Appendix A: Cheshire East Council market sustainability plan

Introduction

This plan is designed to set out Cheshire East Council's approach to sustainability of the local care market as required by the Department of Health and Social Care.

The plan aligns with priorities in the Council's Corporate Plan and Market Position Statement and has been developed through consultation with care providers via a cost of care exercise and Market Sustainability webinars.

Cost of care information contained within this plan should be considered in the following context:

- Cheshire East Council makes no assurances as to the accuracy of cost of care data since not all providers responded to the cost of care exercise. It should also be borne in mind that the exercise was completed following a worldwide pandemic and may not be reflective of how the market is currently operating.
- While the Council acknowledges that the cost of care is impacted by inflationary pressures since the data was collected, this is mitigated by the fact that the Council has not made adjustments to the data which would have the effect of reducing the cost of care.
- The cost of care exercise did not take into account all care settings and, therefore, is only a partial view of costs across the sector.
- The Council acknowledges its duties under the Care Act 2014. However, these cannot be viewed in isolation from other pressures on local authority resources, the duty on all Councils to deliver a balanced budget and the duty to obtain value for money as referenced in sections 4.27, 4.60 and 4.61 of the Care and support statutory guidance.

Section 1: Assessment of the current sustainability of local care markets

a) Assessment of current sustainability of the 65+ care home market

Market overview

Currently there are 54 care homes in Cheshire East (out of a total of 94) which exclusively support residents aged 65+ offering 2,633 beds. Of these 26 homes are residential and 28 offer nursing care. There is a fairly even geographical spread of homes across the Borough, however, there is a general need for more nursing home placements and homes offering male only dementia units and specialist bariatric beds.

Approximately 28% of homes are operated by large national organisations such as HC-One, Maria Mallaband, Bupa, Care UK and Minster Care with the remainder run by small, local care providers.

The care home market is characterised by a high proportion of self-funded placements (estimated to be 57%) with 1,227 care home beds commissioned by the local authority and 198 commissioned solely by Cheshire CCG some of which are block booked for Discharge to Assess or system resilience.

Commissioning arrangements

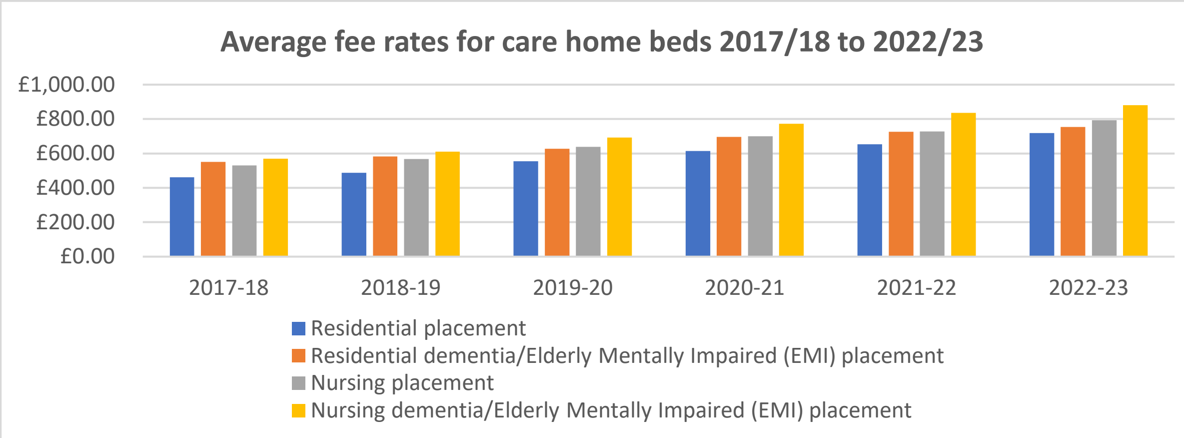
The Council changed the way it commissions care home beds in 2018 from spot purchase to a Dynamic Purchasing System (DPS) arrangement. The DPS allows providers to submit a price to deliver care for individual service users. As a result, the average price paid for the different categories of care home beds has increased as demonstrated in the table below which also shows the number of Council commissioned placements per bed type and the number of placements paid at standard contract rate. Of the placements in the table below 9.6% are short term placements, mostly commissioned due to a shortage of domiciliary care provision and the need to ensure timely hospital discharge. Standard contract rates were last uplifted in April 2021 when a 6% uplift was applied.

Bed type	Current council commissioned placements (long and short term)	Standard contract rates	Average rates paid – all placements (22/23)	Cost of Care (excluding FNC at £209.19)	Average rates – new placements over last 6 months
Residential	444	£489.53	£671.17	£852.15	£1,075
Residential dementia	349	£579.04	£777.45	£891.09	£942
Nursing	343	£533.18	£838.97	£825.57	£1,029
Nursing dementia	327	£550.41	£893.02	£925.62	£1,102

While average rates paid for all existing placements are close to the cost of care, it should be noted that fees for more recent placements exceed the cost of care as shown in the final column of the table above.

Analysis of current placements show that in total 44% of placements already exceed the cost of care, with over half of nursing placements exceeding the cost of care.

The graph below shows the trend in average fee rates since 2017/18.



Challenges for the sector

Like other local authority areas, care homes in Cheshire East were adversely impacted by the Covid 19 pandemic with, at times, up to a third of care homes closed to admissions due to a Covid 19 outbreak. This has led to a situation whereby providers are increasing costs to cover losses and potential losses related to the pandemic through bed vacancies as well as increases in insurance premiums. Vacancy levels across the Borough at the end of February 2023 were 237, however, nearly half of these were not immediately available for occupation either largely due to care home closures or staffing difficulties.

As with other sectors, care homes have struggled with recruitment and retention of care staff, nursing staff and ancillary workers such as cleaners resulting in a substantial increase in the use of more costly agency workers which can affect the quality of care delivered since agency workers are less familiar with the needs of residents and the policies and procedures in the home. There is evidence that the use of agency staff is starting to reduce with some domiciliary care providers reporting that their care staff are leaving to work in care homes due to the increase in fuel costs. Some providers have also started international recruitment with mixed success. They are reporting high initial costs and low retention rates, however the strategy is helping the overall recruitment picture.

Despite this, there has been only one care home closure in the Cheshire East since the pandemic began. This was an entirely private home (the Council did not commission care) that closed due to difficulties recruiting and retaining staff. Some larger providers have, however, reviewed their stockholdings and sold a proportion of their homes to other care providers.

The impact of the current inflationary pressures on the care home sector has been significant. To remain competitive in the recruitment market providers have increased wages by up to 10%. The National Living Wage (NLW) increase will have a further effect on this as the current average basic pay for carers is £10.20 as opposed to the £10.42 NLW from April 1st. The impact of this is larger than just the increase to carer wages as all other wages also will increase to maintain a differential between the other roles in care homes. Other key cost increases have been energy (over 100% average increase) and food (over 15% average increase). This has resulted in an overall increase to the cost of care of around

12% in the last year for providers. These increases are placing pressures on the stability of the market which are particularly experienced by small independent providers. There are also indications that national providers could divest from council areas that have lower fee rates, increasing competition in fees between council areas.

Quality

The quality of care homes is generally good with 77 homes out of a total of 94 rated either good or outstanding. There has, however, been a 21% increase in safeguarding and care concerns over the past 12 months which could be indicative of increased scrutiny since lockdowns ended and recruitment challenges, including an increased use of agency staff.

The Council, working in close conjunction with NHS and CQC colleagues, maintains close monitoring for care providers to address issues where identified and has a good track record of supporting homes to improve standards.

Future developments

The council has started to look at how to introduce new technology and innovation to improve choice and quality of care. This is in its early stages with initial work looking at care robots. This will be an area of focus and development over the next three years.

Delays to charging reforms have had little impact on CEC's ability to manage current pressures to market sustainability. Some providers are concerned about s18(3), but the delays have helped CEC to stabilise the market.

Conclusion

While there clearly are challenges in the care home sector and the Council has seen an increase in the number of providers approaching the Council for fee uplifts, the current commissioning arrangements are driving up fees and helping to sustain the market.

This is evidenced by low levels of market failure and the fact that Cheshire East remains an attractive proposition for new care home developments with four new care homes opening up since 2020.

b) Assessment of current sustainability of the 18+ domiciliary care market

Market overview

The local domiciliary market is made up of three types of providers: local owned and operated individual businesses; franchised branches operated as individual entities but part of a larger organisational infrastructure and branches owned and operated by large organisations.

Providers source of work is derived from 3 sources, local authority, health and private funding clients. Our local marketplace contains a very buoyant private funding marketplace meaning that providers are not solely reliant on the Council as a source of income. Some providers tell us that they only take on local authority work as a way of sustaining the workforce and rely on Health and self-funded packages to sustain the business. Locally CEC and the NHS are working with one another to greater align the rates which are paid by both organisations as currently providers are seeking out health packages where they are not restricted by a fixed pricing structure.

Commissioning arrangements

Cheshire East Council currently operates a Prime and Framework model for domiciliary care services with 5 Prime Providers operating across up to a maximum of 3 out of 6 geographical areas of the Borough and 34 Framework providers able to operate across the Borough. The Council is in the process of preparing to recommission the service and has recently reopened the Framework to allow new entrants to the market and providers who are not currently on the Framework to apply. As part of the commissioning arrangements, additional delivery models are being explored to fill the gaps in some of the more rural areas of the Borough where it is difficult to source care, including the potential for micro-enterprises

When the services were commissioned in 2018, care providers were asked to submit an hourly rate of between £14 and £18 per hour to deliver care with the intention that the rate be fixed for the first three years of the contract. Inflationary uplifts could be applied at the Council's discretion when the contract was in the extension period. Subsequently an enhancement of £2 per hour was applied for those packages of care delivered in F1 rural postcodes to reflect the additional challenges of recruiting staff and additional travel time in these areas.

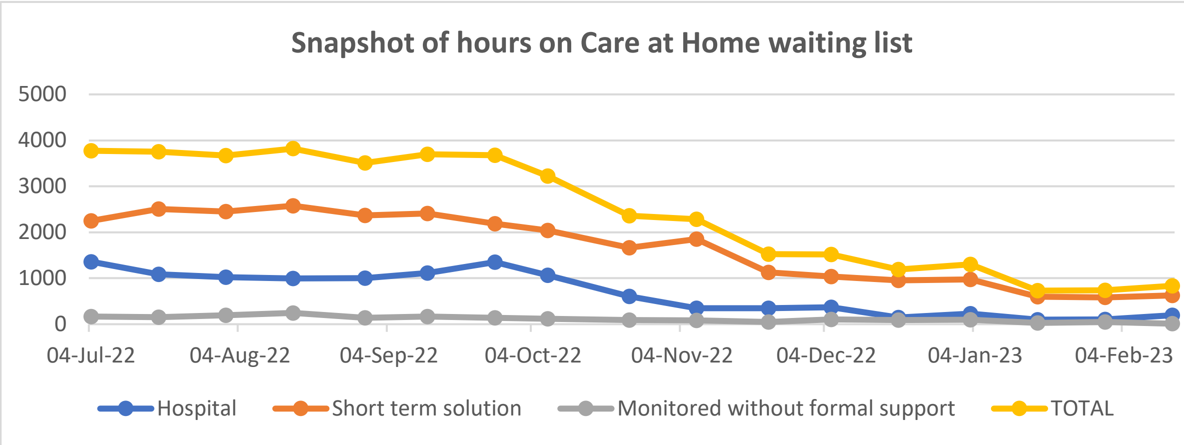
The Council uplifted fee rates for domiciliary care providers in April 2022, initially by 6% using funding from the Council's 2022/23 allocation of the Market Sustainability Fund. There was significant pushback from providers that this level of uplift was not sufficient to address the challenges they face as outlined below. As a result a task and finish group was established with a representative group of providers and agreement was reached with the NHS to use Better Care Funding as a short term funding source for 2022/23 to uplift fees by a further 8% taking the total fee uplift to 14%. The cost of this additional 8% in 2023/24 and beyond will need to be met by the Market Sustainability and Improvement funding.

Currently there is no flat rate and average fees are now £19.83 per hour with a maximum rate of £20.52.

Challenges for the sector

The first nine months of 2022 saw a natural restructuring of the Care at Home market with a number of providers ceasing trading or handing back contracts to the sector. This has enabled a small number of commissioned providers to grow their businesses through the transfer of staff and care packages.

However, evidence over the last six months demonstrates that the collaborative work between the council and providers has seen a reduction in waiting lists, a stabilisation in short term care home beds, a reduction in hand backs and a stabilisation in the gap between supply and demand for domiciliary care. This is further demonstrated by the chart below:



Nonetheless, it is clear that significant challenges remain. Feedback from providers at webinars and monthly meetings is as follows:

Providers are currently struggling to recruit and retain a suitably skilled workforce due to a combination of competition from other sectors which pay more for less demanding work, cost of living increases particularly in petrol costs, a negative image of working in social care and the emotional demands caused by the pandemic. The situation is exacerbated in more affluent areas of the Borough such as Knutsford where currently there are no commissioned providers operating and the Council often has no option than to spot purchase care from providers who are not on the Council's frameworks often at a higher cost. There are also gaps in provision in some of the more rural areas where recruitment is also difficult for providers and the cost of delivering care is greater.

Many of the larger providers have started or are on the process towards international recruitment. This is having a positive effect on the market, however providers are experiencing a high cost to this process with a relatively poor retention rate.

Most providers have had to increase wages to stay competitive and although many providers pay above the National Minimum Wage they are having to increase wages across the board to compete with other providers in the area and with care home providers who do not have the added burden of travel costs.

Providers are experiencing rapidly increasing cost pressures on other areas such as increases in NI contributions, pension contributions, insurance costs (which have doubled) and CQC registration fees. This has created an average increase of around 11% to their costs. Providers report that the factors listed above have created an unsustainable business environment. Over the last 12 months many of them have been actively increasing the percentage of self-funders they work with as they state they are making a loss for every hour they provide services for the council. They say this trend will continue, with some of the current framework providers stating they will not bid for council work in the future unless it is at a much higher rate than the current level.

It is evident the Care at Home market is facing significant challenges and that current fee levels are a contributory factor. The inflationary impact experienced by providers averages 11% over the last year with most of the increase attributable to increases in wages that are needed to stay competitive and recruit staff. The NLW increases from April 1st 2023 are not likely to impact on this further as the median basic care wage is already £10.54, higher than the NLW increase.

The challenges in sourcing domiciliary care in the first part of 2022 has led to an increase in the number of people in short term residential care either following a hospital discharge or adult social care needs assessment while they await a package of care. While these numbers are now reducing, for some people this has led to increased dependency and the need for a long term care home placement.

While there is a funding gap between the commissioned fee rates and the local cost of care, it is not clear whether provision of additional investment will fully address all the challenges faced. Cheshire East Council does not routinely collate data on staff turnover from external providers, however, anecdotally, providers inform us that the number of suitable applicants for care positions has reduced considerably, with many positions only possible to fill through international recruitment. In 2022 the Council facilitated two recruitment days for care providers in the Borough which were well advertised locally but unfortunately only one jobseeker attended at each session.

<u>Quality</u>
The quality of care delivered by community providers (including domiciliary care and complex care providers) is generally good with 89.3% rated Good or Outstanding.

However, difficulties with recruitment and retention have in some cases led to concerns over short calling as providers struggle to cover their rotas. This has manifested itself in an increase in reported safeguarding and care concerns and in the number of formal complaints and Ombudsman complaints.

<u>Future developments</u>
The Council is in the process of purchasing care robots to support the sector with low level care needs such as wellbeing, medication and nutrition prompts. The Council is keen to work with providers to explore other opportunities to enhance the offer through the use of assistive technology and will explore this through monthly provider meetings.

Delays to market reform have had little impact on the local market.

Section 2: Assessment of the impact of future market changes (including funding reform) between now and October 2025, for each of the service markets

The Cheshire East Joint Market Position Statement for 2021/25 sets out the population projections for the Borough. Based on ONS projections the number of over 65s in Cheshire East is expected to increase by 21% between 2018 and 2028. People aged 65 and over currently make up 23% of the Borough's population, higher than the regional figure of 19% and national data at 18%. The largest predicted increase (30%) is in the number of people aged 80 and over from 11,769 in 2018 to 15,306 in 2028.

These population changes mean there are likely to be increased demand for care services of between 20% and 25% by October 2025. In real term this means a further 338 to 422 residential places and an increase of 3664 to 4580 hours of domiciliary care if the approach to commissioning and the percentage of self-funders remained the same. The plans to address the sustainability of the market described in section 3 of this plan are likely to change this balance.

The implementation of the Joint Council/ICB Home First strategy will create a likely reduction of the number of residential care beds needed. When the natural growth of demand is taken into account, this will create a total increase by October 2025 of 169 to 253 beds. There are currently 237 vacancies and plans for new homes to open. Therefore, future market changes for residential care are sustainable within the October 2025 window.

It is estimated that the Home First strategy will place a requirement to grow the domiciliary market by 52%. When future market changes are also added to this there will be a requirement of up to an additional 13,168 hours / week. This is a rise of 72% from the current level. This will create a major recruitment challenge for providers within a market where recruitment is already difficult.

Fee rates paid to providers will therefore need to be of a level that enables them to attract staff into the care industry as well as to maintain staff that currently work in care. Feedback from providers suggests that international recruitment will have to make up the majority of these hours due to current difficulties in the domestic market. A strategic approach to this between the council and providers will be needed to support the growth of providers in the delivery of this plan.

Inflation and the associated increases to the cost of living have impacted providers in a major way over the last 18 months with providers showing an average increase in costs of 11% for domiciliary care and 12% for residential care. This is likely to become a smaller problem over the period to October 2025. The Bank of England is forecasting interest rates to fall to 4% by the fourth quarter of 2023 while a recent report by investment bank Citi (22/02/23) is predicting inflation will drop to 2.3% in November 23 and 1.6% in December 23. This will slow down the increasing cost pressures on the market and should ensure any fee rises in 22/23 and 23/24 contribute to the ongoing sustainability of the market rather than providing short term economic respite for providers.

There are also economic predictions there will be an increase to the size of the UK labour market in 2023. PWC forecast over 300,000 British workers will rejoin the labour market following economic inactivity post pandemic. This combined with new immigrants from targeted international recruitment and from countries such as Ukraine, Afghanistan and Hong Kong is also increasing the number of economically active workers in the economy, creating a chance that the current recruitment and retention challenges in the care sector will also ease off over the period to October 2025.

That said, recruitment in areas such as Cheshire East, particularly the more rural areas, is likely to continue to be a challenge. An increase to the total number of economically active might not necessarily help the care sector as people are likely to continue to prefer other sectors such as retail that are more flexible, less stressful and often paid more.

Delayed Adult Social Care Reform

Cheshire East has a large self-funded market, estimated to be 1,800 65+ care home placements and around 2,400 18+ domiciliary care packages based on current estimates. These figures are based on ONS data and do not include Direct Payments, complex care, extra care housing or day care clients. In the main self-funders pay more for their care.

Cheshire East Council was a trailblazer for charging reform and, as a result, is well prepared for the proposed changes. We will take the learning from the work completed during this process to inform our next steps.

As described in this plan our priority is to support people, including self funders, to stay at home for longer. This will reduce the financial and market impact of the implementation of charging reform.

Section 3: Plans for each market to address sustainability issues identified, including how cost of care funding will be used to address these issues over the next 1 to 3 years

(a) 65+ care homes market

The plan for the 65+ care home market is to not apply any fee uplift but to allow the dynamic purchasing system (DPS) already central to commissioning to continue to allow the market to set the price. Council contracts for care homes do not include a guaranteed right to annual inflationary uplifts as providers are encouraged to submit a sustainable price for the anticipated lifetime of the call off contract. Price increases over the past six months provides evidence that providers are doing this.

As set out in section 1, the average rate paid is lower than the local cost of care rate, however, not substantially so and is in fact higher than the cost of care rate for many neighbouring councils. The Council applied no amendments and alterations for vacancy rates or return on operations on their cost of care analysis, unlike many other councils, resulting in a higher cost of care than some other authorities.

The high level of self-funders in residential care in Cheshire East means this strategy is unlikely to impact on the sustainability of the market. The analysis in section 2 demonstrates how over the next three years the increase in demand for beds closely matches the vacancy rates. This will improve the efficiency of the market and enable care homes to operate with high occupancy levels.

This approach will also support implementing the Home First strategy that looks to keep and place people in their own homes as the primary focus. Residential care is an expensive option that can promote dependency and isn't always the best for service users.

Within its Corporate Plan the Council's priorities are:

- Vulnerable and older people live safely and maintain independence within community settings – this priority has a particular emphasis on provision of Extra Care Housing models of care as evidenced by the Vulnerable and Older Persons Housing Strategy (2020-2024) and People Live Well for Longer Commissioning Plan.
- To prioritise Home First for patients discharged from hospital as evidenced by Home First Strategy (2022-2024)

Taking the above priorities into account and due to the current commissioning arrangements, which allow care home providers to submit their own costs for delivering care we propose to primarily focus any additional resources from the Market Sustainability Plan on Care at Home with a small element used to increase the uplift to complex care providers.

Innovation

Moving forward the Council's ambition is to reduce reliance on residential and nursing care and support greater independence within community settings through expansion of community care models and the provision of additional extra care housing facilities in the Borough. To this end, the Council is engaging with potential developers via its Housing Development Framework and developing a prospectus to encourage the development of Extra Care Housing which is set out as a priority in the Corporate Plan, Vulnerable and Older Person's Housing Strategy and Market Position Statement.

(b) 18+ domiciliary care market

The plan for the domiciliary market is to introduce a new 3 tiered pricing model with conditions that providers grow their businesses by 20% in 2023/24 and 20% in 2024/25.

This will:

- Incentivise expansion of domiciliary provision
- Encourage provision in areas not well served by domiciliary care
- Reduce use of and spend on providers not on the Council's framework
- Allow people to stay in their own home for longer
- Provide a cost effective option of care delivery

The three tiers will be:

- **Tier 1** - £24.50/hr (high proportion of rural postcodes, high waiting list, high use of providers not on Framework)
- **Tier 2** - £22.50/hr (medium proportion of rural postcodes, medium waiting list, medium use of providers not on Framework)
- **Tier 3** - £20.52/hr (low proportion of rural postcodes, low waiting list, low use of providers not on Framework)

Cost of Care

The cost of care exercise found the cost of care to be as follows:

15 Minute*	£7.56
30 Minute	£12.55
45 Minute	£17.53
60 Minute	£22.50

*It should be noted that Cheshire East Council does not commission 15 minute care calls and currently pays calls of less than one hour duration at a pro-rated/flat rate.

As these figures show, the plan is to substantially increase the rates paid for domiciliary care, in most cases either in line with or above the hourly cost of care rate, in order to stimulate growth in the sector as part of the wider Home First strategy.

Changes to the current approach to commissioning domiciliary care will include:

- Introducing new geographical lots that enable enhanced fees to incentivise delivery where traditionally the market has struggled (primarily rural areas)
- Pay a flat rate as opposed to tendered rate
- Conditional on agreement to expand business by 20% in 23/24 and 20% in 24/25
- Expansion targets and incentives built into new contracts
- The local authority would reserve right to reduce funding if targets not achieved
- Commissioners would work with providers to help them expand including provision of short term funding when available
- Additional capacity would help to reduce use of providers not on Framework, reduce waiting list and reduce use of bed based provision

<u>Assumptions, considerations and risks</u>
Currently Cheshire East Council pays different rates for domiciliary care providers depending on their tender submission.

The cost of implementing the plan will be £3.557m assuming that current packages paid above these levels are reduced to new levels but rising to £4.338m if it is not possible to transfer packages of care from higher cost providers from day one of the new pricing model. However, the targets set of a 20% increase in provision in each of the first 2 years includes the demand for contracted providers to pick up these high cost hours over time to reduce the additional costs. This includes existing packages and waiting list. This will be funded by the Market Sustainability Fund and the Hospital Discharge Fund.

<u>Risks and Mitigations</u>
There are risks in the proposed approached, namely:

- Providers unwilling to grow business
- Providers unable to recruit staff to support growth
- Providers working in areas with lowest rates still facing increased costs

The key mitigations to these risks are:

- CEC reserve right to reduce fees or review position for providers unwilling to expand
- Improved pricing model in areas of difficulty; Work with providers and Skills for Care
- CEC already one of highest payers in NW for domiciliary care; sector has benefited from other short-term funding streams

The council has already started working proactively with the sector to support international recruitment as this is seen as a critical success factor for this plan.

Wider impact on services outside of scope

The impact of uplifting rates for domiciliary care to the cost of care has implications for other types of care which sit outside the scope of the Market Sustainability Plan such as Direct Payments, Complex Care, Supported Living and Rapid Response. The Council is also planning on increasing the Complex Care fee from £15.29 to £17.50 at a cost of £2.26m. This would be met by the Medium-Term Financial Strategy and the Market Sustainability Fund. It is seen as particularly important to consider Complex Care and Domiciliary Care together as fee changes in one area can have a direct impact on the other due to linkages in the recruitment market.

The Council also plans to uplift the Direct Payment rate for Personal Assistants and the rate paid for Shared Lives services, which will further enhance the community offer.

Proposals for domiciliary care

The recommissioning of domiciliary care offers an opportunity to consider additional care delivery models which reduce the reliance on traditional domiciliary care services, create capacity in the sector and offer more personalised, holistic services which focus on supporting service users to achieve their desired outcomes.

It is clear that there are significant issues and challenges in domiciliary care resulting from reduced workforce capacity and cost of living increases. As such it is proposed that any additional resources are invested primarily in domiciliary care to not only stabilise the care market, but to create a market dynamic that enables the delivery of the Home First strategy. The Council has already invested the local allocation from the Market Sustainability Funding 2022/23 to fund a 6% fee uplift for domiciliary care providers from April 2022 and additional funds have been identified from the Better Care Fund to increase the uplift to 14%. It is proposed that this uplift is not only sustained, but increased further in the ways described in this plan from any additional funding from the Market Sustainability Fund for 2023/24 and 2024/25 and that surplus funds are primarily invested in domiciliary care.

Innovation

Alongside the changes documented in this plan the council will look to support providers to bring about innovation and the use of new technology to improve efficiency. This will include further developing our work around care robots as well as actively identifying other new technological solutions and supporting providers with their implementation. We will also provide further support to carers and micro-enterprise diagnostics to support filling gaps in challenging areas.

<u>Funding summary table</u>
The table below summarises the Council's plans in relation to total investment in the care market to support sustainability and also illustrates how the Council's 2022/23 Market Sustainability Funding has been spent:

<table>
<tr><th>Funding stream</th><th>Available funding</th><th>Care at Home (Domiciliary care)</th><th>Accommodation with Care (Care Homes)</th><th>Complex care</th></tr>
<tr><td>Market Sustainability Fund 2022/23</td><td>£0.979m</td><td>6% fee uplift</td><td rowspan="5">Prices set by market through DPS</td><td></td></tr>
<tr><td>Market Sustainability Fund 2023/24</td><td>£3.4m</td><td>Introduction of 3 tier pricing model (£3.139m)</td><td>£0.261m contribution to 14.5% uplift</td></tr>
<tr><td>Medium Term Financial Strategy 2023/24</td><td>£2m</td><td></td><td>£2m contribution to 14.5% uplift</td></tr>
<tr><td>ASC Hospital Discharge Fund 2023/24</td><td>£1.2m</td><td>Introduction of 3 tier pricing model £1.199 (max)</td><td></td></tr>
<tr><td>Total investment 2023/24</td><td>£6.6m</td><td>£4.338m</td><td>£2.261m</td></tr>
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