

Market Sustainability and Fair Cost of Care Fund 2022 to 2023

**Annex B: Cost of Care Report – Domiciliary Care
Derby City Council**

Background and context

The Market Sustainability and Fair Cost of Care Fund ('the fund') sets out funding parameters in support of local authorities to prepare their markets for reform, including the further commencement of Section 18(3) of the Care Act 2014 in October 2023, and to specifically support local authorities to move towards paying providers a fair cost of care.

As a condition of receiving future funding from the fund, local authorities are required to evidence the work undertaken to prepare their markets for wider charging reform and thereby increase market sustainability. This required them to produce:

- Cost of care exercises for 65+ care homes and 18+ domiciliary care
- A provisional market sustainability plan, using the cost of care exercise as a key input to identify risks in the local market, with particular consideration given to the further commencement of Section 18(3) of the Care Act 2014 (which is currently in force only for domiciliary care) – a final plan will be submitted in February 2023
- A spend report detailing how funding allocated for 2022 to 2023 is being spent in line with the fund's purpose

This report sets out the approach adopted by Derby City Council in meeting the conditions of the fund and how the cost of care estimates submitted to DHSC within Annex A have been arrived at.

Approach to the exercise

Derby City Council, alongside a number of East Midlands local authorities, commissioned the services of Care Analytics, a specialist in the financial analysis of care markets and the cost of care, to undertake the Fair Cost of Care exercise. This process is one part of the work Care Analytics will be delivering for Derby, which will also include a further analysis of our commissioning and market context to inform our future approaches to care market sustainability and fees.

All providers in scope for the domiciliary care market were sent a detailed survey designed by Care Analytics to capture the necessary operational and contextual detail to draw out the inherent costs of delivering care in the local market. Responses were received directly by Care Analytics and have been reviewed and analysed, with an extensive query process for responses where clarification was needed. This has produced the resulting data analysis of median and quartile costs required from this exercise.

Written correspondence was issued, and direct provider engagement sessions were set up for providers to attend in order to go through the survey template and the process with the

support of Care Analytics. The Council's Adult Social Care Commissioning team also worked directly with individual providers to ensure they were clear on the process and any queries could be resolved.

Interpretation of Annex A results

At this point it is extremely important that DHSC understands the context of the data that has been reported in Annex A by this authority. Whilst we acknowledge the intentions of the wider exercise and noting the significant benefits in terms of greater understanding of the market that it has given us, we cannot stress strongly enough that the Fair Cost of Care median costs alone are not an appropriate basis to inform council commissioning fee rates.

Whilst it is fair to say that the median is less skewed by high outlier values (as opposed to mathematical averages), the median values themselves can be skewed if the dataset does not comprise an appropriate and representative sample of the existing make-up of providers in the local market. Although Derby's survey response resulted in a reasonable sample size (see section below on 'response rates'), this should not be taken as necessarily indicating that the sample was sufficiently representative of the market. It is also vitally important to recognise (and ensure) whether the data that has been obtained reflects an overall pool of efficient providers as referenced in the requirements of Section 4.31 of the Care and Support Statutory Guidance.

For this reason, we must be clear that the Fair Cost of Care median costs obtained through this exercise (and reported in Annex A) do not have sufficient robustness to provide an absolute basis sufficient to inform any finalised sustainable fee rates for future council commissioning of domiciliary care. The data we have collected through this process will provide rich intelligence on which to base further work to support future council commissioning and market shaping. We will now undertake further detailed analysis of the data obtained through the Fair Cost of Care exercise and the composite of the median costs, in order to help us to assess the appropriateness of the data as a fair and meaningful representation of provider cost structures for those organisations that operate in our local market. The results of this further work will inform the rates on which to base our usual fee rates/commissioning going forwards. This work will be evidenced in the final market sustainability plan, to be submitted in February 2023.

Response rates

Surveys were received from 15 providers operating in Derby City.

One survey was deemed out of scope of the exercise as they are principally a supported living provider. Although some of their care is within scope of the Fair Cost of Care exercise, the bulk of their hours are in supported living homes and include 24/7 care and long sessional visits. As the provider has almost none of the costs associated with the logistics

of planning short visits across multiple locations, their cost structure cannot be usefully compared to providers mostly delivering standard visit-based homecare.

Four more surveys were excluded on the grounds of data quality, mostly owing to gaps (missing key data), incoherencies that could not be clarified by the query process, and/or data that looked fabricated. The data submitted within these surveys will contribute to our understanding of the local market, but the providers did not supply sufficient data to be able to reliably calculate their total care worker costs or their full business overhead costs.

We have therefore been able to use 10 home care surveys to underpin the analysis in the council's Fair Cost of Care return. All of these surveys have full unit cost calculations, both for care worker costs and for business costs.

Lower quartile/median/upper quartile of number of appointments per week by visit length (15/30/45/60 mins)

	15 mins	30 mins	45 mins	60 mins
First quartile	14.0	77.0	28.0	14.0
Median	70.0	346.0	62.0	31.0
Third quartile	293.0	666.0	158.0	62.0
Notes				
Data as of the 30/06/2022				
Data is based on all Council commissioning as of this date. This is a far more reliable indicator of visit patterns in the market than the sample data.				

Justification of the proposed approach to return on operations

It is important to recognise that the return on operations cannot all be taken out of the respective business as profit. The surplus is also needed to pay both for investment back into the business and for exceptional costs that will inevitably arise from time to time.

Our expectation of a sustainable surplus would normally range from 3% upwards. Further to this, our view is that a surplus below 5% can only be considered sustainable where the assumed costs are not ridged and there is therefore some elasticity to reduce costs. By contrast, a higher assumption may be reasonable where the operating costs are assumed to be the product of an extremely efficient organisation.

The analysis undertaken on provider surveys provided the following observations:

- Based on the surveys received, providers stated sustainable profit levels ranging from around 3% and upwards. Many of the highest stated sustainable profit levels

were from independent providers where the owner's time working for the business is not fully reflected as a cost (though in the analysis undertaken, we have added modest notional costs in many such instances for both commensurability with other businesses and to ensure 'costs' are not unduly understated). It can therefore be difficult to interpret some providers' expected or desired 'profit' level.

- Profit levels in the obtained accompanying analysis of company accounts across the exercise range from small losses to high profits (in some cases upwards of 20%, though again this can be distorted by unpaid owner input for small operations and provider groups where results reflect a combination of branches of varying degrees of success). It is important to recognise that there are a range of providers, from those who are struggling to operate within their current fee income to those who are making very healthy profits.
- When determining an appropriate return on operations, the Council also needs to consider existing payment rules, as comparatively generous payment rules can indirectly include a significant amount of surplus (generation of revenue without the normal associated costs). By contrast, if payment rules are 'tighter', providers could be incurring costs where there is no associated income. Changes to payment rules over the period of the pandemic in order to assist the provider market with challenges to financial viability and sustainability. This would be a further consideration.
- Another critical dimension to consider around assumptions relating to the level of surplus is the nature and balance of the local provider market, in particular: (i) the size of local home care branches, (ii) whether certain providers have exclusivity rights (e.g. a right of first refusal of new clients through any ranking/order for allocation of commissioned packages), and, (iii) whether the market is principally made up of owner-operated or corporate businesses.
- In almost all home care businesses, the main financial risks from changes in demand relate to back-office staffing (which is harder to flex week-to-week) and other fixed costs (such as rent and insurance). For this reason, smaller, owner-managed business can often operate with less risk, as they invariably have lower fixed costs, especially where the owner is either unsalaried or has only a low salary. The fact that owners receive remuneration through a combination of pay, profit and the expenses they charge to the business also means the level of 'surplus' such providers require may be less than some groups.

Using this intelligence and the related dynamics of our local commissioned market, the Council has made an initial judgment about a level of return on operations and this has provisionally been set at **5%** in the Fair Cost of Care analysis. We note that different operating models can produce very different needs for a rate of operating return. The figure should therefore be seen as a guide rather than representing a robust assessment. As stated above in this report, further work will be undertaken to inform the rates on which to base our usual fee rates/commissioning going forwards. The return on operations element of the fee will be further considered as part of that work.

Lower quartile, median and upper quartile costs

A table setting out details showing the count of observations, lower quartile, median and upper quartile (where relevant) of all items in Annex A, Section 3 is included as **Appendix 1** to this report.

To be included in the Fair Cost of Care analysis, the provider had to report enough data to be able to calculate all their care worker costs OR all their business overheads. If the total observation count is higher than the respective counts for the sub-sections, this will be because of a handful of providers where we could not report both sets of costs.

Annex A, Section 3

The full table in Annex A, Section 3 is included as **Appendix 2** to this report and sets out the median values and includes (consistent with the cost per contact hour of Annex A), the cost per visit for each of 15, 30, 45 and 60 minute visits. These are theoretical models, calculated on the assumption that the only variables that change are the contact time (visit duration) and travel costs (i.e. shorter visits have larger relative travel times so cost relatively more). It is also assumed that there are no changes in average travel time between visits, sickness levels, and that workforce characteristics remain unchanged.

Basis of data collection

The data from providers was collected during July and August 2022, with the queries and clarification process ongoing well into September. The financial year was 2022/23. In some instances, historic cost data was used for non-staff cost categories based on the providers most recent completed financial accounts. Each such cost was then uplifted to a 2022/23 equivalent baseline using an appropriate CPI index. This was done at the most granular level possible so that inflation adjustments are as accurate as possible. Each cost line was updated from the middle of their respective financial year to May 2022 (close to the start of the 2022/23 financial year).

Providers were also asked to identify any costs that had (or would) increase for 2022/23 to an extent that would not be reflected using CPI measures of inflation. Many providers took advantage of this by providing details about structural cost increases. Each provider's costs were updated to reflect any new baseline where data was supplied.

Payroll data was collected from a recent payroll period in the 2022/23 financial year to inform employer national insurance and pension contributions as a percentage of wages.

For future years, in order to uplift the Fair Cost of Care cost model:

- Staffing costs would be uplifted using a combination of the National Living Wage (for lower paid staff) and any other reasonable method (for higher paid staff). Such a methodology would need to reflect any pay differentials where necessary to reflect different roles/responsibilities of staff.
- Non-staff costs would be uplifted using an appropriate CPI index.

- Any inflation methodology would also need to take into account structural changes relevant to care home costs.

Using the data we have collected through this exercise, we will work with Care Analytics to configure various standardised cost models to inform the Council's future commissioning. We will also provide a clear basis to update these cost models for inflation based on the above considerations.

It is likely that the Council's commissioning of home care could significantly change over the next few years as it implements its commissioning strategies. As a result, provider costs will potentially change depending on how the Council commissions home care in the future, as costs incurred by home care providers tend to be intrinsically linked to how the council commissions and pays for home care.

Description of the questions asked/template used as part of the data gathering exercise

The survey was designed by Care Analytics. It is an adapted version of the survey that they have used to conduct their existing market review service. As Care Analytics market reviews have a wider scope than the Fair Cost of Care exercise required by DHSC, the survey includes a wider set of questions. This will enable a thorough analysis of the marketplace to be undertaken subsequent to the current Fair Cost of Care process.

The survey asks detailed questions about home care delivery and the operating practices of each branch. It also asks for a detailed breakdown of current back-office staffing and wages/salary by role and a series of questions about care worker pay rates, including supporting information, so that a reliable average rate of pay can be calculated. The survey also collects information about employment terms and conditions, so that employment on-costs can be accurately calculated. Providers had the opportunity to present their pay structure in whatever format was easiest to them. This is essential for home care owing to the diverse ways home care providers pay their care workers.

Non-staff operating costs were collected from previous or current financial years at a granular level. To promote engagement, providers were offered the opportunity to submit financial information in whatever format was exported from their finance system or was already available in their accounts. Care Analytics then standardised the data into the required format for analysis. Many providers took advantage of this opportunity as it saved them considerable time.

Finally, providers had the opportunity to answer a variety of questions in their own words to inform the market review.

Appendix 1 – lower quartile, median and upper quartile costs

Cost of care exercise results - all cells should be £ per contact hour, MEDIANS.	Response rates by question	1st quartile	Median	3rd quartile
Total Careworker Costs	10	£13.80	£14.37	£14.60
Direct care	10	£9.57	£9.68	£10.14
Travel time	10	£1.01	£1.31	£1.46
Mileage	10	£0.01	£0.10	£0.22
PPE	5	£0.01	£0.04	£0.08
Training (staff time)	10	£0.19	£0.20	£0.20
Holiday	10	£1.34	£1.36	£1.39
Additional noncontact pay costs	0	£0.00	£0.00	£0.00
Sickness/maternity and paternity pay	10	£0.11	£0.11	£0.12
Notice/suspension pay	10	£0.03	£0.03	£0.03
NI (direct care hours)	10	£0.85	£0.90	£1.09
Pension (direct care hours)	10	£0.18	£0.21	£0.24
Total Business Costs	10	£4.45	£5.08	£5.61
Back office staff	10	£2.33	£2.50	£2.83
Travel costs (parking/vehicle lease et cetera)	5	£0.03	£0.03	£0.04
Rent/rates/utilities	10	£0.28	£0.30	£0.44
Recruitment/DBS	7	£0.05	£0.08	£0.12
Training (third party)	9	£0.04	£0.09	£0.34
IT (hardware, software CRM, ECM)	8	£0.10	£0.14	£0.36

Cost of care exercise results - all cells should be £ per contact hour, MEDIANS.	Response rates by question	1st quartile	Median	3rd quartile
Telephony	8	£0.07	£0.12	£0.29
Stationery/postage	10	£0.04	£0.07	£0.20
Insurance	9	£0.06	£0.11	£0.13
Legal/finance/professional fees	10	£0.11	£0.16	£0.30
Marketing	7	£0.03	£0.06	£0.10
Audit and compliance	5	£0.04	£0.05	£0.12
Uniforms and other consumables	10	£0.02	£0.03	£0.08
Assistive technology	1	£0.02	£0.02	£0.02
Central/head office recharges	6	£0.50	£0.88	£1.26
Other overheads	9	£0.16	£0.28	£0.31
CQC fees	8	£0.05	£0.09	£0.11
Total Return on Operations		£0.91	£0.97	£1.01
TOTAL		£19.17	£20.42	£21.22

Supporting information on important cost drivers used in the calculations:	Response rates by question	1st quartile	Median	3rd quartile
Number of location level survey responses received	15	15	15	15
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	76	76	76	76
Carer basic pay per hour	10	£9.50	£9.59	£10.02
Minutes of travel per contact hour	10	5.7	7.9	8.6
Mileage payment per mile	6	£0.21	£0.25	£0.29
Total direct care hours per annum	10	52,538	54,239	66,439

Appendix 2 – Median costs and durations of 15,30, 45 and 60 minute visits

Cost of care exercise results - all cells should be £ per contact hour, MEDIANS.	15 minutes	30 minutes	45 minutes	60 minutes
Total Careworker Costs	£16.07	£14.11	£13.46	£13.13
Direct care	£9.68	£9.68	£9.68	£9.68
Travel time	£2.89	£1.44	£0.96	£0.72
Mileage	£0.21	£0.11	£0.07	£0.05
PPE	£0.08	£0.04	£0.03	£0.02
Training (staff time)	£0.22	£0.20	£0.19	£0.19
Holiday	£1.56	£1.38	£1.32	£1.29
Additional noncontact pay costs	£0.00	£0.00	£0.00	£0.00
Sickness/maternity and paternity pay	£0.13	£0.12	£0.11	£0.11
Notice/suspension pay	£0.03	£0.03	£0.03	£0.03
NI (direct care hours)	£1.03	£0.91	£0.87	£0.85
Pension (direct care hours)	£0.24	£0.21	£0.20	£0.20
Total Business Costs	£5.08	£5.08	£5.08	£5.08
Back office staff	£2.50	£2.50	£2.50	£2.50
Travel costs (parking/vehicle lease et cetera)	£0.03	£0.03	£0.03	£0.03
Rent/rates/utilities	£0.30	£0.30	£0.30	£0.30
Recruitment/DBS	£0.08	£0.08	£0.08	£0.08
Training (third party)	£0.09	£0.09	£0.09	£0.09
IT (hardware, software CRM, ECM)	£0.14	£0.14	£0.14	£0.14
Telephony	£0.12	£0.12	£0.12	£0.12
Stationery/postage	£0.07	£0.07	£0.07	£0.07
Insurance	£0.11	£0.11	£0.11	£0.11
Legal/finance/professional fees	£0.16	£0.16	£0.16	£0.16

Cost of care exercise results - all cells should be £ per contact hour, MEDIANS.	15 minutes	30 minutes	45 minutes	60 minutes
Marketing	£0.06	£0.06	£0.06	£0.06
Audit and compliance	£0.05	£0.05	£0.05	£0.05
Uniforms and other consumables	£0.03	£0.03	£0.03	£0.03
Assistive technology	£0.02	£0.02	£0.02	£0.02
Central/head office recharges	£0.88	£0.88	£0.88	£0.88
Other overheads	£0.28	£0.28	£0.28	£0.28
CQC fees	£0.09	£0.09	£0.09	£0.09
Total Return on Operations	£1.06	£0.96	£0.93	£0.91
TOTAL	£22.21	£20.15	£19.47	£19.13