Financial Impact & Market Stability

Hampshire Care Association

An analysis of the impact of Covid-19 on Hampshire's Residential and Domiciliary Care providers

Published September 2020

Contents

1
The Hampshire Care Association

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The Hampshire Care Association (HCA) represents 253 adult social care providers across the county (225 residential and nursing care homes and 28 domiciliary care providers).

HCA providers work across all sectors: the elderly (including nursing care), those with mental health needs and those with learning disabilities - in residential settings and in the community.

Our goal is to ensure that care provision in Hampshire is of the highest standard and quality and that those requiring care receive it with dignity and compassion.

Our members are proud of their dedicated and highly skilled workforce who work tirelessly to provide care to thousands of vulnerable adults every day.

2
Research context

Social care in crisis

Prior to the Covid-19 pandemic, the adult social care sector was under severe financial duress with calls for urgent funds to prevent the sector from collapse.

Nearly £8bn has been cut from council adult social care budgets since 2010. Local authorities have been left with no option but to cut services (an estimated 1.4 million people who need care are denied it as a result of cuts), and reduce what they pay for care.

At the same time, the regulatory environment for social care has kept pace with rising demand and needs. Providers and local authorities have been asked to provide a lot more for a lot less.

The government's long-awaited Social Care Green Paper, originally due to be published in April 2017, has been delayed numerous times with pressure on the sector growing considerably in the meantime.

As the Covid-19 crisis has developed, calls for reform have increased and yet at the time of writing, Matt Hancock MP acknowledged that while a "series of injustices" are embedded in the current social care system, he said he could not give a firm timescale for any changes.

Adult social care providers and their staff have been working tirelessly during this pandemic. The professionalism, dedication and highly skilled work from all involved has persisted despite the immense pressures placed on the sector during this crisis.

Initial impact and response to Covid-19

In May, the Hampshire Care Association carried out an initial analysis of the financial impact of the Covid-19 pandemic on providers in Hampshire, and looked for any initial negative indicators with respect to market stability.

Our analysis showed that overall costs had increased by 18% with staff and infection control costs accounting for the vast majority of the increase.

Our analysis also pointed to worrying early signs of a negative impact on market stability; 59% of providers reported that the financial support on offer would not cover increased costs, and 65% reported that the crisis would put the future sustainability of their service at risk.

Our analysis was instrumental in making the case for financial support to the sector in Hampshire.

In Portsmouth, the analysis was instrumental in expanding financial support available to providers. The Minimum Income Guarantee was extended beyond the original finish date and reinstated to providers who had put staff on furlough; the discretionary part of the Infection Control Fund grant was allocated to residential *and* domiciliary care providers; the PPE reimbursement scheme was extended for all providers; the staffing costs reimbursement scheme for domiciliary providers was extended.

In Southampton, the analysis was instrumental in our efforts to seek and obtain approval for a further month's Covid-19 funding (10% fee uplift) for July 2020. And in Hampshire, it helped make the case for the extension the 10% payment uplift for August and September for residential providers and the 5% payment uplift for three more periods and a share of the second round of IPC funding for domiciliary providers.

Our members welcome this support and we are encouraged by good working relationships with Hampshire County Council, Portsmouth City Council and Southampton City Council.

Critical point

Three months on, we are approaching a critical point.

Like many care providers, local authorities have been placed under huge financial strain due to this crisis – compounding years of under-investment.

Hampshire County Council, Portsmouth City Council and Southampton City Council are all running with budget shortages. Hampshire County Council reported a £21.6m shortfall for the initial three month period of the Covid-19 pandemic. It also anticipated further financial challenges arising after the initial three month period.

Many of the financial support packages that were put in place by local authorities are now reaching the end of their initial run.

The Adult Social Care Winter plan, announced on the 18th of September, included a commitment from central government to continue the Infection Control Fund (with an additional £546m) and provide free PPE over the winter months. At the time of writing, the details of how these initiatives will work, or the conditions placed on them, remain unclear.

During the crisis, the government made £3.7bn available to local authorities to help shore up vital services. As noted, across Hampshire local authorities, working with the HCA and other providers, have allocated a proportion of this to adult social care. This has been a vital, but as our analysis shows, insufficient, lifeline from central government.

Critical point

At the time of writing, there have been no further announcements of financial support from central government to assist local authorities in their duty to deliver vital services like adult social care, leaving many unanswered questions about how a potentially major funding gap will be filled.

Discussions will also soon take place with respect to the annual rise in the National Living Wage. Since its inception, this annual increase has been set against stringent cuts in central government support to local authorities – the impact of which is felt by providers who consistently receive fee increases that do not match the annual rise in costs.

The Covid-19 crisis has highlighted what those in the adult social care sector already knew: the enormous contribution of a dedicated and highly skilled workforce, set against a largely ignored social care system in urgent need of further funding and reform.

Within this context, the HCA has carried out a fresh round of analysis.

3
Objectives

Research objectives

The HCA wanted to understand:

1. How the crisis has **impacted costs**
2. How the crisis has **impacted income** – looking specifically at occupancy / number of hours of care being delivered
3. Whether the current level and design of **financial support** is sufficient and effective
4. Whether the Covid-19 crisis could pose a **threat to market stability** going forward

4
Sample and methodology

Sample and methodology

Over the course of 2 weeks, (31st August – 11th September 2020), the HCA collected data via an online survey sent to every adult social care provider across Hampshire – including the 253 members of the HCA.

Overall, we received 62 responses. Not all providers responded to every question therefore there are varying sample sizes throughout. We have indicated some of these variations.

Our May report identified that staff costs and infection control costs were by far the biggest cost drivers. As such, we focused on these two areas only this time – broken down into 4 areas: in-house staff (incl pension and NI contributions), agency staff, costs to cover staff unable to work i.e. SSP, holiday etc…), and infection control.

It should be noted that for some providers other cost elements may have had an impact. Where these were consistent across multiple respondents, we have drawn these out in the report.

For both the May survey, and this one, the HCA sent the survey to its membership. It may not be the same providers who responded to both surveys.

Methodology

A survey, scripted online, formatted for response on all electronic devices; 10 mins average time to complete

We focused on costs from May, June, July using February as a pre-Covid-19 baseline

Sent to all Hampshire Care Providers – HCA members and non-members

5
Topline findings

Topline Findings

Costs have remained at **heightened levels.** Across the three months May – July, there was an **average increase in costs of** 22%.

In-house staff costs are now the biggest driver of the increase – replacing agency costs which appear to have plateaued.

Occupancy has **dropped** by 7%.

Concerns around future viability have risen dramatically: **92% of providers are concerned** that the Covid-19 crisis could put the future viability of their service at risk.

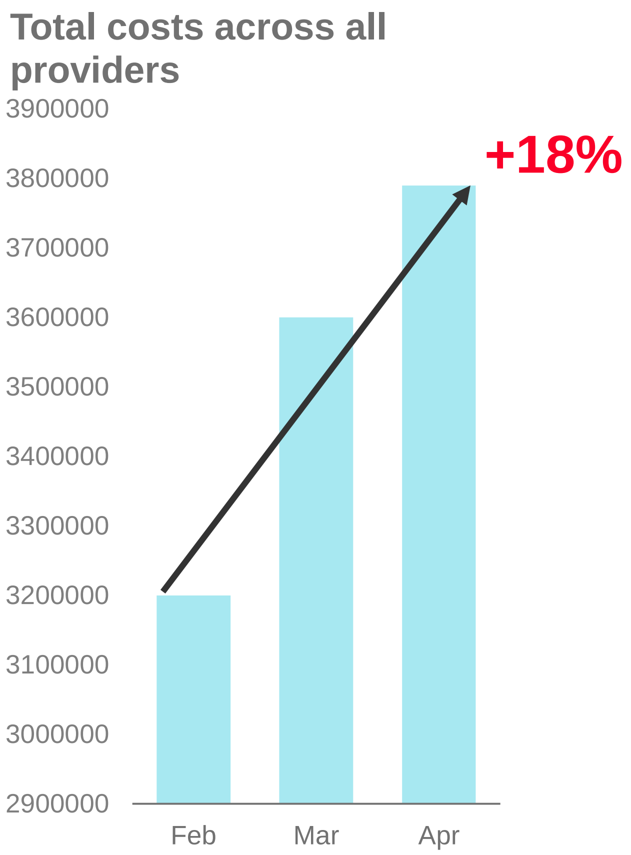
57% of providers said the financial support packages have **not covered additional costs**. These tend to be providers with a higher proportion of self-funded clients.

90% of providers say that financial support moving forward needs to remain at the same levels or increase in order to remain viable

6
Costs analysis

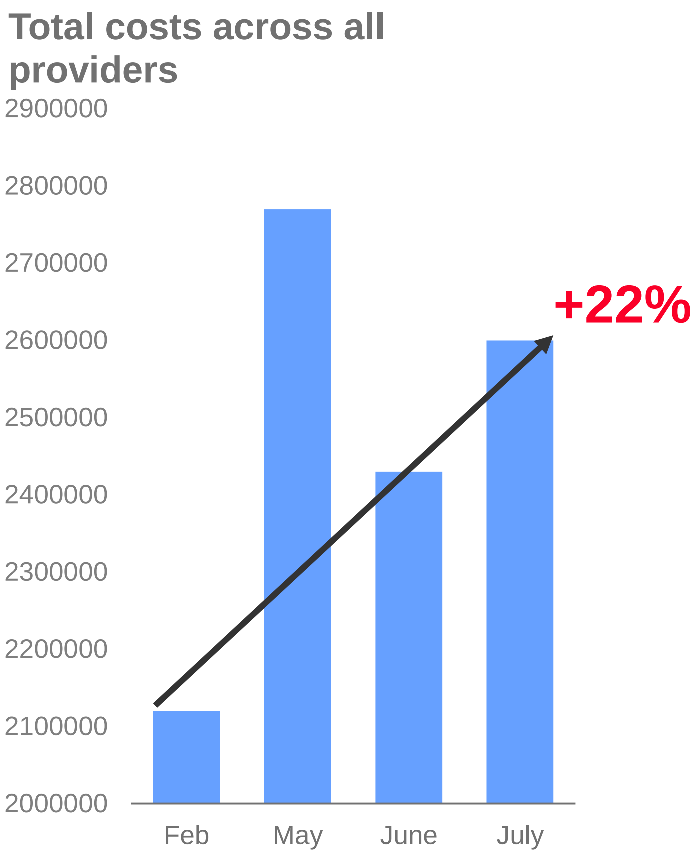
July saw an increase of 22% compared with pre-Covid levels

Wave 1 results



**36 providers gave responses that were at least partially complete and have been used here*

Wave 2 results



**28 providers gave responses that were at least partially complete and have been used here*

Wave 1 Analysis:

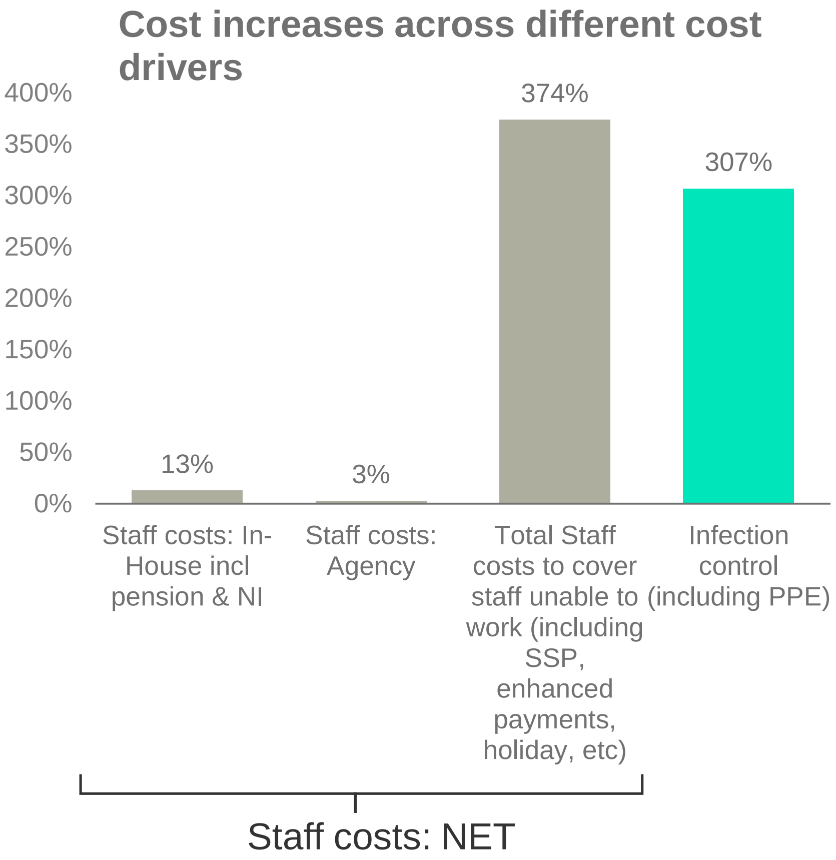
- In **March**, costs increased by **12%**
- Then in **April**, by **18%**

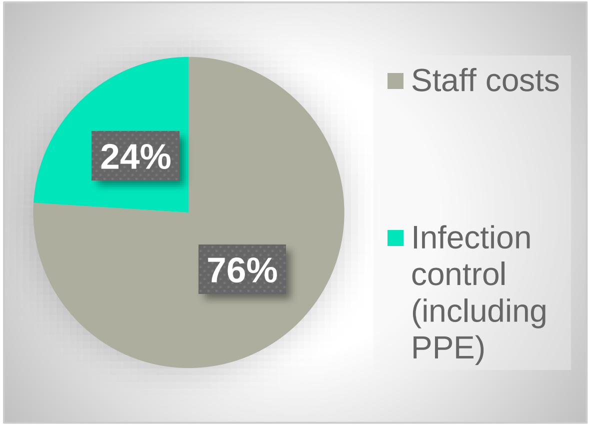
Wave 2 Analysis:

- In **May**, costs increased by **30%** for this new sample
- In **June**, costs were up **15%** vs February baseline
- And for our most recent data point, **July**, these same costs were up by **22%**

In-house staff costs, staff costs to cover absent staff, and PPE are the biggest drivers of increased costs

Percentage increases shown compare February baselines to a three month, May-July, aggregate value





Staff costs make up the majority of the cost increase (**76%** of all additional costs)

This is a similar picture to **May**, when **70%** of all costs were made up by staff costs

Agency costs appear to have plateaued now and as such, this driver only contributes **2%** to the overall cost increase, compared with **42%** in **May**

**28 providers gave responses that were at least partially complete and have been used here*

7

Income: Occupancy & packages of care

Care homes: Occupancy has decreased 7% since pre-Covid

Average occupancy pre-Covid was reported at 86%
The average for the past three months is 79%

83% of providers report below average occupancy levels*

The largest reported percentage decrease in occupancy was 35%

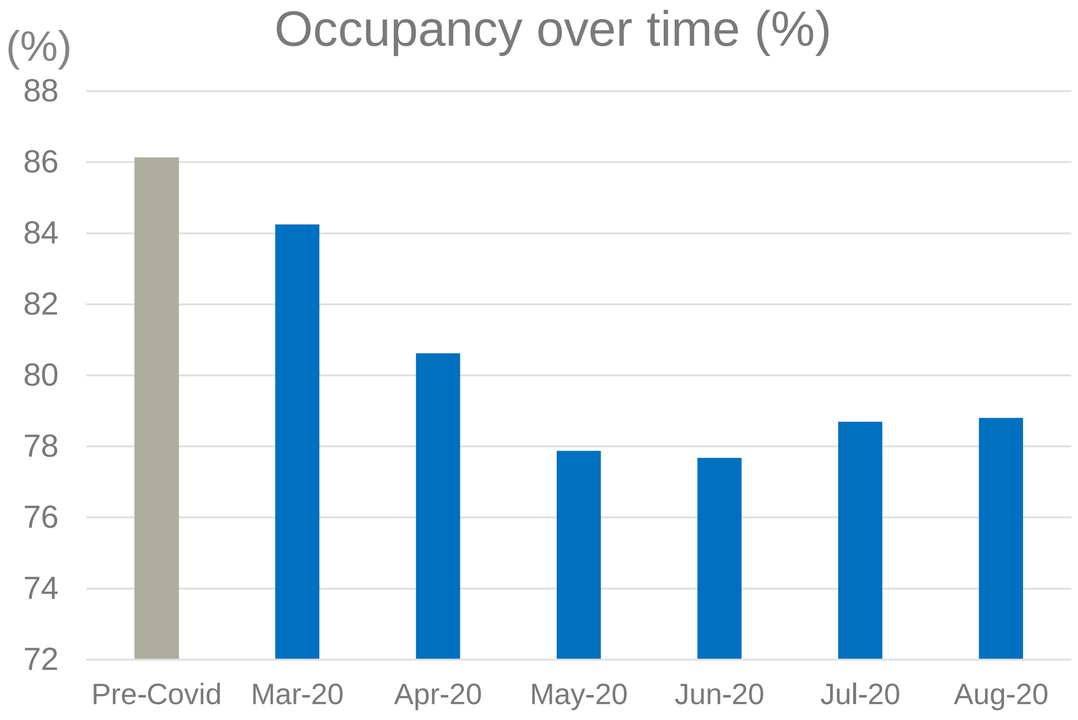
83% of providers report the current number of referrals they are receiving as either below or far below average.

Providers point to a reduction in self-funder referrals and a reduction in referrals from local authorities as the primary drivers of this drop.
(Increased deaths and a reduction in available beds e.g. keeping one open for C-19 isolation, were also cited in >40% of cases).

**36 providers gave responses that were at least partially complete and have been used here*

"With staff costs up and occupancy down our concerns remain - are we viable going forward?"
Provider quote

Occupancy



According to our data, occupancy reached its lowest point in May and June **(77%)**

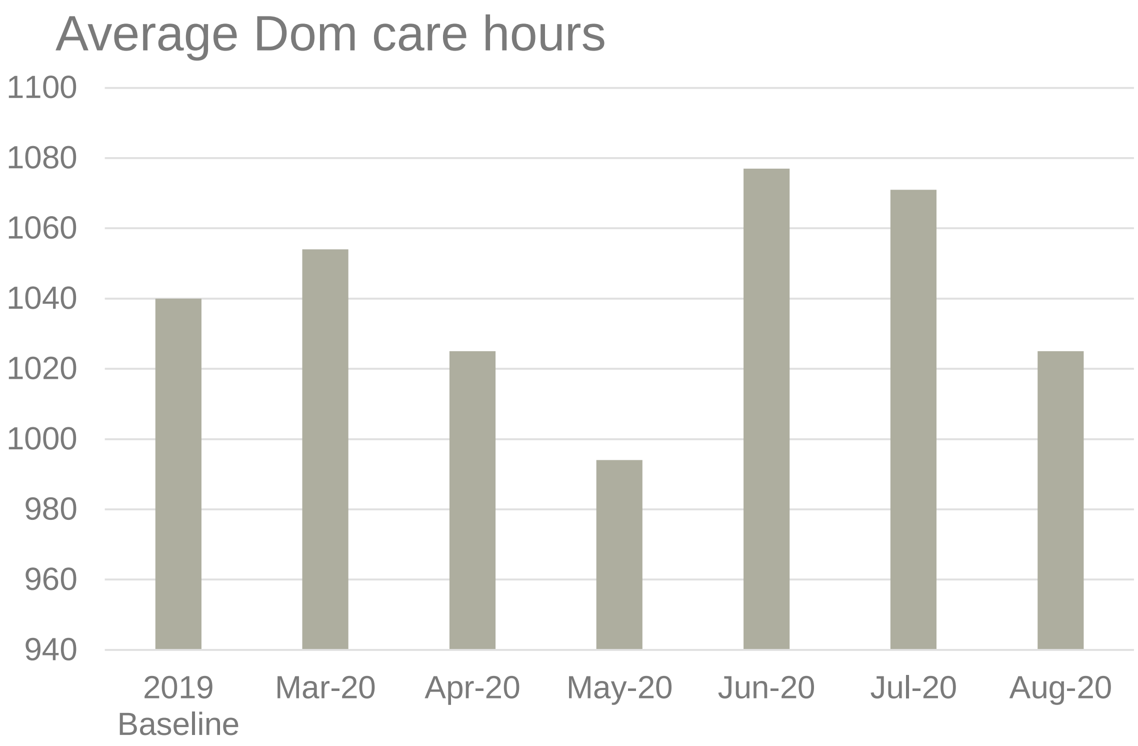
Encouragingly, July and August saw a slight increase in occupancy, overall **(79%)**

However, the latest figures **(August)** still show a decrease of **-7%** compared to pre-Covid averages (79% compared with 86% pre-Covid)

"Our need for further financial support would be significantly reduced if we could quickly return to normal occupancy levels."

Provider quote

Domiciliary care: The average number of hours per week has fluctuated across the period



The average number of hours of care being delivered per week in 2019 (Jan – Dec) was 1,040*.

From March, domiciliary care hours started to fall, reaching a low point in May.

June and July saw an increase and the latest data point, August, shows hours have risen back to near pre-Covid levels.

This data is indicative only, as we only received 7 responses. While this is not a large sample size, pre-Covid-19 these providers were delivering 7,278 hours of care per week - equivalent to approximately half the number of hours delivered by providers in Portsmouth per week

8
Current financial support

Current financial support is reaching the front line but it is not sufficient in 57% of cases

97% of providers had received some form of financial support from their local authority.

57% of providers were satisfied with how the financial support was structured.

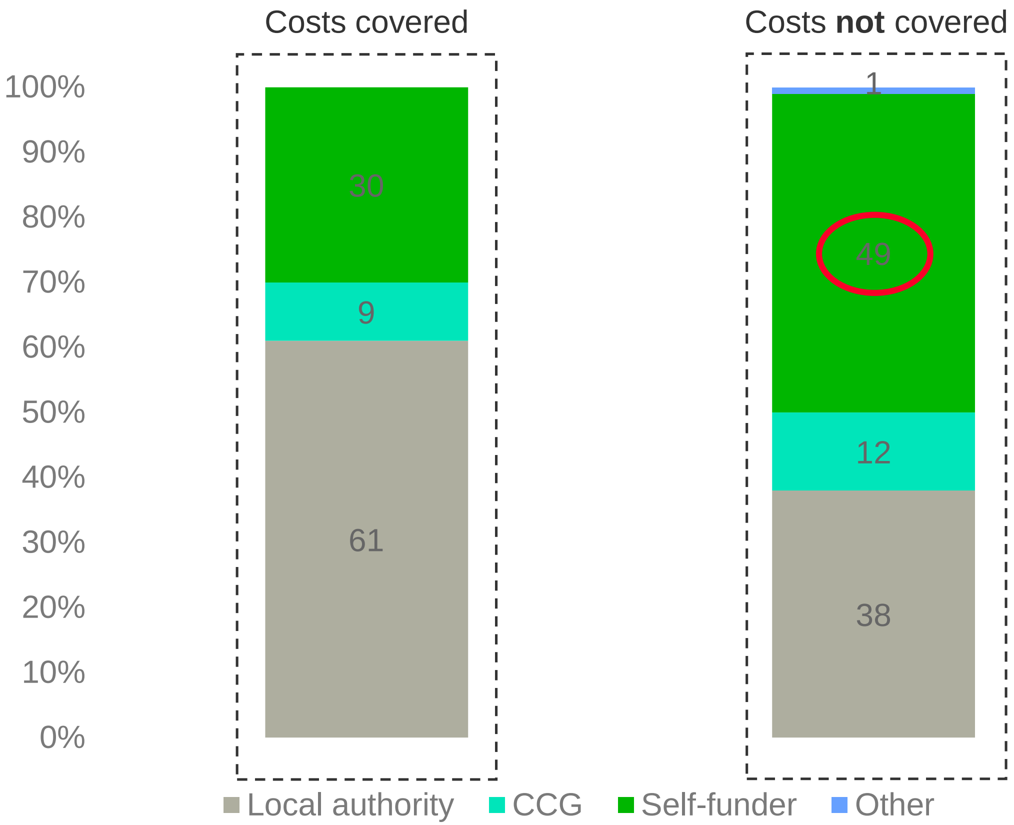
However, 57% said this had **not covered** their additional **costs**

16% of providers also pointed to **increased insurance premiums** as a significant cost increase.

"The IPC grant has supported increased costs but not the reduction in income."

Provider quote

Providers that have not had their costs covered tend to have more self-funders



57% of the total sample stated that support was not sufficiently covering their costs

When we compare the two groups, *those for whom support covered the costs* and *those for whom it did not*, we can see that:

- For those whose costs were covered, composition was **30%** self-funder
- For those whose costs were not covered, composition was **49%** self-funder

Self funder market is not covered by financial support

Local authority Covid-19 funding does not cover the loss of revenue element of the self-funder market leaving many providers **missing out on financial support.**

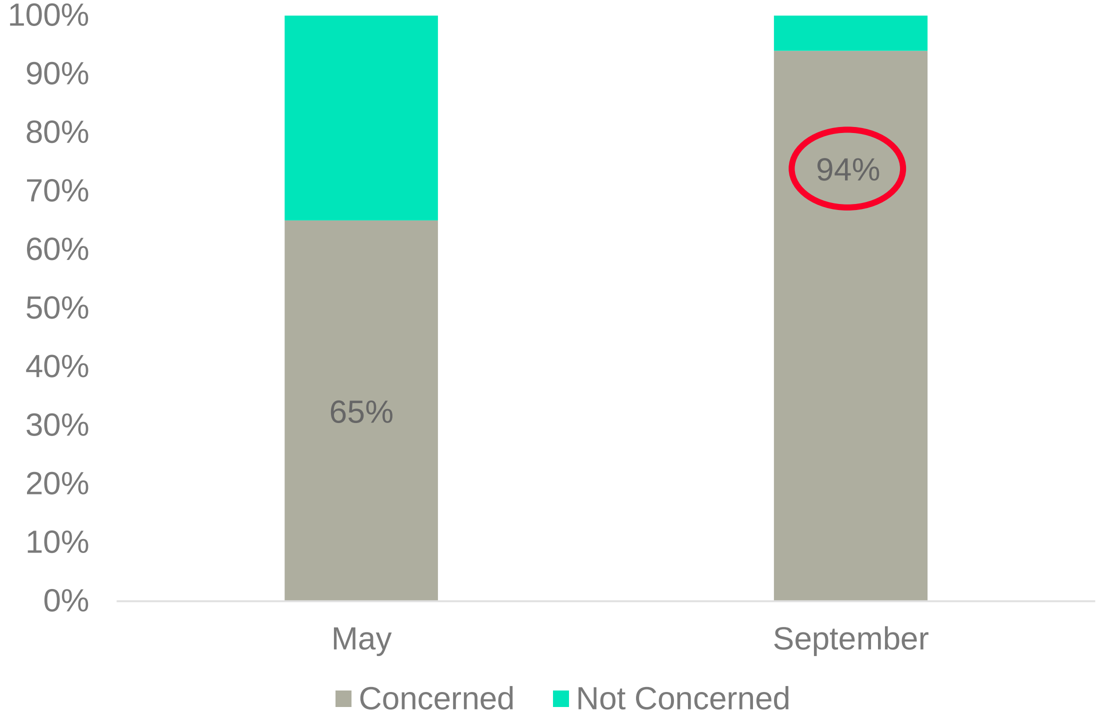
This is a particular concern in Hampshire as data shows the county has higher than average home-ownership rates in the 65+ age group. This metric can be used as a good indication that an individual has assets exceeding £23,250, meaning 100% of care would need to be personally funded.

The England average is 63%. In Hampshire this number is 72%; Portsmouth 62%, Southampton 55%.
(Source: South East Market Handbook)

"The percentage uplift of local authority fees has supported an element of the reduction in turnover but is based on 50% of our business, finishes at the end of September and has declined"
Provider quote

9
Market stability

Concerns around future viability have increased dramatically since May



94% of providers are concerned that financial strain caused by the **Covid-19** crisis could put the viability of **their service at risk**.

In May the equivalent number was **65%**

27% of providers report their **bank** or lender had been in touch with them to raise **concerns** about the financial position of their business.

Current levels of financial support must be maintained, or increased, for providers to remain viable

90% of providers say that financial support moving forward needs to remain at the same levels or increase in order to remain viable.

Across the different cost areas (staff and infection control), the majority of providers believe costs will either stay at the heightened current rate or increase further moving forward.

Percentage of providers that believe costs will either **stay at the current rate** or **increase**, moving forward:

In-house staff costs	Agency	Staff costs to cover those unable to work	Infection control / PPE
94%	81%	91%	91%

Support from central government is not enough

March 2020:

"Spend what you need to spend and we will reimburse you"

Robert Jenrick MP, Secretary of State for Housing, Communities and Local Government

May 2020:

"We wouldn't want anyone to labour under the false impression that what they are doing is guaranteed to be funded by central government"

Robert Jenrick MP giving evidence to the Housing, Communities and Local Government Committee

All three councils are running with budget shortages. Hampshire County Council reported a **£21.6m shortfall** for the initial three month period of the Covid-19 pandemic. It also anticipates further financial challenges will arise after the initial three month period – "not least from **increased demand for services across adults' and children's social care**."

The shift of government policy to one of "sharing the burden" is of great concern to the HCA. Furthermore, the most vulnerable in our society, and the workers who support them, will suffer the most if we don't coordinate our efforts to ensure the government provides the right level of support.

11

Recommendations

Recommendations for central government

- **A further package of support for local authorities, in addition to and more than the £3.2bn announced earlier this year, must be made available at the earliest opportunity.** This package of support must:

  - Increase to ensure the sector can survive a second wave of the Covid-19 pandemic.
  - Reflect the True Cost of Care – taking full note of the Laing and Buisson and UKHCA True Cost of Care models – ensuring support reflects reality, including the annual increase in the NLW.
  - Ensure local authorities are able to meet their obligations under the Care Act 2014 to provide a sufficient and diverse supply of high quality care and support services at a level capable of satisfying the current and future need for such services.

- **Ensure lenders aren't able to unilaterally withdraw or reduce support or raise interest rates** for otherwise viable businesses at a time of crisis. Any change in lender policy should be driven by agreed and long term efforts to ensure a viable and world class adult social care sector moving forward.

Recommendations for central government

- **Give a one-off bonus** to adult social care staff, exempt from tax and national insurance.
- **Provide clear guidance on the difficult question of visiting** and how the government wants care providers to balance the mental health needs of vulnerable adults with efforts to control the spread of the virus and prevent infection.
- **Social care providers must be offered the same indemnity against Covid-19 claims as the NHS.** In the absence of this indemnity insurance costs are increasing significantly at the same time as levels of cover are reducing. Providers are likely to become more risk averse, with potential serious impact in any second wave and/or in the event of other local providers failing**.**
- **VAT status of social care services to become zero-rated.**
- **Urgently bring forward proposals for reform of the social care sector to ensure a sustainable and world class sector moving forward.**
    - All sections of the adult social care sector (including small, medium and large care providers, as well as each specialism) must be fully engaged in discussions around future reforms for the sector. This should include any efforts over the autumn to review the medium and longer term market.
    - Any reforms must significantly increase funding to the sector and include a fully funded provision to pay the sector's highly skilled and dedicated workforce more - in accordance with their significant and positive contribution to society.

Recommendations for local authorities

- **The current level of financial support must be maintained (and increased in relation to those providers hit due to the lack of assistance for the self-funder market):**
  - **Flex to respond to different cost / income reduction drivers:** Financial support should be flexible and responsive to local circumstances in order to ensure the offer can respond quickly to the impact of different cost increase / income reduction drivers in both residential and domiciliary care settings.
  - **Transparency, open accounting and regular dialogue:** Financial assistance should be managed in an efficient and timely way based on the principles of open accounting. The necessary accountability measures should be in place, alongside the appropriate level of application and reporting criteria during this time of crisis. Regular dialogue with providers must be maintained.
  - **Support those services hit by self-funder market reduction:** New packages of support must include an allowance for the decrease in self-funding clients as the reduction here is hitting services that usually have a high proportion of these clients particularly hard.

Recommendations for local authorities

- **Begin the negotiation of the April 2021 rates now to ensure sufficient time is given to maintain market viability at this critical point:**
    - A methodology must be agreed to assess costs caused by Covid-19 and those which are long term and ongoing (and therefore should be included in standard rate discussions).

- **Urgently review the medium and longer term sustainability of the provider market:**
    - Ensure provider input and expertise is baked in to any process to review the medium and longer term market (either locally directed or government-led reviews) - with particular focus on decisions which inform future relationships, commissioning intentions, and purchasing strategy.
    - A process is needed to monitor high risk providers to maintain stability of services in the event that providers exit the market.

Mental health and workforce stability

Resilience is low and burn out is a real risk in a sector already under the strain of high vacancy rates. There are real concerns a significant proportion of the workforce could exit the sector. If this occurs, provision of care for vulnerable adults will be profoundly impacted as vital skills are lost and providers face difficulties recruiting staff, and high costs associated with training and inducting those it can.

Urgent efforts must be made to retain, support and protect the highly skilled and dedicated adult social care workforce.

- Local authorities must be given the funding to expand their well-being offer.
  - This should include funding to provide counselling support with a named professional who can support services and / or individuals in the short, medium and long term.
- Market stabilisation plans should account for the possibility that a significant percentage of social care staff leave the sector.
- Workforce development efforts are particularly important in the light of this risk.

11
Conclusions

Conclusions

The Covid-19 pandemic has hit adult social care providers with a toxic mix of increased costs combined with a reduction in income.

Financial support, while welcome, has not always made up the difference. Concerns over the future sustainability of services has skyrocketed since May and there are initial signs of a drop in lender confidence.

The lack of financial support to cover the self-funder market is compounding the impact of cost increases for a large proportion of the sector. Meanwhile a lack of public confidence in seeking care combined with a significant drop in referrals to services from local authorities is pushing income rates down.

Providers have responded to centralised efforts to maintain stability and control the spread of Covid-19 – as seen in the high take up of financial support, and a shift in their models to restrict movement between settings.

The government must step in to support local authorities maintain their current offer. In turn it is vital that local authorities maintain support and do so in an efficient and timely way - with the necessary accountability measures put in place alongside the appropriate level of application and reporting criteria during this time of crisis.

While this analysis has not focused on the impact of high levels of mental exhaustion and burnout among the dedicated and highly skilled adult social care workforce, this is also critical to market stability moving forward. Universal access to personalised mental health support must be provided urgently, alongside a fully funded package of reforms to dramatically to improve working conditions and pay in the sector.