

## **Scotland Excel**

**To: Executive Sub Committee**

**On: 18 November 2016**

**Report  
by  
Director Scotland Excel**

### **Care Home Funding**

#### **1 Purpose**

To update the Executive Sub Committee on Scotland Excel's care home services for older people activity, as well as our role in the wider reform of adult social care, and to seek support from the Executive Sub Committee for ongoing funding to be made available to continue with this critical service activity.

#### **2 Recommendations**

Members of the Scotland Excel Executive Sub Committee are invited to:

- note the progress made in developing and implementing a procurement and contract management service for care home services for older people;
- note the prominent role Scotland Excel is undertaking in preparation for the National Care Home Contract (NCHC) fee negotiations for 2017/ 2018;
- note the support Scotland Excel has provided to the wider adult social care reform agenda; and
- support a proposal for local authorities to continue to fund our work in these areas for the next three years.

#### **3 Introduction and Background**

In Scotland, care home provision is delivered by more than 300 providers across almost 900 care homes. Local authorities across Scotland spend approximately £450m annually in contracted out care.

Local authorities already undertake robust contract monitoring activity linked to their statutory adult protection and care management duties for some of the most vulnerable people in our communities. However more than 50% of local authority expenditure is

with 20 providers, many of which operate across Scotland and the rest of the United Kingdom.

Given the cross council presence of these 20 providers and the prevalence of ever more complex business and financial structures, 24 local authorities agreed to provide specific project funding to Scotland Excel until March 2017 to facilitate a range of services that would provide sustainable support for local strategic commissioning of care home services for older people (refer Appendix 1). Since then Scotland Excel has taken forward the work under four work streams:

- market intelligence;
- financial risk;
- cost of care; and
- procurement strategy.

There has been good progress across all work streams. During 2016:

- all participating local authorities have received a local market intelligence report tailored to their partnership area;
- Scotland Excel has worked with two sector wide groups to take forward our work across financial risk and cost of care;
- Scotland Excel has undertaken market research and engaged with commissioners on their views on a range of procurement and contracting matters; and
- Scotland Excel has maintained regular dialogue with local authority lead officers, COSLA, SLGP, health and social care Chief Officers, providers, statutory bodies and other key stakeholders.

In addition to its core role, Scotland Excel is providing 'in kind' support to the current adult social care reform activity being led by COSLA.

#### **4 Market Intelligence**

Scotland Excel has completed the first issue of market intelligence reports to all participating local authorities. The reports include a standard performance dashboard, which sets out key data such as occupancy, provider concentration, service quality and expenditure.

Local authorities have recently been surveyed on the style, structure and content of the first set of reports. A significant majority of local authority leads confirmed that the reports will support local strategic commissioning and the development of market facilitation plans. Some local authorities however requested that future reports place a greater emphasis on financial risks. Scotland Excel is currently preparing some pilot sample reporting to respond to this specific feedback, with a proposal for improvements to be presented to the next local authority lead officers meeting.

In addition to local reporting, a national market intelligence report on older peoples' care homes has been produced, bringing together information gathered for individual local authority reports and contrasting this with Scottish level information from national data sources such as the Care Inspectorate, ISD Census of Care Homes and Spikes Cavell expenditure figures. This national report will support the wider adult social reform agenda, as well as better enable local authorities and health and social care partnerships to contrast their local position with Scotland as a whole.

As a first tranche of local and national reporting, a solid foundation of intelligence is now available for local authorities/ health and social care partnerships. The market intelligence reports however will need regular updating to remain relevant.

## 5 Financial Risk

In 2014, the Task Force for the Future of Residential Care<sup>1</sup> recommended that *“a compulsory risk register should be devised...to provide an early warning system for care providers experiencing challenges to the continuity of care – and an associated ladder of intervention for public authorities to co-produce solutions for exit or redesign of struggling services.”*

In response to the continued gap in this area, Scotland Excel has been exploring the potential for a voluntary information sharing scheme with providers. Two sessions have been held with Scottish Care and eight of the top 20 providers in Scotland (in terms of local authority expenditure) to take forward the recommendation from the Task Force for improved financial risk monitoring. The objective of this work stream is to develop a system to reduce the potential for and impact from provider failure. Establishing such a system however is a sensitive matter, with the market concerned about potential for any information to unintentionally undermine the sustainability of the overall sector or a specific provider.

The Task Force suggested the following risk indicators should be considered:

- Financial health (credit rating)
- Organisational structure
- Market concentration
- Quality (Care Inspectorate grades)
- Stability of care home management
- Use of agency staff
- Occupancy
- Profitability

Feedback from Scottish Care however is that they are keen to ensure that any system considers the impact that commissioner activity can have on financial risk.

In response to the meetings held to date, it has been agreed that two pilots be used to test the potential for an enhanced financial risk monitoring system. Meetings have been

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<sup>1</sup> <http://www.gov.scot/resource/0044/00444594.pdf> 2014

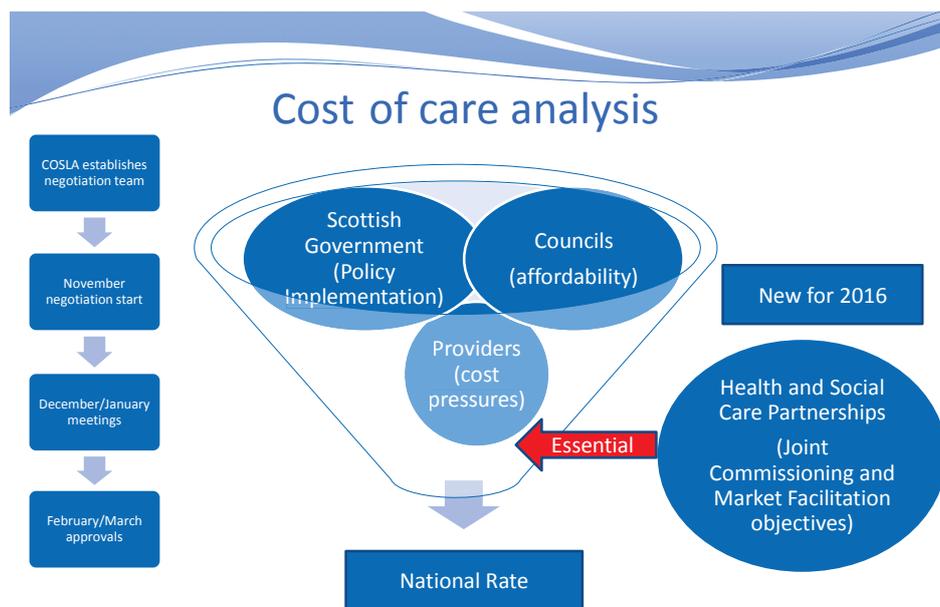
held with the Chief Officers of Aberdeen City and Angus health and social care partnerships to scope these pilots prior to wider consultation on an information sharing model with all participating partnerships.

Building on Scotland Excel’s leadership in this area, the Care Inspectorate is now exploring how they can contribute to more enhanced monitoring of providers. This work is likely to take some time to become embedded. In the meantime, Scotland Excel will continue to work with providers and deliver more information to local authorities.

## 6 Cost of Care

Scotland has long benefitted from the setting of a national rate in terms of consistency of the cost of care to people accessing care homes wherever they live in Scotland. The undernoted negotiation mechanism however for delivering the national rate has not changed since 2008:

Diagram – Fee setting negotiations since 2008



With the establishment of health and social care partnerships and the requirement for joint strategic commissioning plans, it is timely to review and strengthen how we approach the fee setting process.

Scotland Excel has made substantive progress in exploring the potential use of a cost of care calculator. A calculator underpins fee negotiations by providing a tool to more forensically examine care home costs, while at the same time allowing for more effective scenario planning in response to potential policy decisions, for example to implementation of the Scottish Living Wage.

The importance and relevance of this work has been recognised by all stakeholders including Chief Officers, COSLA, SLGP and providers. A Cost of Care Sub Group chaired by Scotland Excel has guided the work to date and brings together stakeholders including the Scottish Government, Scottish Care, Care Inspectorate, Health Improvement Scotland and COSLA.

Scotland Excel has researched existing calculators and identified the following key elements, as well as sub elements and benchmark options:

- Staffing
- Buildings
- Other costs (e.g. supplies and services)
- Providers return, corporate overheads, management costs
- Occupancy
- Inflation

This work is being undertaken in partnership with providers.

During November 2016 – January 2017, Scotland Excel will provide COSLA and the fee negotiation team with detailed background papers and negotiation advice, as well as strong leadership in the assessment and selection of options for each cost element.

Health and Social Care Partnerships have already been surveyed on the desired balance between national benchmarking of costs and the applicability of local variation to take account of specific local market circumstances including occupancy, capital costs in terms of land and buildings and workforce issues such as staff recruitment difficulties. There is a clear desire for a continued national approach, with support also expressed for a limited and phased approach to potential local variation in areas such as occupancy and staffing levels.

While the calculator has gone some way to provide a tool to understand costs in the sector, there is a need for further benchmarking of costs over the medium term. COSLA has described the reform of the NCHC as a once in a decade opportunity to improve the commissioning and procurement of care home provision. It is absolutely crucial therefore that appropriate time, effort and engagement is afforded to getting the components right. If funding is agreed for the next three years, Scotland Excel will gather and benchmark much more cost information and explore with partners the options and opportunities for future variation of rates at a local level.

## **7 Procurement Strategy**

In the procurement of care home services, local authorities have always taken their lead from legislation and guidance, principally to support peoples' choice of care home<sup>2</sup>. While some local authorities have commissioned care home services for very specific

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<sup>2</sup> Social Work (Scotland) Act 1968 (Choices of Accommodation) Direction 1993

purposes e.g. early supported discharge from hospital or respite services, in general the number and location of care homes in Scotland has been led by market decisions.

The Task Force for the Future of Residential Care made several recommendations on future commissioning of services, including *“partnerships should explore new procurement methodologies to offer control over quality and capacity, e.g. by selecting “preferred providers” through a tender process, while ensuring developments are consistent with choice directives”*. Since 2014 however there has been little exploration of new procurement methodologies with only a few local authorities tendering for additional services outwith the national rate.

In line with initial scoping documents, Scotland Excel is finalising a draft procurement strategy that explores potential procurement and non procurement options for the future sourcing of care home services. The strategy has been informed by the market intelligence reporting already produced by Scotland Excel as part of the overall service offering, as well as Scottish wide research and publications from agencies such as Audit Scotland, Information Services Division and Care Inspectorate.

Participating local authorities have been surveyed and a local authority leads forum confirmed the most significant commercial and quality considerations that local authorities would like incorporated into a future contracting model. There is however no consensus on which procurement option is preferred to source future services. It is recognised however that whatever recommendation is taken forward, it will need to offer the continued benefits of a national approach, whilst providing flexibility to embrace local circumstance and the published objectives of local strategic commissioning and market facilitation plans. Any sourcing solution will also need to take into account learnings from past procurement approaches for care home services across the United Kingdom.

The finalised procurement strategy will need to deliver on the following objectives:

- Meet the Task Force recommendation to deliver a new procurement approach;
- Meet provider and commissioner aspirations to operate to a national contract, while offering the flexibility of local variation;
- Meet the Delivering Change in Adult Social Care Partners Group (refer section 9 and Appendix 2) requirement for a new national negotiation and contracting arrangement;
- Ensure that national negotiations on price are supported by national contract intelligence on both performance and commercial considerations;
- Ensure that the price paid for services sustains the market to afford people choice of care homes but remains affordable for local government;
- Deliver community benefits; and
- Share the burden of monitoring such a significant market sector.

A consultation process for the draft procurement strategy will be agreed shortly with key stakeholders. As we move into this next phase, a national approach which includes all 32 Scottish local authorities will offer the best chance of success to procure services more effectively and efficiently.

## **8 NCHC Fee Negotiations 2017/ 2018**

Scotland Excel is part of the COSLA negotiation team for the 2017/ 2018 fee negotiations and has provided the negotiation strategy, national market intelligence report and cost of care discussion paper. These papers together with the cost of care calculator tool provides a level of support not previously available.

It is anticipated that Scotland Excel will be required to provide a central role in fee negotiations. There will continue to be a requirement to undertake further benchmarking of actual costs and to provide further intelligence to any future negotiation team.

## **9 Reform of Adult Social Care**

COSLA is currently working with partners on an ambitious agenda that is seeking to reform adult social care. This activity reports through to the Ministerial Strategic Group chaired by the Cabinet Secretary for Health. Scotland Excel is an integral part of this work through its participation on a range of governance groups including the Delivering Change in Adult Social Care Partners Group, Reform of the NCHC Virtual Technical Expert Group, Cost of Care Sub Group, Nursing Sub Group and Standards, Quality and Improvement Sub Group (refer Appendix 2).

In terms of care home services for older people, the Delivering Change in Adult Social Care Partners Group has concluded that there should continue to be a national approach, but with greater sensitivity to local priorities.

If resourcing can be made available, Scotland Excel will be able to continue to support this broader reform activity, including looking at new procurement approaches and the provision of market intelligence, cost breakdowns and contract terms that support flexibility and innovation.

## **9 Ongoing Funding**

The work funded to date has enabled the delivery of bespoke market intelligence, supported the development and delivery of a cost of care calculator, opened up a dialogue on information sharing and risk management between local authorities and large providers across Scotland, as well as the development of a national procurement strategy for imminent consultation.

There is a requirement to continue to support the cost of care calculator, establish a different approach to fee negotiations and contracting and take forward revisions to the National Care Home Contract. Future work however will require continued resourcing beyond commitments made by local authorities to March 2017. Scotland Excel is currently finalising a funding proposal that will ensure the foundations put in place can be successfully built on over the next three years. Appendix 3 details the potential deliverables during this period.

## **8 Recommendation**

The Scotland Excel Executive Sub Committee is asked to note the work undertaken to date and comment on Scotland Excel's plans to seek three year funding from local authorities to continue with the work outlined in this paper.

## Appendix 1- Local Authorities Funding Current Activity to March 2017

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**Aberdeen City**

**Aberdeenshire**

**Angus**

**Argyll & Bute**

**Clackmannanshire**

**Dumfries & Galloway**

**Dundee City**

**East Ayrshire**

**East Lothian**

**East Renfrewshire**

**Falkirk**

**Glasgow**

**Inverclyde**

**Midlothian**

**Moray**

**North Ayrshire**

**Perth & Kinross**

**Renfrewshire**

**Scottish Borders**

**South Ayrshire**

**South Lanarkshire**

**Stirling**

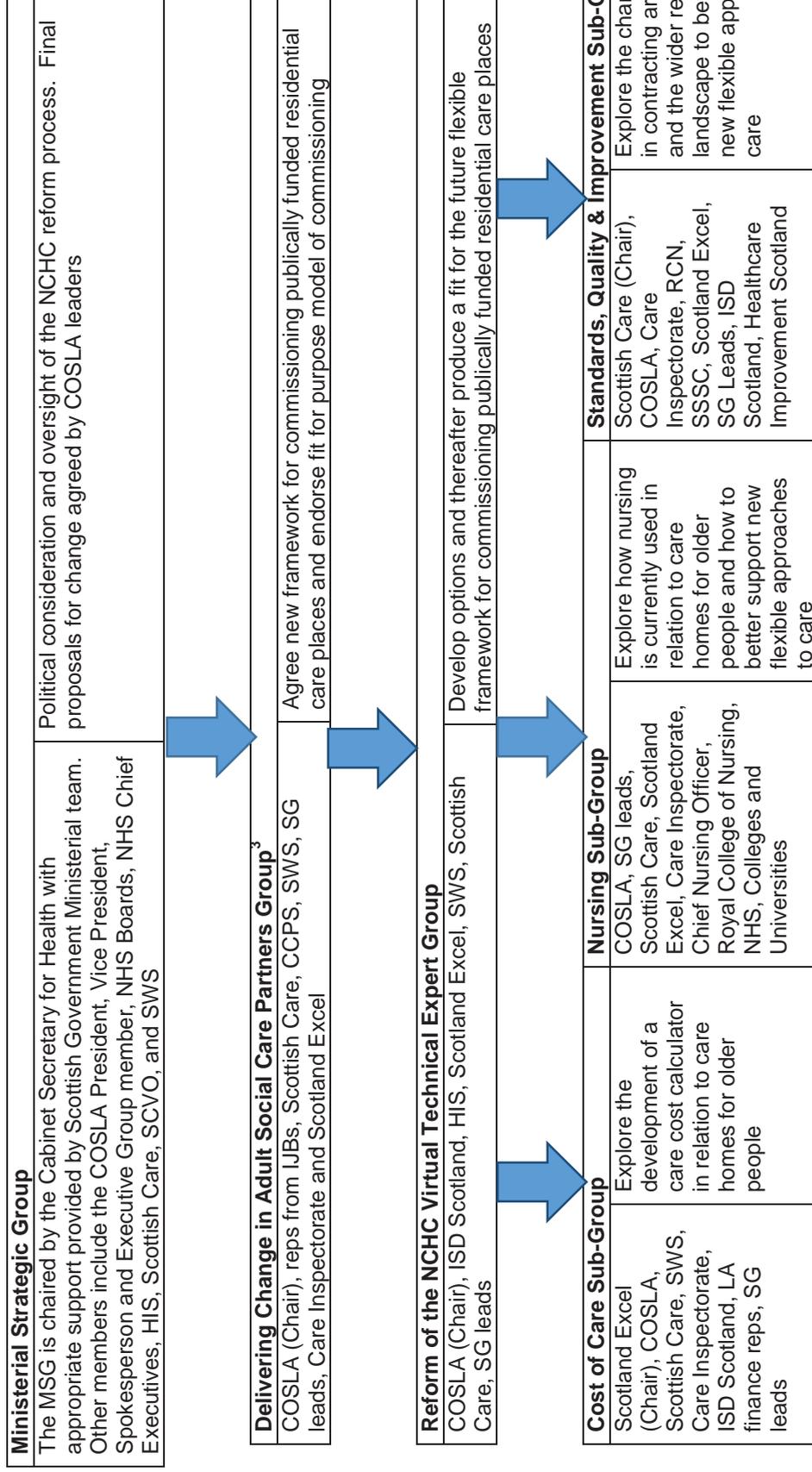
**West Lothian**

**Western Isles**

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## Appendix 2 – Governance Arrangements for the Reform of Adult Social Care



<sup>3</sup> The Delivering Change Group also has responsibility for considering the findings of a related project looking at home care provision and there are strong links between the two projects, most notably in relation to workforce and funding matters.



### Appendix 3 – Expected Deliverables 2017/ 2020

	By March 2018	By March 2019	By March 2020
<b>Market Intelligence</b>			
Issue two partnership specific reports	◆	◆	◆
Issue annual national report	◆	◆	◆
<b>Financial Risk</b>			
Agree financial risk monitoring process	◆		
Issue agreed reporting to councils		◆	
Review reporting with providers and councils/ partnerships/ statutory bodies			◆
<b>Cost of Care</b>			
Refine the cost of care calculator in response to greater understanding of capital costs and provider return	◆		
Refine the cost of care calculator to support assessment of dependency	◆		
Consider application of care cost calculator in other social care settings		◆	
Refine the cost of care calculator to support national and local approaches		◆	
<b>Procurement Strategy/ Contract Terms</b>			
Implement procurement approach	◆		
Distribute management information	◆	◆	◆
Review financial incentives in contract	◆		
Consider how personalisation can be delivered within contract arrangements	◆		