submissions at the end of August 2022. Lewisham commenced a process of quality assurance led by the Finance Department, with support from Commissioning.
* Lewisham collated the toolkit information submitted by providers and reviewed each submission line by line. Where specific cost lines diverged significantly from expected levels and / or other submissions, Lewisham contacted providers to query this and invited providers to review and re-submit where appropriate.
* Providers had access to, and could request additional, one-to-one support calls with the Lewisham finance lead, where required to discuss and address quality assurance queries.

**Provider engagement regarding Market Sustainability Plan and toolkit analysis**

* Lewisham’s Market Sustainability Plan was developed by the Council’s Adult Social Care Reform Programme Board which includes senior managers from Social Care, Commissioning, and Finance and Performance teams to identify and analyse the latest data on population change and the care population in Lewisham.
* To inform our understanding of market pressures from a provider perspective, Lewisham
* Care Home Provider Forums, advised and informed commissioners of the market pressures from the care provider perspective. The following key challenges were highlighted by Care Home providers as highly influential in market sustainability:
* Workforces challenges – Recruitment & Retention
* Rate of pay.
* Inflation
* Utility Cost
* Insurance cost
* Lewisham’s analytical approach is outlined in Part Two of this report. Lewisham commissioners engaged with the South East London sub-region throughout August and September to share feedback on the analytical process.

**Part Two: Approach to the cost of care estimates (Annex A, section 3)**

Lewisham engaged extensively with Care Home providers to maximise the rate of response to the exercise. However, the quality of the cost information produced by this exercise is limited to a significant extent by several key risks and issues. These limitations include the following:

* The median rate simply selects one value in the middle of the range of prices submitted by providers. This does not guarantee that a median rate will correspond with an accurate market rate. The median calculation is more suitable for large data sets, whereas in very small datasets, results are very sensitive to small changes in the dataset.
* Lack of consistency in the calculation of the return on capital submitted by Providers. It is advisable to uphold a degree of consistency in the moderation of these cost lines to ensure that the median rates identified are accurate and sustainable.
* In the absence of clear guidance from the Department on appropriate benchmarks for cost items, and the short timeframe allocated to local authorities to complete the exercise, Providers submitted inflationary rates and costs that varied significantly across all cost lines, including Nursing and Carer staff costs, Employer’s National Insurance contributions (which changed nationally during the course of the exercise), energy costs, training and insurance costs. These inconsistencies present concerns regarding the accuracy (validity?) of the data. Lewisham judged that it was not feasible to amend the figures to a single value that could be clearly evidenced within the set deadline. Therefore, Lewisham did not amend all these cost lines, despite concerns about the accuracy of the information submitted.
* There are other events that will significantly impact the calculation of the costs of care. Several new developments have been announced post the deadline for Provider submission,

 These include:

* + Energy costs: on 8 September 2022, central government announced a policy to provide financial support for households (“energy price guarantee”) alongside a new 6-month scheme for businesses and other non-domestic energy users.
	+ Inflation: the rate of inflation is unpredictable and continuously changing. The inflation rate for 2022/23 is not a reliable benchmark for determining fees in future financial years.
	+ Living Wage: on 22 September, the Living Wage Foundation announced an uplifted National Minimum Wage and London Living Wage rates for the 2023/24.

Due to these limitations of the mathematical approach and guidelines, Lewisham adopted a collaborative working approach with Care Providers to develop a local Cost of Care rate, discussing and agreeing for most part all values for cost items.

Lewisham proceeded to analyse cost lines and applied a consistent approach to Return on Operations, with reference to evidence-based industry guidance and Return on Capital based on selected scenario from the iESEanalysis.

**Approach to the analysis of the older people’s care home data submissions**

* As above, the analysis of care home toolkit data highlighted a number of inconsistencies - whereby provider costs varied; were significantly higher than anticipated; or cost lines were not completed in the submissions. For example, some provider staffing costs included enhanced elements for NHS Continuing Healthcare and other specialist (clinical/ therapy?) services, meaning that the median rate calculation included higher than anticipated costs for Nursing care staff. In addition, some of the provider returns included inconsistent inflationary rates (above published indices) that were applied to cost lines without consistency.
* Inconsistencies such as these bring into question the extent to which the provider submission data can be considered a reliable reflection of market costs. This is particularly challenging when recognising that the current forecast for inflation is continuously changing at the time that this exercise is being conducted and that exceptional levels of inflation in this financial year are unlikely to be representative of future years of service provision.
* Where Lewisham identified that specific costs represented outliers, the local authority contacted providers to query these cost lines – for example, inflationary outliers.
* In the absence of sufficiently clear guidance or adequate time for in-depth verification of costs, Lewisham resolved to focus primarily on applying a consistent approach to specific cost lines where there is industry guidance and a clear evidence base to inform any adjustments required.
* The key area of analysis focused on determining an appropriate approach relating to Return on Operations (ROO) and Return on Capital (ROC), as the basis for calculating a median rate for this market.
* The outcome of the analysis was the application of a 6% rate for return on profit (ROO) and 17% return on capital (ROC).
* The table below the count of observations, lower quartile, median and upper quartile (where relevant) of all items in Annex A, Section 3:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Count of observations** | **Lower quartile** | **Median quartile** | **Upper quartile** |
| 65+ care home places without nursing | 6 | £765 | £900  | £976 |
| 65+ care home places without nursing, enhanced needs | 6 | £879  | £925 | £1,038 |
| 65+ care home places with nursing | 3 | £1,092  | £1185 | £1,345 |
| 65+ care home places with nursing, enhanced needs | 3 | £1,092 | £1,240 | £1,486 |

* The table below shows the **Annex A** table, **Section 3** with one column of showing the overall median values for each care type subtotal. This approach provides a more reliable median value and resolves some of the issues with the quality of the information relating to specific cost lines and the median calculation method**.** As the median rate simply selects one value in the middle of the range of prices submitted by providers, this does not guarantee that a median rate will correspond with an accurate market rate. For example, this calculation method produces a lower rate for care home placements under the category ‘With nursing, enhanced needs’ than ‘With nursing’ due to having a different number of rates submitted for each category. In practice, the opposite is true: care for clients with enhanced needs typically exceeds the cost of standard care.

