

## Commissioning and Procurement Executive Committee – 11 October 2022

<b>Subject:</b>	Impact of Inflation on Adult Social Care Pricing 2022-23		
<b>Director:</b>	Katy Ball - Director of Commissioning and Procurement		
<b>Portfolio Holder:</b>	Councillor Linda Woodings - Adult Social Care and Health		
<b>Report author and contact details:</b>	Jo Pettifor, Category Manager – Strategy & People, <a href="mailto:jo.pettifor@nottinghamcity.gov.uk">jo.pettifor@nottinghamcity.gov.uk</a>		
<b>Other colleagues who have provided input:</b>	Steve Oakley, Head of Procurement		
<b>Key Decision</b>	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<b>Subject to call-in</b>
			<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>Reasons:</b>	<input checked="" type="checkbox"/> Expenditure	<input type="checkbox"/> Income	<input type="checkbox"/> Savings of £750,000 or more taking account of the overall impact of the decision
			<input checked="" type="checkbox"/> Revenue <input type="checkbox"/> Capital
Significant impact on communities living or working in two or more wards in the City			<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Type of expenditure:</b>	<input checked="" type="checkbox"/> Revenue	<input type="checkbox"/> Capital	
<b>Total value of the decision:</b> £2.33m			
<b>Wards affected:</b> All			
<b>Date of consultation with Portfolio Holder:</b>			
<b>Relevant Council Plan Key Outcome:</b>			
Clean and Connected Communities		<input type="checkbox"/>	
Keeping Nottingham Working		<input checked="" type="checkbox"/>	
Carbon Neutral by 2028		<input type="checkbox"/>	
Safer Nottingham		<input type="checkbox"/>	
Child-Friendly Nottingham		<input type="checkbox"/>	
Healthy and Inclusive		<input checked="" type="checkbox"/>	
Keeping Nottingham Moving		<input type="checkbox"/>	
Improve the City Centre		<input type="checkbox"/>	
Better Housing		<input type="checkbox"/>	
Financial Stability		<input type="checkbox"/>	
Serving People Well		<input checked="" type="checkbox"/>	
<b>Summary of issues (including benefits to citizens/service users):</b>			
<p>This report proposes to apply a further temporary increase to the rates paid for adult social care services in 2022-2023, effective from 1 October 2022. This is in response to the current impact of inflationary pressures upon these services and the adult social care market overall. A cost of care exercise is currently underway with the aim of establishing a sustainable position for the funding of this market for the longer term. The proposed increases will be paid in part from the Market Sustainability Funding allocated to Nottingham City Council by the Department of Health and Social Care (DHSC).</p>			
<b>Exempt information:</b> None			
<b>Recommendations:</b>			
<p><b>1</b> To agree temporary increases of up to 4.25% for residential and nursing care services and 2.99% for community services to the rates paid for all commissioned adult social care services in 2022-23, backdated to take effect from 1 October 2022.</p>			
<p><b>2</b> To approve expenditure of up to £2.33m on the proposed increases in 2022-23, funded in part from the DHSC Market Sustainability Fund allocation to the Council.</p>			

**3.** To note that this is a temporary increase for a 6-month period in 2022-23 and that the high level of inflation will be factored into future processes for reviewing pricing from April 2023.

**1. Reasons for recommendations**

- 1.1 Nottingham City Council is obliged to consider the fee rates it pays for its commissioned social care services, and in doing so to take into account a number of factors, within the context of the wider financial position of the Council. Section 5 of the Care Act 2014 obliges Local Authorities to promote the efficient and effective operation of the market for adult social care as a whole. They must have regard to the need for sufficient services to be available in the area and the importance of sustainability in this market.
- 1.2 The pricing of all adult social care services for 2022-23 was set in March 2022 based on proposals developed during the autumn 2021. These rates were based upon inflationary pressures in November 2021 and therefore did not provide for the significant inflationary increase now being experienced. General inflation is currently having a significant impact upon the care sector, causing providers to struggle to meet costs.
- 1.3 To develop a detailed understanding of the impact of inflation on this market, specific elements of the Consumer Price Index have been applied to the pricing tools that were previously developed to calculate annual inflationary increases. The biggest impact is from energy and fuel, with inflation on these items running at between 17 and 80%. Food inflation is also high at 8.6%. Wage inflation is likely to impact on the longer term National Living Wage (NLW) set annually by government, with wage inflation currently at over 7% in the private sector.
- 1.4 These inflationary pressures mean that some providers are struggling to provide services and a number have requested additional funding to maintain service provision. Wage inflation is impacting on the availability of staffing and providers are finding it difficult to recruit. Some services such as home care that were previously under pressure are now failing to keep up with demand.
- 1.5 The proposed increases are based upon local provider prices for standard residential care, including top up fees; and for homecare, the impact of wage inflation as the tool calculates rates based upon the hourly rate paid to the worker.
- 1.6 For community-based services such as homecare and care, support and enablement, provision has been made for travel costs which will increase from 30p to 40p per mile to reflect increased costs. Providers may use this funding as they decide best to deliver the service; for example by increasing the overall hourly rate paid to staff, or by increasing the travel allowance.
- 1.7 It is anticipated and providers will be encouraged to pass on part of these increases directly to staff to support recruitment and retention at this difficult time.
- 1.8 It is considered that a fair, balanced and informed approach has been adopted in developing these recommendations and that the proposed increases aim to support a sustainable, efficient and effective market across all areas of adult social care, within the available resources.

## 2. Background (including outcomes of consultation)

- 2.1 Fee rates for adult social care services are reviewed annually and decisions are based on an established methodology for calculating inflationary increases. An evidence base for pricing was originally developed based on the UK Homecare Association model for Care at Home type services and an independent review of residential care pricing. These tools have been adjusted to account for current factors including the current market position, current cost of living indices and Office of National Statistics data.
- 2.2 In December 2021 the DHSC announced the new Market Sustainability and Fair Cost of Care (FCOC) Fund, available to support local authorities to begin preparing local care markets for reform and moving towards sustainable funding for this market. In 2022-23 Nottingham City Council has received an allocation of £1.043m. Local authorities are expected to use this funding for activities such as conducting a cost of care exercise; improving data on costs; strengthening capacity for market oversight; and increasing fee rates as appropriate to local circumstances.
- 2.3 Work is currently underway in the City to review of the cost of care using the Market Sustainability funding. The increases now proposed from October 2022 aim to support providers to manage the impact of the current inflationary pressures while this work is completed.
- 2.4 The impact of inflation and the market sustainability work needs to be considered in the MTFP. This decision is for a temporary increase for a six-month period in 2022-23 and the level of inflation will be factored into future processes to review pricing for April 2023 and beyond.
- 2.5 The tables below summarise the increases proposed in 2022-23 to support the market whilst inflation rates are running at the current high levels.

<b>Community Services</b> (includes homecare; care, support and enablement; day services; and extra care)	22/23
2022/23 MTFP originally approved inflation	6.27%
Temporary increase for cost of living and wage inflation	2.99%

<b>Residential and nursing Care Services</b>	22/23
2022/23 MTFP originally approved inflation	4.62%
Temporary increase for cost of living and NLW – up to	4.25%

## 3. Other options considered in making recommendations

- 3.1 Do nothing. This option was rejected due to the current serious impact of current inflationary pressures on the adult social care market and the associated risks of service and market failure.
- 3.2 Offer different levels of increase. This is not recommended as these proposals are based on modelling using established tools, adjusted to take account of current data on inflation and local market factors.

## 4. Consideration of Risk

- 4.1 Affordability

The proposed temporary increases are projected to cost approximately £2.333m. This can in part be met from the Market Sustainability funding allocated to the Council but not yet received – an amount of approximately £0.784m. There will also be an increase of approximately £0.380m in income from health related to joint funded packages. This leaves an in-year pressure of £1.169m in 2022/23 if the proposals are adopted from 1 October 2022.

These proposals take account of the ongoing financial pressures on the Council and are considered to balance the need to sustain service delivery in the adult social care market and alongside the wider budget position.

#### 4.2 Risk of provider or market failure.

Current inflationary pressures are impacting severely on the ability of adult social care providers to maintain service provision. Wage inflation is impacting the availability of staffing and many providers are unable to recruit. Community services are unable to meet current demand due to recruitment issues while older adult residential care has a significant level of vacancies. These market related risks have been considered alongside the need to pay fee rates that support an efficient, effective and sustainable market. The proposals are based on a robust methodology to assess the current impact of the cost of living on the adult social care market and therefore aim to mitigate the risk of provider or market failure.

### 5. Finance colleague comments (including implications and value for money/VAT)

5.1 As outlined by the report author, this decision seeks approval to support external commissioned adult social care (ASC) providers by paying an additional increased fee rate on a **temporary, non-recurrent basis** only from **1 October 2022 until 31 March 2023 only**, to support market sustainability in response to the current inflationary pressures.

5.2 **Table 1** summarises the cost of the in year, temporary increase to fee rates (by service type) requiring approval of **£2.333m**:

<b>TABLE 1 – 2022/23 COST IMPLICATIONS OF PROPOSALS</b>		
<b>Social Care Service</b>	<b>Proposal % Increase - Maximum</b>	<b>Proposal Total (Gross Cost) £</b>
Supported Living & Outreach	2.99%	280,622
Day Care	2.99%	28,686
Direct Payments	2.99%	275,862
Extra Care	2.99%	17,446
Home Care	2.99%	264,413
Section 117	2.99%	14
Shared Lives	4.25%	19,783
Transport (includes Big Ticket Saving)	17.00%	143,482
Residential & Nursing	4.25%	1,302,998
<b>Total</b>		<b>2,333,306</b>

5.3 Of the £2.333m total cost of this decision, it is proposed that in line with the grant conditions, £0.785m is funded from the non-recurrent Market Sustainability and Fair Cost of Care Fund (FCOC) received by the Department

of Health and Social Care (DHSC) for use in 2022/23. The total of the non-recurrent funding received was £1.046m, the remainder has been utilised to support review and implementation costs in relation to the cost of care exercise which is currently being undertaken. This temporary funding was captured within the MTFP agreed by Full Council in March 2022.

Based on forecast assumptions re the level of chargeable income against gross external care package costs, it is assumed that additional income of £0.379m will be received as a result of the proposals outlined in this decision.

Taking the grant funding and increased income into account, this leaves a total remaining cost of **£1.169m** to be met from existing ASC budget incorporated within the Medium Term Financial Plan (MTFP) and this is summarised in **Table 2** below:

<b>TABLE 2 – 2022/23 PROPOSALS – FUNDING SUMMARY</b>	
<b>Detail</b>	<b>Proposal Total £</b>
Gross cost of proposals (as per Table 1)	2,333,306
<i>Less: Increase in chargeable income</i>	<i>-379,267</i>
<i>Less: Balance of Market Sustainability and Fair Cost of Care Fund (FCOC) funding balance</i>	<i>-784,702</i>
<b>Balance to be met from within ASC existing budget provision</b>	<b>1,169,338</b>

5.4 Assumptions supporting the financial analysis (in addition to those outlined in the exempt appendices) include:

- Fee rates for ASC services are reviewed annually and decisions are based on an established methodology for calculating inflationary increases. An evidence base for pricing was originally developed based on the UK Homecare Association model for Care at Home type services and an independent review of residential care pricing. These tools have been adjusted to account for current factors including the current market position, current cost of living indices and Office of National Statistics data which has formed the basis for the increases proposed by the report author within this decision.
- The financial impact has been modelled on the cost of care services commissioned (with principles applied re the commissioned v actual activity %), taken from the integrated social care and finance system (ContrOCC) and current forecast levels of demographic growth currently included in the MTFP. It should be noted that further growth above this level will increase the cost of this decision.
- The financial impact of the proposals is based on the current mix of citizens and their care needs. Any significant change to this mix will influence the financial impact of this decision.
- The total cost of this decision to be met from existing ASC budgets (£1.169m – as outlined in Table 2 above) is factored within the ASC in year forecast position for 2022/23. It is to be noted that any change to the decision value outlined in this report could impact on the robustness of the

reported in year forecast position. Robust budget monitoring is essential to ensure that costs are reviewed and risks are flagged as appropriate.

- A cost of care exercise is currently underway with the aim of establishing a sustainable position for the funding of this market for the longer term – any increases required in future years will be captured as part of that exercise and therefore not linked to the proposals outlined in this report.

5.5 The proposals contained within this report carry a number of risks, as detailed below:

- Fee increases are not deemed sufficient by providers and some may decide to give notice on contracts.
- The market may become destabilised if sufficient providers are not able to meet demand which will result in an increase in cost and the potential need to fund future top up costs.
- Care at Home fee rates over the past few years have been impacted by pricing decisions taken by Nottinghamshire County Council resulting in mid-year increases to maintain service provision. Their approach in year fee rates increases in 2022/23 may have an impact on the homecare market. Further analysis of any impact arising from such a decision will need to be undertaken post consultation should this be deemed to be a significant risk to the provision of Care at Home Services.
- The proposals outlined in this report are a reflection of the current position within the market and other external factors and therefore do not set a precedent for future years NLW proposals.
- Clear communication is critical with providers to ensure expectations are clear and that it is clearly understood by providers that the proposals outlined in this report are temporary only and will not revise the starting base position for which any fee rate increase is calculated or applied for 2023/24 onwards.
- The ASC in year forecast position is based on the assumptions outlined by the report author, due to the risks and context outlined in this report, any changes to the decision value could impact the in year forecast position.

Due to the nature of the proposals and the number of services included, it is not possible to assess and quantify the financial value of the risks identified, however, it is to be noted that there is no contingency included in the proposals to mitigate such risks.

5.6 If subsequent changes are required to the fee rates proposed within this report which impacts on the overall value of the decision, further approval through the appropriate process will be required, including the identification of additional funding where required.

5.7 Once finalised, the proposals outlined in this report will be subject to regular and robust monitoring and reporting processes to ensure that the costs are contained within the total decision value and no financial pressure arises as a result of the recommendations.

## **6. Legal colleague comments**

- 6.1 The proposals in this report seek to provide support to adult social care (ASC) providers in the means of a temporary increase in costs to take account of the inflationary pressures in the market.
- 6.2 The rates for ASC contracts are reviewed annually and were set in March of this year. The unprecedented inflationary increases now facing the market were not known at that time and so the Council acknowledges that additional support is required and is able to part use the Market Sustainability Funding allocation.
- 6.3 The additional funding is only to be provided for a temporary 6-month period after which a further review will be required. The approach taken in identifying the allocations builds on the previous calculations, seeking to provide a fair and balanced allocation to all providers within the funding sources available.

Dionne Screamon, Senior Solicitor, Contracts & Commercial – 26/09/2022

## **7. Other relevant comments**

### **7.1 Procurement colleague comments**

There are no procurement implications arising from this decision. Commissioned adult social care services are contracted through open and compliant procurement processes, and the temporary increases proposed are based on a methodology which has considered relevant factors and data on current inflationary pressures. The proposals aim to be fair and consistent across all providers.

Nicola Harrison, Lead Procurement Officer - 06/09/2022

## **8. Crime and Disorder Implications (If Applicable)**

- 8.1 Not applicable.

## **9. Social value considerations (If Applicable)**

- 9.1 Commissioned adult social care services in the City are predominantly delivered by providers with a local operating base, therefore these proposals will support local employment and investment in the local economy.

## **10. Regard to the NHS Constitution (If Applicable)**

- 10.1 Not applicable.

## **11. Equality Impact Assessment (EIA)**

- 11.1 An EIA is not required because the decision relates to a short term increase in the funding and does not involve changes to policy, practice or services.

## **12. Data Protection Impact Assessment (DPIA)**

- 12.1 A DPIA is not required because this decision does not involve personal data. The data protection implications of the contracted services involved is addressed in the existing contractual arrangements.

**13. Carbon Impact Assessment (CIA)**

13.1 A CIA is not required because there are no carbon implications arising from this decision as it relates to the funding levels of existing contracted services.

**14. List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)**

14.1 None.

**15. Published documents referred to in this report**

15.1 None.