

## **Appendix One to report Adult Social Care: Support for Care Providers – Extension of financial support to Adult Social Care Providers**

Residential care homes and nursing homes both provide 24-hour care in an accommodation setting. Nursing homes also provide nursing staff, enabling them to provide a higher level of care to those individuals with the most complex needs. The home care market provides support to people in their own homes, and includes care provided within extra care and supported living environments, where 24 hour care is provided. Some individuals in these environments are very frail and these act as direct alternatives to residential care settings.

Residential care homes are often small, within refurbished standard housing available on the open market. This accommodation is unsuitable to meet all needs, with many homes having shared rooms for clients. During the COVID-19 outbreak these homes have sometimes struggled to manage appropriate isolation. Many providers in the city own only one or two properties. There are few larger units, specifically built, and where available these are owned and managed by regional and national organisations, and one home is owned and managed by the city council.

There is an under-supply in adult nursing care provision, despite the city having developed two long term contracts to guarantee supply. Although the numbers of council placements into nursing care have not changed significantly in recent years, the need levels have increased significantly, and too much of the provision in the city remains at too low a level to meet the more complex need requirements. As a result, around 40% of all placements in nursing homes are made outside of the city, even if the majority of these are made in homes within just five miles of the city boundary.

All nursing homes are privately owned, and all but two are owned and run by regional and national organisations. All are purpose built, although a rehabilitation centre has been built as part of a large existing building.

Two care homes in the city have closed in the past three years – one in 2017 and one in 2018. Both followed CQC inspections and requirements to invest in the homes to meet standards. These reflect the need for investment in many homes, but also the fragile financial state of many.

At any one time, the council commissions a minority of places in homes in the city. This is around one-third of all places in nursing homes and up to 40% of the total places in residential care homes. The CCG commissions further nursing home places, which means the public sector commissions up to 40% of the total nursing home places in the city. This includes 100 places within two nursing homes where the council has long-standing contracts.

Care home placements are increasingly required only for those with the most complex needs and challenging behaviour. Demand for nursing care that is suitable for those with cognitive impairments and complex needs in particular, is increasingly outstripping local supply and as a result, 40% of the Council's nursing home placements for this group are now made outside the city boundary.

### ***Commissioning care in homes***

The overriding priority when commissioning care is to ensure sufficiency of supply of quality care. Under the Care Act 2014 a local authority has a duty to ensure sustainability of the care market and to ensure that there is diversity and quality in supply. Providers are autonomous businesses responsible for employing, training and setting pay and terms and conditions for their own workforces. The council has to set fees that cover the legitimate

costs of delivering the service and make a fair return to support the business to be sustainable.

Although the Council remains the single biggest purchaser of available beds in the market, self-funders purchase the majority of places. This puts added pressure on the council when setting fees as, in essence, it is competing with self-funders who generally providers favour as they often have lower support needs and are in a position to pay fees at a higher rate.

In addition, the publication of the Competition and Markets Authority (CMA) report in 2017 showed that while the market overall is able to cover its costs, it is finding it increasingly difficult to cover future capital requirements. Profit margins are low at an average of 3%, and investment companies have chosen to invest in the sector mainly due to the potential land values of homes.

The ICU updated its financial analysis of the 10 homes in the city with the highest number of council placed residents in 2019. This showed that these providers were covering their operating costs but that the rate of return did not allow for any significant investment decisions to be made from capital. This is added to by the rate of returns being low, meaning that securing funding from the banking sector may also be difficult. This information matched the circumstances faced by the two homes to have closed in the city in recent years.

The councils published rate levels are in the lowest quartile in the south east. It is increasingly difficult to secure places in homes at the published rate levels the council has set. These are the minimum levels the council will pay, and are in the lowest quartile of costs in the south east region.

### **The home care market in Southampton**

Home care provision is diverse with large national companies providing the majority of care, but smaller start-up companies coming into the market regularly. The council operates a framework. This was last tendered in 2019. The framework is opened for new providers to enter on an annual basis. This enables new providers to develop their business.

Providers of extra care services and supported living environments are chosen from the framework. Although the home care market framework is providing over 1000 more hours of care in the community, until the Coronavirus pandemic, it was unable to fully meet demand. As a result, these new providers are receiving business outside of the framework contract, where required. So, while the market is vibrant, it has still been struggling to meet the demand from the council until the COVID-19 pandemic.

### **Impact of COVID-19 on the care market in Southampton**

The COVID-19 pandemic has placed great pressure on the social care market. Many homes have faced COVID-19 outbreaks and have had to deal with the responsibility of both preventing outbreaks and in dealing with these if and when they do occur. It is widely acknowledged that the care home sector has faced particular problems in managing infection prevention and control during this period. Additional staffing has been a factor for many providers as staff have had to isolate to prevent infections from spreading.

For the care home and the home care market, additional pressures have also arisen from Personal Protective equipment (PPE) costs, due to both additional requirements and the costs of items rising; the costs associated with finding new PPE suppliers with stocks (most prevalent at the start of the pandemic but still impacting at times now); staff sickness and absence due to isolation; and, in supported housing schemes, such as extra care services, similar impacts to those faced by care homes in managing infection control measures.

During the pandemic the capital costs of equipment and staffing costs have risen. Most of these costs are stable and do not vary according to the number of residents in a care home under normal circumstance. However, John Bolton's work for the Institute of Public Care (Appendix Three) suggests that rising operating costs as a result of COVID-19 mean the price of care will have to rise to compensate.

Evidence from both our local market intelligence gathered through our weekly contacts with all care homes, regular contacts with home care providers, contact via CCG Infection control specialists and a survey by Hampshire Care Association (HCA – Appendix Four) provides a good level of information on the state of the local care market. This intelligence also identifies a range of areas where costs have increased and provides information on the likely costs that will continue to impact on the sector in the future. Cost increases overall are in the order of 18%, although it is significantly higher for some providers, particularly those that have faced significant COVID-19 outbreaks. In addition, resident vacancy rates in some services are causing concern as the level of income is reducing.

### **The cost of providing adult care has increased as a result of COVID-19**

This is the conclusion of a report for ADASS and the LGA, compiled by Laing and Buisson. The report estimates that the largest additional cost for the care sector relates to PPE and infection control requirements. Other significant costs are driven by staffing requirements and vacancies in homes that are not easy to fill at this time. Whilst the report estimates cost pressure up to the end of September 2020, it is likely that the majority of these costs will continue for much longer.

All care and support providers in the city have faced problems in managing infection transmissions, staff absence due to isolating, and impact on time being spent with service users due to isolation and visitation not being permitted. At the same time, for many care providers income streams have reduced due to cancellations of home care visits and higher than usual vacancy levels in care homes, as shown in the following examples:

- One home in the city, have provided information to show the cost of care has increased by an additional £55k between March and 30<sup>th</sup> June. This figure is net of the financial support received from the Council during this period, including both instalments of the Infection Control Fund grant. If the loss of income due to higher than usual vacancy rates were added to this, the financial impact of COVID-19 on this provider would be even higher.
- The cost pressures faced by smaller care homes have been significant as well. The cost of care at another care home in the city, has increased by an additional £25k over a similar period, a figure which is again net of the financial relief received from the Council.

### **The cost of PPE and maintaining infection control measures will continue to be a pressure**

The additional cost of PPE is affected by a number of factors including additional equipment required; the need to use and change PPE more regularly; the changes in guidance that have occurred making previous stock obsolete; and the time taken to source supplies. Whilst the volatility associated with this requirement is beginning to stabilise some providers continue to seek emergency supplies from the Council due to PPE supply chain disruption.

The Hampshire Care Association (HCA) survey of care homes suggested increases in costs at an average of 194%. Some providers have reported even higher increases for a significant range of items, ranging from 300% to 3000% in some cases. Part of these excess costs will be a level of stockpiling, but most providers are still having to make regular orders as supplies have only been available to cover short periods of time. It is likely the pressure on care providers will continue in both sourcing and paying for PPE, as infection control

measures are not likely to be eased for some time. It is likely that PPE requirements will permanently increase the cost of providing adult care services, although the government have ceased the VAT costs on PPE for the care sector. It is also important to note that the terms of the national Infection Control Fund grant prohibit providers from using this resource to purchase PPE. A further example of PPE-related financial pressure on the local home care market is shown below:

- A local home care provider, has reported that their expenditure on PPE has risen from approximately £60k last year, to £215k for the three-month period March to May 2020.

In addition, many care homes are undergoing regular deep cleans. ADASS/LGA estimate an average cost of £5000 per home for each clean. Some homes are conducting these on a monthly basis. Whilst infection control measures have been significantly enhanced to help reduce the risk of further outbreaks, the costs associated with these are continuing

### **Staff costs remain higher than usual**

There are approximately 5,800 care jobs in the city. The vast majority of these are care workers, over 80% of whom are females, who live in the city. The care sector is therefore a significant employer of local people.

The largest single impact on providers is any increase in staff costs - which account for between 60% and 80% of operating costs for an adult social care service provider. For many, increases in staff absence have led to considerable increases in both Statutory Sick Pay contributions, and agency staff costs.

Care homes have reported increased agency staff costs of between 2000% and 3000% - from low levels of use at the start of the year, to high levels of cover being required from March onwards. Some home care agencies have reported that staff costs have risen by up to 1500%. For many providers, this period is representing the first time they have had to use agency staff in their services, as their usual staff and bank complements have been insufficient to cover for absences.

Staff are continuing to have to isolate – a result both of potential symptoms and following referral from the new test and trace system.

- For a number of care homes, the cost of providing replacement staff has been considerable. This cost has been both for bank staff and agency staff and to provide cover for:
  - Nurses (in nursing homes)
  - Care staff
  - Ancillary staff – cleaners, kitchen teams.
- Whilst COVID-related pressure on staff costs is currently falling, care homes are still currently having to provide additional staff hours at a level that is well above standard operating costs. They are also planning for the summer period where staff will take pre-booked leave, and to manage the need for staff who have worked long hours over this period to take additional time away from the work environment.
- Home care agencies have faced similar issues with staff and agency staff covering for those who have been isolating.

### **Vacancy levels are significant in homes, and activity levels have reduced in home care**

The HCA survey suggests 60% of homes are reporting vacancy levels above the usual levels, and that this has been contributed to by a range of factors:

- As has been the case nationally, the rate of deaths within care homes and in hospitals following admission from care homes has been higher than usual during the emergency period.
- Reduced demand from self-funders reflecting the lack of confidence in the market and fears regarding the safety of homes.
- A reduction in referrals from commissioning bodies, including the Council and Clinical Commissioning Group (CCG).

The latest figures indicate that there is a 15% vacancy rate in a sector that normally works on a 5% turnover level and which rarely has vacancies available.

Residential care vacancy rates are normally higher than those for nursing homes in the city, but some homes are currently experiencing vacancy rates that are substantially higher than usual.

Home care support hours have reduced from pre COVID-19 levels in March 2020. This is helping to ensure home care provision is more readily available as the complexity of individuals requiring support has increased and is often needed at very short notice.

- A number of nursing homes in the city have vacancy levels above 20%.
- Four residential care homes have vacancy levels above 20%.

### **The private payer market has reduced, with little sign of recovery**

There is a concern that new private paying clients will be reluctant to seek support from home care and/ or care home services. For instance, one care home in the city, has received no private client requests since the commencement of the pandemic in March.

As private payers make up approximately 60% of the total placements in care homes in Southampton and the South East, this will have a significant impact on the market.

Private payers tend to pay considerably higher fees than local authorities. Most care home business models assume a proportion of private payers that allow them to offer placements to local authorities at rates that are less than the full cost of care. If there is a smaller pool of new privately paying clients this will have an impact on the income for homes and will force homes to increase the related fees for local authorities.

The current vacancy rates in homes places them at risk of closure due to no longer being financially viable. Large providers will be considering their options based on vacancy rates across all their homes locally, for example:

- At the start of July, a care home provider managing more than one home rationalised their costs by closing one of the services and moving residents into their other care homes. They will save costs both in staffing and in the running of only one home.
- Other providers have signalled the need to consider rationalising services where they have the ability do so.

### **Confidence within the care market is low**

The HCA survey has found that 58% of providers are concerned that the current crisis could put them in a high risk position with their lender. This affects those with a loan or mortgage needing to be repaid. However, nearly two-thirds are concerned over the long-term impact of continued financial pressures on the viability of their business.

Whilst the pressures on the home care market may have seemed to be less acute for many, due to fewer services requiring 24-hour cover, the risk for some providers remains high should the demand for services continue to remain low - meaning income is reduced - and should the costs of PPE and the costs of meeting staff sickness pay continue in the medium

and longer term, which is likely. As demand is now increasing, it is important that there is sufficient provider capacity to support the increasing need for care in the community.

A major concern of the sector is that the test and trace system currently being put in place may have a significant impact on the availability of carers, not only because of contacts outside of work but also because of their contact with individuals where they are employed who may become infected. This is, however, an issue that has not yet come to pass but that will require careful monitoring.