Northumberland market sustainability plan, March 2023

Section 1: Revised assessment of the current sustainability of local care markets
a) Assessment of current sustainability of the 65+ care home market
Overall, our view continues to be that we currently have sufficient capacity. However we have concerns about the availability of nursing care, particularly for people with dementia. In the last two years two homes have decided to cease providing nursing care. In one case the provider told us that they made the decision because of difficulty in recruiting nurses. This appears to be primarily a consequence of the wider workforce shortage rather than a straightforward financial issue. The other home told us that they made the decision because they were unable to attract sufficient numbers of nursing residents to attract the level of NHS Funded Nursing Care contributions required to cover the additional costs of employing nurses. We also have some difficulty finding suitable placements for older people whose dementia is associated with challenging behaviour of a kind that cannot easily be managed in a normal care home setting. Regrettably, no local care home provider responded to an invitation to tender to provide a specialist service for people in this group which we issued during 2022; we are currently in discussion with the provider of a specialist service a short distance outside the county boundary with experience of operating a service model designed to offer a therapeutic environment from which residents can move on after a period to a mainstream care home. The dispersed population in rural areas of the county can also lead at times to problems in finding local placements in areas where the level of need can sustain only a modest level of capacity. In some sparsely populated areas of Northumberland anyone needing care home accommodation would have to move into an establishment a considerable distance away from where they previously lived. One regrettable tendency over the past two decades has been the closure of many of the small care homes which at one time provided local options in rural Northumberland, with most new developments being larger and possibly more institutional care homes in market towns and larger settlements. Our hypothesis is that these changes were to some extent accelerated by a “fair cost of care” exercise carried out in 2003, which led to a substantial increase in fees, making new care home developments more attractive and creating overcapacity, which smaller care homes were less able to survive. We made a conscious decision in 2012 to move away from fees based on cost models, to reduce the incentive to build new homes, and we revised our fee structure five years ago to add a fee premium for small care homes, in the hope of at least slowing the trend of closures of those homes. While we do at times have capacity constraints on our ability to support rapid discharge from hospital into short-term care home accommodation, the primary underlying reason for this is the capacity constraints in homecare, since currently a high proportion of short-term discharge placements in care homes are temporary arrangements pending a home care plan. This continues to be, for a number of reasons, a particularly difficult time at which to make firm judgements about the sustainability of care homes. The direct and

indirect impacts of the Covid pandemic, unprecedented labour market issues affecting staff recruitment and retention, and more recently the rapid rise in inflation, have produced a situation in which it is exceptionally hard to distinguish between short-term difficulties which require temporary additional funding and support and long-term structural issues.

In 49 of the 70 homes that were operating in Northumberland during the early waves of the pandemic, more than one resident died with Covid recorded as one of the causes of death, usually the main cause; during the first wave there were five homes in which ten or more residents died; in the second wave there were nine. It is a credit to the staff and managers of the homes that none became unable to continue to operate, though some came close to that. For some homes, the continuing consequence is unusually low occupancy levels, both as a direct result of the deaths of residents and because of lingering reluctance among older people and their families to accept the perceived risks of living in a care home.

Low occupancy may partially have masked the impact on care homes of labour market issues, but recruitment and retention difficulties have become increasingly apparent since summer 2021. Some homes are now telling us that, although they have vacant rooms, they are unable to take new admissions – or have decided to keep part of the home out of use – because of staff shortages.

All care homes in Northumberland are signed up to the local authority's contract, which is a call-off contract open to any qualified provider. Providers are under no obligation to accept referrals, and some are generally not willing to do so without a top up payment, but in general we do not have difficulty finding accommodation at local authority rates, except in cases where the person needing care has particularly complex needs or when there are reasons to constrain the search to a narrow geographical area.

Our view before Covid was that our fees appeared to be sufficient to maintain the existing care home sector, with some new developments – including developments which we did not believe to be necessary, and advised against because we believed that they would either struggle to attract sufficient residents or cause difficulties for existing care homes. Broadly that continues to be our view, though there are clearly at present unusual pressures on all care services.

Inflation – and in particular the increase in energy costs – is a serious concern for care home operators, because of the nature of their resident group. Based on the "fair cost" survey, we estimate that care homes spent around £24 per week per resident on energy costs in April 2022, and that figure will have substantially increased since. Recruitment and retention difficulties are also affecting all care providers' costs and income. The results of the "fair cost of care" survey do not reflect all of these pressures, because of the timing of the period covered by the data collection.

Of the 71 care homes for older people in the county, 55 are rated by CQC as "good" and 2 as "outstanding". 12 are rated "requires improvement", one as "inadequate", and one has not yet been rated.

When we last collected information from all care homes in summer 2022, there were around 800 self funders in residence. There are also about 150 residents on the council's contract who are paying their fees in full, including residents who take advantage of the statutory deferred payments scheme, some of whom pay a top-up in addition to the council fees. The delay to charging reform has removed for the present the potential destabilising impact on the care home sector of changes to the balance between privately funded and publicly funded residents. It has, however, given rise to differing understandings of the implications of the “Fair Cost of Care” exercise in 2022, with some providers now believing that if fees are lower than the calculated median figures submitted by a local authority to DHSC this is evidence that they are “unfair”, and arguing that the wide variation between the figures submitted by different local authorities in apparently similar areas is evidence that those authorities submitting lower figures are acting “unfairly”.

Care North East, a regional association whose members include the operators of 23 of the 71 care homes for older people in Northumberland[1], has told us that it believes the figures which we submitted to DHSC were adjusted to “keep fees artificially low at unsustainable levels”, and has argued that future fees should be based on a “fair cost” calculation based on the figures originally submitted by providers. Discussions with colleagues in other local authorities in the region lead us to the view that, while there are some real differences between the market situations in different local authority areas, those authorities which submitted substantially higher figures than Northumberland to DHSC mostly did so because they did not feel they had sufficient information to enable them to decide what adjustments would produce a reliable indicator of costs rather than because they believed that the survey-based figures which they submitted were an accurate indicator. No local authority in this region is intending to set a target for future fees based on the medians of the figures submitted by providers. We note that the survey-based figures submitted by some authorities produce median figures for costs in April 2022 which are significantly higher than the median private resident rates for 2022-23 in their areas as supplied to DHSC by Carterwood. We have made it clear to all providers that we regard the 2022 survey as a useful source of intelligence about the make-up of care home costs, but not as a basis on which we could calculate what future fee levels should be. Like a number of neighbouring local authorities we expect to continue to set fees through consultation and negotiation rather than setting a target increase, though we will keep this position under review as future national plans for charging reform are clarified.

Before making decisions about additional assistance during 2023/24 supported by the Market Sustainability and Improvement Fund, or about our fee structure and other terms in the years after our current three year contract terminates in March 2024, we will be consulting comprehensively with all providers.

A point raised by Care North East which we agree with, and which we think the cost of care survey data do demonstrate, is that the pattern of recent inflation has placed cost pressures on care homes which are not fully reflected by the CPIH inflation index currently used in our contract to uplift non-staffing costs. This is a particular issue for energy costs, but also affects food and insurance costs. We have compared the weighting given to these elements in the CPIH with the proportion of care home non-staffing costs which they accounted for in the survey returns, and there is a clear and significant mismatch.

---

[1] This figure is based on a listing on the association’s website (www.carenortheast.org/memberslistings.php, checked on 24 March 2023).

It is difficult to calculate precisely how the balance of expenditure differs, for a number of reasons. One is that the survey returns showed considerable variation between care homes in the proportion of their overall expenditure which they reported as being attributable to energy costs, with some homes reporting that their energy costs in 2021/2 were less than 10% of their total spending on supplies, services and premises, and some reporting that this proportion was more than 25%. This may reflect both differences in the timing of contract periods for energy supply and differences in the energy efficiency of premises. Survey returns also showed large differences between care homes in the proportion of their energy costs attributable to electricity versus gas and other fuels. Over the past year, the types of energy used by a home may have made a substantial difference to the impact of energy cost inflation – between December 2021 and December 2022, the index costs for liquid and solid fuels increased by less than 50%, while the index of electricity prices almost doubled, and the index costs for gas almost trebled. Roughly, in the period covered by the survey, energy costs accounted on average for 9.2% of the care home costs relevant to the CPIH element of the inflation formula in the contract, while the weighting for them in the CPIH index was 2.9%. Food costs accounted for 14.7% of relevant care home costs, and 9.3% of the CPIH index. Indexes for some other significant elements of care home costs (for instance repairs and maintenance) increased by *less* than the CPIH during 2022, but there is no reason to doubt that energy and (to a lesser extent) food price increases have created a financial pressure, even if the exact scale of its impact on the care home sector as a whole is hard to determine. The staffing element of the inflation formula in our contract is linked either to the increase in the National Living Wage or, for those homes which have signed up to a variation permitting them to pay at least the Real Living Wage the increase in that figure. (The majority of care homes have signed up to that scheme.) We therefore do not anticipate any impact on provider stability as a result of the increase in the National Living Wage.
b) Assessment of current sustainability of the 18+ domiciliary care market
We do not currently have sufficient capacity in home care services. The workforce in these services fell sharply following the end of Covid restrictions in summer 2021, and most providers have since then struggled to recruit and retain sufficient care workers to improve the position. For more than a year, there have generally been 200 or more people for whom we have assessed that home care would be the best way to meet their eligible needs, but for whom we have not at that time been able to arrange that service. Our understanding from discussions with other local authorities is that this position is not exceptional, but it is clearly not acceptable, and we describe in Section 3 of this plan how have used the grant during 2022/23 to address one of the most pressing of the current issues. The issue in this sector is not primarily a gap between the fees which we are paying and the costs of the service, though some providers are struggling to cover their costs because recruitment and retention difficulties are preventing them from providing the service on the scale assumed in their business plans, and therefore making it difficult for them to cover overhead costs premised on a larger volume of

activity. The issue is rather that employment in home care is not currently attractive enough.

Before Covid, capacity issues in homecare were primarily concentrated in the most rural parts of Northumberland, such as the National Park and the North Pennines. Now they arise in all parts of the county.

During the last decade the number of organisations providing mainstream home care services in the county has significantly increased. Previously, "preferred" providers in each area of the county had been able to meet most needs, but the number of smaller providers has grown – there are now 51 home care providers signed up to the council's contract, most of them small. Our contractual arrangements were changed in 2019 to reflect this trend, which may have had some benefits for user choice but has also created a more fragmented sector and made it more difficult to maintain for the Council's social care teams and commissioners to maintain close relationships with providers. Referrals which the "tier 1" preferred provider for a local area cannot meet are passed on first to "tier 2" providers who have satisfied the Council that they have a solid track record in that area, and then if necessary to "tier 3" providers who have taken up the opportunity available to any registered provider to sign up to the contract. In every month since June 2021, at least 20% of referrals have not been picked up by any contracted provider when first offered, requiring us to implement a variety of contingency plans.

There has been some instability among smaller home care providers in our area since summer 2021, with five providers ceasing to operate, and one ceasing to provide a regulated personal care service. In some cases another provider took over their workers and care packages; in others we have had to become more closely involved in finding new arrangements. However the primary issue for us is the overall capacity of the care workforce rather than the number of providers.

There are a small number of homecare providers which specialise in the private market, with higher costs and an expectation that visits will be longer and will provide support beyond meeting eligible needs. In current circumstances, the Council is increasingly often finding it necessary to arrange services from these providers outside its contract and at higher rates.

Current fee levels are set at three different levels based on the geographical area. The lowest rates are paid in South East Northumberland, which has a relatively concentrated population, with less travel time and fewer difficulties in finding locally-based care workers. The highest rates are paid in and near the National Park and North Pennines. Rates also vary depending on the length of the visit, because the overhead cost of travel time is likely to be greater for short visits. In the South East of the County, we pay £18.15 for a visit that lasts an hour; in the most remote rural areas, we pay £17.85 for a half-hour visit (equivalent to an hourly rate of £35.70).

Of the 51 home care providers on our contract, 42 are rated by CQC as good and 2 as outstanding. 3 are rated "requires improvement", and 4 are not yet rated.

During discussions about this Market Sustainability Plan, home care providers have made a number of suggestions about how the Council could provide them with further support, which we will consider when the detailed conditions for the

Market Sustainability and Improvement Fund have been published. These include: ▪ a general need to raise the status of home care work, both through pay levels and by addressing the perceived attitudes of some professionals towards care workers ▪ guaranteed hours, or staff paid for blocks of time rather than for visits (though providers also told us that some home care workers positively prefer to be able to vary their hours) ▪ additional support with the costs of the training and induction of staff who are new to care services ▪ further development of a model which we are currently piloting in which some visits to check on people's welfare and prompt them to take medication are replaced by contacts through a telecare system ▪ targeted communications for home care workers who left before recent Council initiatives, to let them know how terms of employment are improving
Section 2: Assessment of the impact of future market changes between now and October 2025, for each of the service markets
In our provisional market sustainability plan, the main issue we reported under this heading was the potential impact of the full implementation of section 18(3) of the Care Act, which would create complex financial and other issues for care homes for older people, particularly in rural areas with a scattered population where there is only sufficient local demand to support one care home, and care homes currently accommodate a mix of private and state funded residents. The prospect of this change being implemented in October 2025 remains a potential source of instability in the care home sector during the period between now and then. The extent to which this becomes a problem may depend on how likely care home operators perceive it as being that the reforms will be implemented on that timetable and in their current form. From the perspective of market stability, it would be helpful for there to be Government confirmation that there will now be a review of the potential consequences of implementation of section 18(3), which will consider in more detail the potential for destabilisation of the care home sector, particularly in rural areas, and explore more realistic alternatives to the options for managing this risk that were set out in the Government's January 2022 impact assessment. We would welcome an opportunity to be involved in any such national review. We think there are alternative ways in which it would be possible to achieve the Government's objective of limiting the impact of care charges on people with savings or property, which would reduce the risks by making changes more gradually, and possibly also taking specific steps to protect local care homes in rural areas. In the meantime, one continuing concern is the long-term viability of smaller care homes, particularly in those areas with dispersed populations where they represent the most local option for those older people who need care home accommodation. In the period since we last made major changes to our contract in 2017, introducing premium payments for smaller care homes, there has been a slowing in the previous trend which had seen closures of smaller homes, with new

capacity being mainly in large care homes located in the main population settlements. However we do not think that the trend has been reversed – and the largest care home for older people in Northumberland opened in 2020, in one of the county's main market towns. We are also concerned that there may be further reductions in nursing home capacity, primarily because of the wider local and national issues about the nursing workforce. In homecare, workforce capacity continues to be the main concern. Section 3 of this plan describes the measures we have taken and will continue to take to address this, but there are fundamental demographic issues which will continue to be challenging. The pandemic has accelerated the impact of long-term changes affecting many areas in Northumberland, as a result of which the numbers of older people with care and support needs are increasing, while the numbers of working age adults available to work in care and support services are reducing. The availability of better paid and more predictable work in the NHS may also be a factor, particularly at a time when NHS employment is expanding to meet the post-Covid backlog in health treatments, and the variability of the hours of work in visit-based home care may also mean that when there are vacancies across all care services, the shift-based working patterns in services offering 24-hour accommodation with care are more attractive to care workers looking for a predictable income and working hours. We are experimenting with some small-scale schemes in which home care workers are employed on a different basis; experience to date suggests that these can be significantly more expensive.
Section 3: Plans for each market to address sustainability issues, including fee rate issues, where identified.
(a) 65+ care homes market
In the medium to long-term, our aim is to reduce the proportion of older people with care needs who can only be supported in a care home, by promoting the development of other accommodation options which make it possible to support people who need a high level of care, or care which is readily available on call. This is discussed further in part 3(b), since we think it will also be crucial to the prospects of sustainable home care. One key obstacle to this is that funding streams for housing for older people with care needs are more complicated than the funding of care homes – for instance national initiatives intended to promote extra care housing have generally focused on capital funding for individual schemes rather than the more complex task of creating a clearer financial framework which might stimulate developers in the way that the relatively clear funding arrangements for care homes have attracted interest from property developers and financial investors whose background has often not been in the care sector. In the short term, "fair cost of care" survey has produced no clear evidence that matching actual costs as they stood in April 2022 would require significant fee increases to, with the possible exception of covering the cost of care provided by registered nurses – which raises some complex issues because local authorities are prohibited under Section 22(3) of the Care Act from funding this element of care home costs. Analysis of the survey returns also brought to our attention an issue about nursing costs on which we would welcome advice from DHSC. If, as recommended by the Department, the financial returns required by care home

operators are analysed into a return on capital and a return on operations, the question arises as to where statutory responsibility sits for the element of the return on operations which is attributable to the cost of employing registered nurses. On the face of it, this appears to be a cost associated with the provision of a registered nursing service, and therefore to fall within the scope of the prohibition in Section 22(3) of the Act. But it is not clear to us from the published explanation of how NHS funded nursing care payments are calculated[2] that this element of cost is taken into account in setting the FNC rate. We are continuing to discuss with the North East and North Cumbria ICB the general issue of nursing workforce capacity and its impact on the viability of nursing homes, which if recent trends continue could become a significant obstacle to hospital discharge which local authorities would not be well placed to address on their own.

While the survey produced no clear evidence of a gap between the council's current base fee levels and the indicator specified by DHSC, we would not wish to rely on that as the main basis for assessing the adequacy of current fee levels. Our primary guide to the adequacy of fees continues to be close monitoring of the actual state of the sector, rather than an arithmetical calculation from survey results. On that basis, and setting aside the complex issues about what may become necessary if at some future date Section 18(3) of the Care Act is fully implemented, we do not think there is currently any clear reason to believe that the base fee levels in our existing contract are inadequate.

We do, however, accept that recent rapid increases in some elements of care home costs, particularly energy costs, have created some exceptional financial pressures. Some care homes are also still experiencing relatively low occupancy levels, which may still in part be consequences of the pandemic, though the total number of care home residents is now at around the same level as it was in March 2020, with higher vacancy levels overall now being a result of increased capacity – two care homes have opened during the pandemic. The pandemic aftermath is also still having some impact on staff sickness levels and the level of agency staffing required by care homes. The Council allocated £193K from the Contain Outbreak Management Fund to care homes during 2022/23 to soften the impact of the funding "cliff edge" caused by the ending of national Covid-related grant schemes at the end of March 2022.

Taking account of these factors, our view is that there is a case for time-limited fee increases. During 2022/23, we used the market sustainability grant to fund a temporary fee increase through the winter months, and, subject to the final grant conditions, we intend to review the case for using some of the 2023/24 grant to fund a further time-limited increase. 2023/24 is the third year of a three-year contract which all care homes for older people in Northumberland are signed up to. We do not intend to revise the inflation formula in that contract when setting base fee levels for 2023/24, but we have made a decision not to deduct from those fees the 0.75% increase to the staffing costs element which was added in 2022/23 to cover the cost of the increase in employers' national insurance contributions, though that increase has now been reversed.

[2] www.tinyurl.com/FNCevidence

We also intend to explore with providers wider issues about energy costs in care homes, and whether some financial support with these might best be linked to improvements in energy efficiency.

During 2023/24 we will be consulting all care home operators about the changes they would wish to see in the new contract to begin in April 2024. One issue that we will explore is whether the inflation provisions in the contract for non-staffing costs should in future be based on a care home specific basket of inflation indices, drawing on the information collected in the 2022 survey, rather than using the CPIH index.

We will also be exploring a number of broader issues. Care North East have told us that they believe we should be eliminating some or all of the differentials in our current fee structure designed to provide incentives to improve quality, and to protect smaller care homes, though we do not think this is a view shared by all care home providers. We are aware that some neighbouring local authorities may be considering removing the differentials based on quality, and we are conscious that if the charging reforms are ultimately implemented in the same form that was proposed in 2021 it might become more difficult to sustain differentials, because of the ways in which these might interact with independent personal budgets and direct payments for care home accommodation. We will consider all evidence presented to us about this and other issues.

Care North East have also commented that, since the funding to support payment of the Real Living Wage is allocated through fees, care homes with substantial numbers of private residents may have to make substantial increases to their private fees if they accept the Council funding. We agree that providers in this situation will need to make commercial decisions about whether they believe they can hold down fees to private residents and provide a high quality service while paying lower wage rates.

Summary of additional financial support in 2022/23. We have funded from the market sustainability grant a time-limited uplift of 2.45% to the fees paid to care homes for older people, with effect from 1 December 2022, to reflect the impact of the exceptional cost pressures described in this plan. We have also been able to allocate significant additional funding to care homes from other funds. Our plans for the Adult Social Care Discharge Grant included additional payments during the winter of £940K to care homes to enable them to bring forward the increase in the Real Living Wage, and further funding to support homes to accept rapid discharges from hospital. We also allocated £193K to care homes earlier in the financial year from the Contain Outbreak Management Fund, distributed in the same way as the Infection Control and Testing Fund payments made in the period up to March 2022.

(b) 18+ domiciliary care market

In this sector too, the “fair cost of care” survey has not produced clear evidence that, as at April 2022, there was a significant gap between fee levels and the actual costs of providers, though some providers were under financial strain because of the difficulty of sustaining a sufficient workforce to be able to provide care on the scale necessary to meet their financial objectives. However in this sector it is clear that, regardless of whether there is a gap between the cost of providing existing care and the fees being paid by the council, there is a serious gap between needs and capacity.

One response which we believe is necessary is additional funding to enable home care providers to offer more attractive terms and conditions. During 2022/23, as well as introducing the scheme across all care services under which the council pays additional fees in return for a commitment to pay care workers at least the Real Living Wage we have introduced specifically for homecare an additional scheme to cover the costs of increasing the mileage rate paid to homecare workers who drive to make visits up to the maximum tax-free allowance of 45p per mile, compared to a previous average of around 25p per mile, funded from the market sustainability grant. Discussions with providers had made it clear that fuel cost increases had made this particularly pressing issue. We expect this scheme to continue for the foreseeable future, and, subject to grant conditions, we intend It to be a first call on the grant in future years. We will continue to discuss with homecare providers what further changes to terms and conditions might support the recruitment and retention of care workers, and whether there may be a case for further use of market sustainability grant to support those changes.

We also made a temporary increase to the base fees paid to homecare providers in the winter of 2022/23, on the same basis as with care home fees, recognising the general fragility of the sector, and in home care as well as in care homes we used the Adult Social Care Discharge Grant to fund providers to bring forward the increase in the Real Living Wage from April 2023 to December 2022. In addition to financial support, our commissioning team continue to work closely with home care providers to assist them with recruitment and training.

Additional support for homecare provided on the traditional model may not on its own be enough to ensure that we recover the ability consistently to enable people to receive the support that they need in their own homes as soon as that need is identified. We will also be giving increased attention to a number of other developments.

One key objective, prioritised in our Market Position Statement, is to promote the development on a large scale of attractive housing options for older people in locations where care and support can relatively easily be provided. These may include extra care schemes with 24-hour on-site staffing, but we do not think all schemes need to follow that model. In some cases where an older person has been living in unsuitable housing in a small village or hamlet in rural Northumberland, and it has been challenging to source home care to support them there, a move to a town-centre scheme designed to be attractive, accessible and easily maintained has substantially reduced or entirely eliminated the need for home care visits, as well as making it easier and less expensive for home care workers to provide support when it is needed.

We will also be looking again at our existing approach to personal budgets and direct payments, focusing particularly on ways in which we can make it easier to set up individualised arrangements within which providing care and support for people at home may be an attractive option for people who would not have considered working for a traditional home care agency.

Options which we will be exploring include supporting people to become “micro-providers”, as an alternative to being employed by the person they support or by a home care agency. We have in the past been cautious about this option, because of the lack of clarity nationally about the circumstances in which someone providing personal care in another person’s home can be treated as self employed, and about the regulatory requirements. However we are conscious of anecdotal evidence from areas which have promoted this model suggesting that it can both benefit the quality of the relationship between the service user and the care worker and also attract people who no longer wish to work for a home care agency, persuading them to return to or remain in care work. We would welcome national research to help us understand better the impact of this and other innovative models on the overall capacity of the care workforce.

Summary of additional financial support in 2022/23. Home care providers have been supported through the market sustainability grant to pay a mileage rate of 45p a mile, and have also received a time-limited uplift of 2.45% to fees, with effect from 1 December 2022, to reflect current exceptional cost pressures. We have also been able to allocate significant additional funding to home care services from other funds. Our plans for the Adult Social Care Discharge Grant included additional payments of £608K during the winter to home care providers to enable them to bring forward the increase in the Real Living Wage, as well as further support for innovative service models. We also allocated £153K to home care providers earlier in the financial year from the Contain Outbreak Management Fund, distributed in the same way as the Infection Control and Testing Fund payments made in the period up to March 2022.