



Department
of Health &
Social Care

Market Sustainability and Fair Cost of Care Fund 2022 to 2023

**Annex B: Cost of Care Report – Home Care
Derbyshire County Council**

Appendix 3

Annex B: Cost of Care Report – Home Care

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

The remainder of this report sets out the approach adopted by Derbyshire County 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

The local authority, alongside several other 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 a 'Fair Cost of Care' (FCoC) detailed cost analysis exercise. All providers operating in the domiciliary home care market within the area of the local authority were sent a detailed survey designed 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, rather than by the local authority, in order to address any concerns regarding confidentiality of business data. These returns have been reviewed by Care Analytics, with responses clarified where needed, in order to produce the resulting data analysis of median and quartile costs required from this exercise.

Provider engagement sessions were set up for providers to attend, in order to go through the survey template and wider FCoC process with the support of Care Analytics.

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 FCoC median costs alone are not an appropriate basis to inform Derbyshire County Council's 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 Derbyshire's survey response resulted in a reasonable sample size of contracted Providers (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) that it was not possible via this process to be assured that 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 FCoC 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 home 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. It is our intention to undertake further detailed analysis of the data obtained through the FCoC 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

48 Care Quality Commission registered Home Care providers in Derbyshire providing support for people over 65 were initially contacted by the Council's Contracts Department and invited to a briefing session on the proposed Cost of Care Exercise. This meeting was held on the 16 June 2022 and the survey requirements were described to participants by Care Analytics and people were provided opportunity to ask questions. A further Q&A follow up session was held on 28 June 2022 for Providers.

Following this meeting the survey was sent to all Providers on 16 June 2022 asking that they consider completing the forms and if they had any questions to contact the Council or

Care Analytics. A deadline for receipt of the first forms was set for 8 July 2022 This deadline was subsequently extended to 15 July 2022 to allow Providers to submit their forms with a further deadline of 9th September 2022 to allow Providers to respond to follow up queries. The Council continued to contact providers by phone and email to encourage participation. Several smaller providers expressed difficulty with this ask as they do not have access to finance staff who could interpret costs as requested in the survey.

As stated during this period Providers were encouraged to ask questions to ensure that their completed surveys best reflected the costs incurred. Several Providers were contacted by Care Analytics following submission of their survey as part of a clarification process to ensure that all questions were completed correctly so that the completed surveys could be used as part of the analysis.

Response Rate

Surveys were received from 26 providers that are currently contracted to work with the Council out of a total of 48 providers which is 54% return rate.

All the surveys were deemed within scope of the cost of care exercise and so none were excluded on these grounds. However, three surveys were excluded on the grounds of data quality. These three surveys contain a great deal of useful information that will contribute to our understanding of the local market and costs on a selective basis but we were unable to use them for this exercise. One was only partially completed, whilst the other two surveys had areas of uncertainty that impacted the calculated unit costs too much to be included.

Consequently, we have been able to use 23 homecare surveys (47%) in the Council's cost of care return. All but one of the surveys have full unit-cost calculations for both care worker costs and for other business costs. The other survey is only included for care worker costs as the provider refused to provide any finance data relating to their business costs. However, we have included them as the information they did provide was of a high standard.

Assumptions Used

When calculating each provider's care worker unit cost, there are several areas where assumptions have been made, as the associated costs are either too difficult to calculate reliably or they are variable over time and so must be standardised to some extent.

The following standardised assumptions for the FCoC returns was used:

- For statutory holiday (applicable to almost all providers), a 12% employment on-cost has been applied. This is a generous assumption for many providers, as costs will often be lower where providers calculate holiday pay based on strict interpretations of entitlements where employees work overtime (which is most employees given the preponderance of zero-hour contract in

the sector).

- For the FCoC, a 3.0% standardised assumption (of total care worker time) is applied for combined paid training time (1.75%), sickness (1.0%), and notice/suspension pay (0.25%). The apportionment of the 3.0% could vary over time for each provider.

It is suggested that the total of 15% for these combined on-costs is a reasonable assumption for a market median. However, it is acknowledged that some providers will incur higher costs if they have more extensive paid training or a higher-than-usual number of staff off sick whereas others will undoubtedly incur lower costs.

Return on operations (surplus)

In undertaking this analysis, it was recognised that return on operations cannot all be taken out of the respective business as profit. The surplus is also needed by a Provider to pay for investment back into the business and exceptional costs that will inevitably arise from time to time this helps with the sustainability of the business and the more widely the market.

For this cost of care exercise, a value of 5% has been used by the Council for return on operations. The Council's view is that our payment rules also indirectly include some surplus which would not be identified in the Cost of Care modelling. For instance, providers are paid for commissioned time not how long a worker may stay at a service, any calls cancelled at short notice are still paid and retainer payments are made when people are admitted to hospital. Providers should use this funding to pay their staff for inconvenience, however it is unclear if staff are paid and or if they are asked to undertake other duties.

The Council also notes the balance of the local provider market, in particular the size of local homecare branches, and whether providers are owner-operated or corporate businesses (franchises) which impacts on the costs of running the business.

Data quality and survey composition

Although 23 surveys have been included in Cost of Care results, it does not mean that the information is fully robust. Many of the surveys have significant reliability issues in some areas, with several providers not responding to clarification questions. However, it was agreed that setting the qualifying threshold for data quality too high would result in the sample size becoming too small. In summary, if the survey submitted was coherent and it was possible to calculate a reliable unit cost, the survey has been used (even if some of the costs seemed unrealistic or are highly inefficient by typical industry standards).

It should also be noted that the analysis of the homecare surveys was complicated by the large rural areas which impacts on travel time and the visit-based payments which the Council makes to reflect the cost differences of operating both across the urban-rural continuum and for visits of different lengths. These factors mean that there is more diversity in

the marketplace with provider's organisational structures and costs being different depending on their location and balance of urban versus rural activity.

Other considerations that suggest that the cost of care median value identified via this exercise is not an accurate reflection of cost.

- Some providers are only operating in rural areas. Their costs often cannot be usefully compared to providers only operating in urban areas.
- Many providers in the survey sample pay mileage within their contact-time rate of pay. This makes it difficult to assess the true value of care worker pay, as mileage can be both very high and variable in rural areas.
- The survey sample includes several providers who are currently delivering far fewer hours than last year. This will raise unit costs, as well as making it harder to understand what is happening; as for example, back-office staff may be delivering larger amounts of frontline care, which is difficult to disaggregate unless clearly identified.
- Six of the 23 providers with usable surveys have head office costs of more than £1.10 per hour, including two above £2.30 per hour. The extent to which these represent legitimate operating costs is impossible to tell without a level of forensic work that is infeasible for this type of exercise.
- Most of the providers have both council and private customers. However, many of the providers are only delivering 5-10% of their hours for private customers. At these levels, there is no real possibility of large systematic subsidies, even if it is true that the providers charge more to private clients.
- For a couple of providers, it was believed that they may be overreporting their care worker pay (reporting the top of their pay range as applying to all staff). This was left as stated as we could not get clarification.
- Reported results include surveys of varying degrees of reliability for instance providers that (i) are in transition (growing or contracting), and (ii) have business models that may be considered to be inefficient by typical industry standards.

Care worker rates of pay

The analysis of care worker pay and conditions also showed major differences between Providers. This variation in approach makes it difficult to draw accurate cost of care data from the median value identified. What it suggests is that more work needs to be undertaken with Providers to better understand their costing models to ensure that they are sustainable.

For instance, most providers pay a contact-time rate of pay, though many also pay a per visit amount on top. These range from £0.40 per visit to £1.80 per visit. However, there is usually no mileage paid in addition, so it is not always clear what the pay rate is in practice. Contact-time rates of pay range from £10.50 per hour to circa £15.25 per hour.

Furthermore, owing to individual differences in travel times from week to week, care workers paid on a contact-time rate will see fluctuations in their effective working-time rate of pay.

Council payment rules

The current Council policy is to pay providers on commissioned hours (the value of the purchase order, not the time spent at calls).

This means there is a varying amount of non-delivery for which the providers are paid without incurring the full associated delivery cost. This can apply to both visit shortening and cancelled visits.

The impact of this factor is hard to estimate as the variation between commissioned and actual delivery will vary among providers and from week to week. The Council does operate a recording system which is used to encourage providers to work to the commissioned time.

The degree to which the provider financially benefits from non-delivery will depend on whether they pay the care workers based on planned visits on the weekly rota, actual visits delivered based on planned time, or actual logged minutes of contact time based on call-monitoring data.

Unfortunately, in terms of the Cost of Care calculation, there is no way to make an adjustment for income from non-delivery (other than reducing the return on operations). The Cost of Care return assumes that the contact time and chargeable time are identical.

Inflation

All non-staff operating costs were uplifted to May 2022 (around the start of the current financial year). Inflation is much less of an issue for homecare compared to care homes, as most costs for homecare providers only tend to only increase once a year (such as staffing, rent, CQC fees, insurance which the Council considered in fee setting for 2022/23).

Known inflationary costs will be considered as part of the Council's fee setting exercise for 2023/4. The findings from this Cost of Care survey will inform this fee setting exercise.

Since the survey was undertaken the Council has made an increased payment against each of the travel rates paid in acknowledgement of the inflationary pressure on fuel.

Personal Protective Equipment (PPE)

The reported PPE costs are in our view a reasonable indication of costs for 2022-23, whilst the government portal remains open. However, if the portal closes as suggested next

year, the cost implications will need to be considered in any subsequent fee setting exercise and the level of cost will depend on government guidelines on mask usage and mask unit costs at the time. The Council and Providers will hope that future funding settlements will address this new cost for Providers.

Annex A – Cost of Care lower, 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**.

Annex A – Cost per Visit - lower, median and upper quartile

The full table in Annex A, Section 3 is included as **Appendix 2** to this report and sets out the median values for each care type. This 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.

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

	15 mins	20 mins	25 mins	30 mins	35 mins	40 mins	45 mins	50 mins	55 mins	60 mins
First quartile	17	44	0	189	0	16	36	0	0	17
Median	37	124	6	379	0	28	72	0	0	34
Third quartile	92	249	24	594	9	53	127	14	0	56

Notes

Data on the 03/10/2022

Data is based on all council call-monitoring data as of this date.

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 FCoC 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 FCoC 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.

Summary

The FCoC median costs obtained through this exercise (and reported in Annex A) do not in the Council's view offer sufficient robustness to provide an absolute basis sufficient to inform any finalised sustainable fee rates for future Council commissioning of home care. However, it is accepted that 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.

The County Council's commissioning of home care could significantly change over the next few years as it implements its commissioning strategies to promote a sustainable market that is able to respond to increased demand. As a result, provider costs will potentially change depending on how the Council commissions home care. Further detailed work will be needed with Providers to better understand costs and their activity to create greater certainty.

Appendix 1 Cost of Care Median Values

The following table was recorded in Appendix A of the Department of Health and Social Care Return. For this calculation the sub-total for total care worker costs was achieved by directly calculating from each providers unit cost calculation. This is the most accurate way of reflecting sub-total 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	23	£14.51	£15.32	£16.88
Direct care	23	£9.81	£10.23	£10.89
Travel time	23	£1.25	£1.54	£2.00
Mileage	23	£0.01	£0.06	£0.84
PPE	15	£0.02	£0.06	£0.23
Training (staff time)	23	£0.20	£0.20	£0.23
Holiday	23	£1.36	£1.42	£1.62
Additional noncontact pay costs	2	£0.09	£0.10	£0.11
Sickness/maternity and paternity pay	23	£0.11	£0.12	£0.13
Notice/suspension pay	23	£0.03	£0.03	£0.03
NI (direct care hours)	23	£0.92	£0.96	£1.14
Pension (direct care hours)	23	£0.20	£0.22	£0.24
Total Business Costs	22	£5.39	£6.22	£6.92
Back office staff	22	£2.49	£2.86	£4.18
Travel costs (parking/vehicle lease et cetera)	13	£0.02	£0.08	£0.23
Rent/rates/utilities	22	£0.33	£0.42	£0.59
Recruitment/DBS	16	£0.03	£0.11	£0.26
Training (third party)	17	£0.05	£0.13	£0.20
IT (hardware, software CRM, ECM)	20	£0.10	£0.15	£0.29
Telephony	19	£0.07	£0.12	£0.17
Stationery/postage	22	£0.07	£0.10	£0.18
Insurance	21	£0.07	£0.09	£0.12
Legal/finance/professional fees	19	£0.13	£0.21	£0.31
Marketing	15	£0.03	£0.04	£0.11
Audit and compliance	4	£0.04	£0.05	£0.05
Uniforms and other consumables	20	£0.05	£0.08	£0.16
Assistive technology	4	£0.02	£0.07	£0.12
Central/head office recharges	11	£0.40	£1.10	£1.42
Other overheads	21	£0.10	£0.27	£0.43
CQC fees	18	£0.08	£0.09	£0.12
Total Return on Operations		£0.99	£1.08	£1.19
TOTAL		£20.89	£22.61	£24.99
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	23	23	23	23
Number of locations eligible to fill in the survey (excluding t	48	48	48	48
Carer basic pay per hour	23	£9.69	£10.08	£10.70
Minutes of travel per contact hour	23	7.4	8.8	11.6
Mileage payment per mile	14	£0.29	£0.38	£0.44
Total direct care hours per annum	23	37,684	54,434	81,547

Appendix 2 Cost of Care Data Collected

The following table shows the cost per visit using the Cost of Care data collected. This shows the sub-total for total care worker costs by summing the individual lines. This is for practical reasons as there are complications trying to recalculate every provider's unit costs for different visit lengths

Cost of care exercise results - all cells should be £ per contact hour, MEDIANS.	15 minutes	30 minutes	45 minutes	60 minutes
Total Careworker Costs	£17.79	£15.29	£14.46	£14.04
Direct care	£10.23	£10.23	£10.23	£10.23
Travel time	£3.58	£1.79	£1.19	£0.90
Mileage	£0.13	£0.06	£0.04	£0.03
PPE	£0.14	£0.07	£0.05	£0.04
Training (staff time)	£0.24	£0.21	£0.20	£0.19
Holiday	£1.66	£1.45	£1.37	£1.34
Additional noncontact pay costs	£0.23	£0.12	£0.08	£0.06
Sickness/maternity and paternity pay	£0.14	£0.12	£0.12	£0.11
Notice/suspension pay	£0.03	£0.03	£0.03	£0.03
NI (direct care hours)	£1.12	£0.98	£0.93	£0.91
Pension (direct care hours)	£0.26	£0.23	£0.22	£0.21
Total Business Costs	£6.22	£6.22	£6.22	£6.22
Back office staff	£2.86	£2.86	£2.86	£2.86
Travel costs (parking/vehicle lease et cetera)	£0.08	£0.08	£0.08	£0.08
Rent/rates/utilities	£0.42	£0.42	£0.42	£0.42
Recruitment/DBS	£0.11	£0.11	£0.11	£0.11
Training (third party)	£0.13	£0.13	£0.13	£0.13
IT (hardware, software CRM, ECM)	£0.15	£0.15	£0.15	£0.15
Telephony	£0.12	£0.12	£0.12	£0.12
Stationery/postage	£0.10	£0.10	£0.10	£0.10
Insurance	£0.09	£0.09	£0.09	£0.09
Legal/finance/professional fees	£0.21	£0.21	£0.21	£0.21
Marketing	£0.04	£0.04	£0.04	£0.04
Audit and compliance	£0.05	£0.05	£0.05	£0.05
Uniforms and other consumables	£0.08	£0.08	£0.08	£0.08
Assistive technology	£0.07	£0.07	£0.07	£0.07
Central/head office recharges	£1.10	£1.10	£1.10	£1.10
Other overheads	£0.27	£0.27	£0.27	£0.27
CQC fees	£0.09	£0.09	£0.09	£0.09
Total Return on Operations	£1.20	£1.08	£1.03	£1.01
TOTAL	£25.20	£22.58	£21.71	£21.27