

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

This report outlines the process followed by the London Borough of Lambeth 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, insufficient time and unreliable results being produced by the mathematical median calculation method. These challenges are described in further detail under Part Two (page three). The limitations are such that, whilst the exercise complied with the prescribed requirements, the results may not fully reflect the true picture of our local care market. For this reason, Lambeth refers to this exercise with the title “cost of care” rather than “fair cost of care” as having followed the guidance provided, we are not confident that the resulting cost of care figures are fair or sustainable. This approach follows discussions with other local authorities nationally and within the London region via cost of care webinars facilitated by the Local Government Association and London ADASS in September and October 2022.

The parameters for this exercise have changed substantially since the exercise was first announced by DHSC. In November 2022, the Autumn Statement announced that Adult Social Care charging reform would be delayed by two years to October 2025. At the time of the submission deadline in October 2022, the DHSC guidance on the Market Sustainability and Fair Cost of Care Fund stated that ringfenced funding would be allocated to local authorities nationally to support costs for home care and older people’s care home providers, with £562m to be allocated to local authorities by April 2024 (£162m for 2022/23; £562m for 2023/24 and £562m for 2024/25). In December 2022, the provisional local government finance settlement announced a ‘Market Sustainability and Improvement Fund’ to fund wider adult social care market sustainability, beyond home care and older people’s care home services only. The total funding for 2023/24 is £562m – including the £162m previously announced for 2022/23. In summary, the scope has expanded to wider adult social care issues such as delayed discharges and workforce pressures as well as fee rates. This means that there is now set to be less ringfenced funding available specifically for home care and older people’s care homes in comparison with the sums initially announced by central government in the guidance for this exercise.

Lambeth intends to continue to work with providers to agree local fee rates that are sustainable for the Lambeth market. The cost of care exercise does not replace the fee setting element of the local authority commissioning process, through which local fee rates will be determined. The outputs of the cost of care exercise will help to inform the fee setting process, alongside a range of other considerations including inflation, demand, capacity, benchmarking, quality, availability of funding and affordability for the Local Authority.

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

Governance

- In May 2022, London Borough of Lambeth set up a core working group to lead delivery of the cost of care exercise, led by Commissioning, Finance and Adult Social Care. This workstream reported to the local authority Adult Social Care Reform Board, established to lead implementation of the Adult Social Care reform changes in Lambeth. Throughout the programme, the workstream has provided updates to the relevant internal governance boards and to Cabinet Members on engagement with providers and the analysis of cost of care data.

Defining the scope of the older people's care home market

- With reference to the DHSC Cost of Care guidance, and after clarifying scope with the LGA, Lambeth 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). There are nine older people's care homes in Lambeth identified as being in scope for this exercise.
- We also clarified with the LGA that this approach was correct, and the LGA advised that it was via email on 16 June 2022.
- Lambeth used the Care Cubed online cost of care platform as the toolkit for this exercise, using the template made available in February 2022 by the LGA and the Association of Directors of Adult Social Services (ADASS) as indicated in the DHSC exercise guidance.

Response rate

- All nine Lambeth older people's care homes (100%) responded to the exercise and returned cost of care information to the local authority via the Care Cubed platform.

Engagement with providers to promote completion of cost of care toolkits

- Whilst awaiting full details of the cost of care process from DHSC, Lambeth started to engage with providers in April 2022 to prepare them for the exercise. Lambeth commissioners discussed the exercise with care homes at the monthly care home provider forum to ensure that providers were aware of the exercise and to discuss any initial queries or feedback. LB Lambeth Commissioning emailed care home providers on 17 May 2022 with an update on the national exercise, signposting to the DHSC guidance.
- The Care Cubed online tool for the cost of exercise went live for data entry on 25 May 2022.
- Lambeth wrote to all nine Lambeth care homes within the scope of the Cost of Care exercise on 27 May to invite them to participate in the exercise and to register for the Care Cubed platform in readiness to submit their cost of care information.
- The nine OP homes were invited to participate in the exercise and submit their cost of care information to Lambeth by 20 June 2022.

- Lambeth also wrote to the 29 care homes based in the borough not in the scope of the exercise to update on the Cost of Care process and to invite the homes to get in contact if they believed that their home was in scope. Lambeth did not receive a response from any of these homes to advise that they considered their setting was in scope. None of these homes submitted data.
- LB Lambeth Commissioning and Finance leads hosted an online Cost of Care engagement session for the older people's care homes in scope on 16 June 2022 to discuss the exercise and answer questions, prior to the initial deadline of 20 June 2022 for providers to submit cost information. This session included a step-by-step overview of registration for the Care Cubed tool and the data submission workflow within the website.
- LB Lambeth circulated guidance, information and event invitations relating to the national programme including engagement sessions run by iESE in relation to the Care Cubed FCC tool. LB Lambeth extended the final deadline repeatedly to the end of July to ensure providers had sufficient time to submit their cost information.
- Lambeth contacted providers who had not yet registered or had not yet submitted information prior to the Lambeth 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 nine OP homes submitted cost of care information via the Care Cubed tool that Lambeth used for the exercise, in line with national guidance.

Quality assurance and provider queries

- After closing the final window for provider toolkit submissions on 31 July, Lambeth commenced a process of quality assurance led by the Finance department, with support from Commissioning.
- Lambeth 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, Lambeth contacted providers to query this and invited providers to review and re-submit their toolkit information if updates for accuracy were required. For example, where staffing costs varied significantly from expected pay rates and inflationary rates were higher than published indices, Lambeth asked providers to review and verify these costs and rates and re-submit the information with corrections where errors were identified.
- Providers were provided with one-to-one support calls with Lambeth Finance where required to discuss and address quality assurance queries, to explore issues identified and confirm if any updates to the data were required.

Provider engagement regarding Market Sustainability Plan and toolkit analysis

- Lambeth Commissioning developed the Market Sustainability Plan, with support from Public Health and the council performance team to identify and analyse latest data on population change and the care population in Lambeth.
- To further inform our understanding of market pressures from a provider perspective, Lambeth surveyed older people's care home providers on market

sustainability issues and workforce challenges to inform the Lambeth Market Sustainability Plan. Lambeth opened a survey for three weeks and promoted this to providers by email. There were six responses, including responses from two providers that operate two homes each within Lambeth. Therefore, the survey responses represented eight of nine Lambeth OP care homes. The provider survey provided valuable insights on market sustainability issues, informing the narrative of the Market Sustainability Plan.

- Through the provider survey, we asked OP care home providers directly what they considered to be the biggest challenges for the older people's care home market in Lambeth over the next three years. Most responses highlighted issues relating to staffing, including recruitment and retention alongside rising costs. The views of providers, alongside market data analysis, provided the steer for Lambeth in responding to Section 5 within Annex A – identifying that 'Workforce supply' is the biggest sustainability challenge for the 65+ care home market in Lambeth. The provider feedback underlined difficulty in recruiting and retaining nurses in nursing care homes particularly, referring to competition with other health settings as a key challenge.
- Lambeth's analytical approach is outlined in Part Two of this report. Lambeth commissioners engaged with the London and the South East London sub-region from June onwards to share feedback on the analytical process. After determining the borough's proposed approach to the analysis, Lambeth issued a communication to older people's care home providers on Tuesday 27 September 2022 explaining the borough's approach to Return on Operations (ROO) and Return on Capital (ROC). Providers were invited to share comments. Lambeth received a response from one provider querying Lambeth's calculation method for ROO and ROC, to which Lambeth responded to confirm the borough's final position for these criteria (outlined in Part Two, page 6).
- In January 2023, prior to the publication of the Annex B reports on the Lambeth website, Lambeth wrote to all older people's care providers in scope for this exercise to update on the cost of care exercise and national developments regarding the Market Sustainability and Improvement Fund. Providers will be invited to an engagement session in March 2023 before the publication of the final Market Sustainability Plan to explore its findings, building on prior engagement with providers to develop the draft Plan.

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

Lambeth engaged extensively with older people's 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:

- 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. This is particularly evidenced by the fact that the median calculation results for this exercise in Lambeth produced lower rates for the 'enhanced' care categories for both residential and nursing

than the standard care rates, due to different sample sizes. In practice, enhanced rates are higher than standard rates; this is a key flaw in the methodology for this exercise.

- The median calculation is more suitable for large data sets, whereas for small sample sizes the addition or removal of a single value can significantly impact the median. The method does not give weighting to relevant factors such as the actual number of clients supported by a provider – costs submitted by a provider supporting one Lambeth client would have an equal impact on the median calculation as a provider supporting 100 Lambeth clients. Additionally, the median calculation method diverges from current practice, whereby Lambeth uses a mean average calculation method to determine the iBCF rates. Providers submitted rates of Return on Operations and Return on Capital across a wide range of values, and in some cases with incomplete backing data on how the values were arrived at. It is advisable to uphold a degree of consistency to moderation of these cost lines to ensure that the median rates identified are accurate and sustainable.
- Providers also submitted inflationary rates and costs that varied significantly across cost lines including Nursing and Carer staff costs, Employer’s National Insurance (ENI) contributions, energy costs, training and insurance. These inconsistencies present concerns regarding the accuracy of the data. However, in the absence of clear guidance from the Department on appropriate benchmarks for these cost lines, and within the short timeframe allocated to local authorities to complete the exercise, Lambeth judged that it was not feasible to amend the figures to a single value that could be clearly evidenced. Therefore, Lambeth did not amend these cost lines, despite concerns about the accuracy of the information submitted.
- There are several interdependencies that will significantly impact the costs of providing care. Since the deadline for data submissions closed at the end of July 2022, several new developments have emerged which are relevant to provider costs. 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. National decisions on future support after March 2023 are not currently known.
 - 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; it is necessary to have a dynamic approach to working with providers to understand actual costs.
 - London Living Wage: on 22 September 2022, the Living Wage Foundation announced an uplifted London Living Wage rate for the 2022/23 financial year of £11.95.
- The toolkit survey template does not include information about income from self-funders. Consequently, the exercise does not facilitate increased understanding of the relationship between fees for residents placed by local authorities and residents who fund their own care and the potential impacts of implementation of Section 18(3) of the Care Act 2014.

From the outset, it is important to acknowledge the fundamental limitations of the data and the unknown variables that are key constraints for the analysis of the cost of care data. Lambeth proceeded to analyse cost lines and applied a consistent approach to Return on Operations, with reference to evidence-based industry guidance. Nevertheless, the data quality concerns are such that, even after the final analysis, it is necessary for the local authority to consider other factors in setting fee rates as the cost of care outputs alone do not provide a reliable basis for fee setting.

The outcome of the cost of care exercise is not intended to be a direct replacement for the fee setting element of the local authority commissioning process or individual contract negotiations. It is expected that actual fee rates may differ, as the outcome of sound judgement, evidence, and local negotiation. The outputs of this exercise will be one element to inform future negotiations, taking into consideration other known market factors including inflation, demand, capacity, benchmarking, quality and importantly affordability for the Local Authority and availability of funding.

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 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. For example, inflationary rates of 140% and 90% were applied to utility and staff training costs respectively. 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 Lambeth identified that specific costs represented outliers, the local authority contacted providers to query these cost lines – for example, inflationary outliers. Where providers maintained that these were their costs and declined to amend the data, Lambeth decided against excluding these costs from the analysis.
- In the absence of sufficiently clear guidance or adequate time for in-depth verification of costs, Lambeth 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 5% rate for Return on Operations (ROO) and 6% for Return on Capital (ROC). The ROO rate was

applied (as a mark-up of operating costs) to the median fee rate for each category of care and the ROC rate was applied to the median figure for the property freehold valuation per bed, calculated as a weekly cost as submitted by each provider. This method of calculation for ROC follows the 'Potential Approach 1' described in Annex E of the Market Sustainability and Fair Cost of Care Fund guidance. The rationale for setting the rates for ROO at 5% and ROC at 6% respectively is to align with the guidance set out within the Laing Buisson 'Impact Assessment' published in 2022 linked to the Cost of Care exercise. This guidance offers an evidence-based industry guideline for moderation of both ROO and ROC for the purposes of the Cost of Care exercise.

- Providers were asked to submit 2021/22 cost as the base years and uplifted where applicable for 2022/23. If costs from the Cost of Care exercise are utilised in future years, they will be uplifted in future years based on relevant information such as general increase in costs and specific wage growth information such as changes in statutory pay rates.
- 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	£815	£1055	£1,230
65+ care home places without nursing, enhanced needs	8	£815	£954	£1,230
65+ care home places with nursing	6	£1,064	£1,222	£1,881
65+ care home places with nursing, enhanced needs	7	£1,064	£1,209	£1,881

- 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 'Without nursing, enhanced needs' than 'Without 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.

Cost of care exercise results - all cells should be £ per resident per week, MEDIANS.	65+ care home places without nursing	65+ care home places without nursing, enhanced needs	65+ care home places with nursing	65+ care home places with nursing, enhanced needs
Total Care Home Staffing	£579.12	£516.26	£740.28	£753.84
Total Care Home Premises	£57.53	£45.79	£57.49	£49.43
Total Care Home Supplies and Services	£139.34	£110.63	£127.65	£111.26
Total Head Office	£90.92	£97.84	£99.82	£98.83
Total Return on Operations	£43.00	£39.00	£51.00	£51.00
Total Return on Capital	£145.00	£145.00	£145.00	£145.00
TOTAL	£1,054.91	£954.52	£1,221.24	£1,209.36