Department of Health & Social Care

Market Sustainability and Fair Cost of Care Fund 2022 to 2023

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(updated

Annex B: Cost of Care Report – Domiciliary Care

Leicestershire County 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, 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 a final plan will be submitted in March 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 Leicestershire County Council in meeting the conditions of the fund and how the cost of care estimates submitted to DHSC have been arrived at.

Approach to the exercise

The local authority, alongside a number of 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. The council additionally worked closely with Leicestershire Home Care Alliance, the trade organisation which represents care home providers across Leicestershire (and wider), which offered support and guidance to individual home care agencies in collaboration with the local authority to promote the data collection exercise.

Interpretation of the FCoC results

At this point it is extremely important that DHSC understands the context of the data that has been reported 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 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 Leicestershire'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 these reasons, 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 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 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.

Response rates

A total of eighteen providers submitted a survey to inform both the council's FCoC return and the wider analysis of the local home care market that is to follow.

All surveys that were submitted were within the scope of the exercise. None were therefore excluded on these grounds.

Four surveys were excluded on the grounds of data quality, mostly owing to gaps from unanswered questions. 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 been able to use fourteen homecare surveys in the council's FCOC return. One of the surveys could only be used for total care worker costs, as they are a new branch and are in the process of mobilising.

We are also aware that seven of the fourteen providers with usable surveys also operate in Leicester City. For two of these seven providers, their hours in that area are minimal and so will have little to no bearing on their unit costs. The other five providers deliver a significant number of hours in that area. However, these providers are all National Living Wage (NLW) payers once travel time is taken into account, and they are also efficient providers. Their inclusion does not therefore adversely impact the median results.

Using the fourteen survey responses, the median hourly rate is **£19.16** per hour. This includes, as detailed above, five providers who are primarily Leicester City providers.

As Leicester City Council pays a lower hourly rate for homecare than the county council, it is unsurprising that these providers have much lower average costs than those that are predominantly operating in the county.

Removing those five providers results in a sample of only nine returns and a reported median value of **£21.87.** This is the rate submitted to the DHSC.

Leicestershire County Council's urban rate is currently **£20.25** per hour rising to **£26.45** for isolated rural areas. The DHSC reporting and associated information does not allow for a mixed rate submission and / or consideration of those provider specialisms / models.

It should be noted that the tender for home care in Leicestershire was undertaken in 2021 with contracts awarded in November 2021. Uplifts were applied to Leicestershire rates (across all bandings) of between 5.8% and 6.3% in April 2022.

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

Number of calls	15 mins	30 mins	45 mins	60 mins
Lower Quartile	-	1,027.20	454.60	45.80
Median	-	1,514.30	838.00	175.10
Upper Quartile	6.30	2,301.30	1,283.80	388.40

Information on visit lengths was not captured from providers directly but instead from a sample of providers from internal social care systems. It should be noted that we would get different results from a different sample.

Leicestershire County Council only use 15 minute calls in exceptional circumstances hence the low number.

Justification of the proposed approach to return on operations

Councils can decide what return on operations (or surplus) to include in their FCoC return.

It is important to recognise that this 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 rigid 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 within our market, 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 our 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. Our payment rules have been flexible 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 FCoC 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

The median cost reported is £21.87, the lower quartile cost is £19.30 and the upper quartile cost is £22.37

The cost per call in relation to different call lengths was reported as follows:

- 15 minutes - £25.55

- 30 minutes - £22.29

- 45 minutes - £21.21

- 60 minutes - £20.67

To be included in the FCoC 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.

The cost per visit for each of 15, 30, 45 and 60 minute visits 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 provider's 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 fees:

- 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 should be noted that the main domiciliary care framework in Leicestershire is due to be re-procured effective from April 2024 (or April 2025). 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 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

To ensure continued viability and market sufficiency, providers need to at least maintain their current levels of revenue, which includes both local authority and self-funder fees. Whilst we acknowledge the intentions of the wider Fair Cost of Care exercise, we cannot stress strongly enough that the Fair Cost of Care median costs alone are not an appropriate basis to inform Council commissioning or fee rates, particularly given the volatility and in year cost pressures effecting care providers.

With Care Analytics, 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, to help us to assess the appropriateness of the data as a fair and meaningful representation of provider cost structures who 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.

Leicestershire’s position with regard to provider costs and uplifts for 2023/24 will be predicated on the amounts assigned by Central Government to fund these additional costs / pressures.