Cost of care exercise report – care homes

Data collection and engagement with providers

The London Borough of Islington used the recommended tool developed by a company called iESE to collect data from providers. This tool was built to deliver the requirements set out by the Department of Health and Social Care for the cost of care exercise.

The council sent an initial email in June 2022 to all care homes in Islington who support residents aged 65 and over, informing them about the cost of care exercise and asking that they complete the tool. The tool asked providers to fill in their cost information based on 2021/22 and then provide a percentage uplift for what they believe the costs to be for 2022/23.

The council followed up with further emails and telephone calls to offer support and encourage the care home providers to complete the tool. Providers were also informed about wider support available, including a North Central London sub-regional Microsoft Teams question and answer session, and national question and answer sessions hosted by iESE.

Each of the provider submissions was reviewed by Adult Social Care Commissioners, Data Managers, and the finance department. The submissions were compared with the benchmarking cost analytics and cost workbooks we use to assess the annual uplift process.

The council then consulted with providers on an individual basis to discuss their data submissions. All anomalies were questioned, and we received insightful feedback on the current issues facing the care home market.

Islington is committed to continuing to work with providers to understand costs and ensure sustainable rates.

Providers in scope and response rate

There are 16 care homes within the London Borough of Islington.

Care homes not eligible to be included in this review

Three of the 16 care homes are operated by the council, providing residential care for people with learning disabilities. A further five care homes provide specialist residential or nursing care for mental illness and neuro disorders and are aimed at people below the age of 65. One older people care home was out of scope for this exercise as it does not take external referrals.

Care homes eligible to be included in this review

This left seven care homes in scope of the cost of care exercise. Each of these were invited to submit cost data as part of the cost of care exercise. Four submitted data via the iESE tool kit, leading to a 57% response rate. Three homes did not submit data due to operational issues that impacted their costs and occupancy for 2021-22. The data we received relates to 203 of the 436 (47%) beds for people aged over 65 in the borough.

Submission data

Islington has a very small care home market, which impacts significantly on the robustness of the data from provider submissions.

Despite best efforts by both Islington Council and providers, there are multiple issues with the median figure determined by the provider submissions. The median figure does not represent the realistic median for the care home market. The next section outlines the problems with the data derived from provider submissions.

The table below shows the median, lower quartile, and upper quartile of the total unit cost from all provider submissions.

	Residential	Residential Dementia	Nursing	Nursing Dementia
Number of Submissions	1	0	3	1
Lower Quartile	£1,819	N/A	£1,048	£2,304
Median	**£1,819**	**N/A**	**£1,511**	**£2,304**
Upper Quartile	£1,819	N/A	£2,304	£2,304

The final medians are based on the median for each category of expenditure in the submission (e.g., nursing staff, care staff etc). We chose this method of calculating the medians because this gave a larger evidence base when evaluating the running costs for the care homes. The median based on each spend category are:

	Residential	Residential Dementia	Nursing	Nursing Dementia
Median based on each spend category	£1,582	N/A	£1,599	£1,843

Problems with the data derived from provider submissions

We experienced many issues with the cost of care methodology and the robustness of the median data identified through provider submissions. This was due to many factors, including:

- The Islington care home market is very small and therefore the number of submissions did not provide enough data to make robust assumptions

- Only 47% of beds were covered by responses from providers. This is not seen as representative of the care market in Islington based on the number of beds in the borough.

- There was no provider data for residential dementia care homes

- Islington have a very small proportion of self-funders in care homes, so the inflated costs submitted by providers do not seem to accurately represent the local costs

- There are inconsistencies across the submissions regarding approaches to Return on Capital and Return on Operations. Our providers used a range of methodologies that were all valid, however some providers rented buildings and others owned theirs, amplifying the variety in responses. Therefore, we did not amend these cost lines, despite concerns about the consistency of the information submitted.

- There are inconsistencies across submissions in terms of inflationary uplifts and costs including energy costs, staff costs, national insurance contributions and head office costs. 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, Islington judged that it was not feasible to amend the figures to a single value that could be clearly evidenced. Therefore, we did not amend these cost lines, despite concerns about the accuracy of the information submitted.

- Due to ongoing effects from the pandemic and other operational issues, the occupancy rates across the care homes varied. Even if we standardised these to a fixed percentage, this would have impacted the cost information as costs would have increased with a higher number of residents. Therefore, we did not amend the occupancy levels 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 six-month scheme for businesses and other non-domestic energy users. Inflation: 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, the Living Wage Foundation announced an uplifted London Living Wage rate for the 2022/23 financial year of £11.95.

- The nursing homes across the borough have different operational models due to the varied type of nursing care they provide. This meant that the submitted data varied widely, and this exercise does not take complexity of care into account.

- 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.

- The median calculation is more suitable for large data sets, whereas for small sample sizes like Islington 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 client would have an equal impact on the median calculation as a provider supporting 100 clients.

- The median calculation method diverges from current practice, whereby Islington and all other Local Authorities uses a mean average calculation method to determine the iBCF (Improved Better Care Fund) rates.

Due to the many issues with the robustness of data derived from provider submissions, Islington Council cannot place significant weighting on this data to identify a median sustainable cost of care rate.

Sub-regional cost modelling to inform Islington's sustainable cost of care rate

As a result of the problems listed above, London Borough of Islington has instead decided to use data from the North Central London cost of care modelling to inform a sustainable cost of care. Five boroughs, including Islington, have commissioned independent cost modelling for several years. The rates identified through this modelling, which take into account Islington's unique factors, are detailed below.

This is a robust methodology to inform our sustainable cost of care rather than the results from the provider submissions because:

- North Central London boroughs have commissioned cost modelling for several years and the outputs are much more robust than the data we have received as part of the cost of care exercise.

- The cost modelling data assumes that all the beds within the care homes are occupied by local authorities placements and at local authority rates, and the homes are therefore sustainable at a local authority rate set at this rate and not supplemented by higher self-funder rates.

- The cost modelling data assumes the paying of London Living Wage even though not all of our care homes locally have yet implemented London Living Wage.

- We have used the North Central London cost modelling benchmarking to inform price uplifts for several years and local evidence shows little provider challenge to the uplift proposals.

- Local evidence demonstrates lack of market failure as a result of the fees we pay.

Summary

For the reasons outlined above, the median figure determined by the provider submissions does not represent the realistic median for the care home market. Whilst this exercise will help to refine the tool we use with providers going forward, the outcome of the cost of care exercise is not intended to be a direct replacement for the fee setting element of the council's commissioning process or individual contract negotiations. This exercise has been useful in reinforcing our confidence in the way we engage with our providers and our use of an independent market analyst to inform rate setting. It is expected that actual fee rates may differ as a result of sound judgement, evidence from robust cost modelling and benchmarking and local negotiation. We will continue to be responsive to local market intelligence in our engagement with providers and our annual uplift process. 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.