

# Cost of Care Report - Home Care

Herefordshire Council's report on the Department of Health and Social Care (DHSC) cost of care exercise to fulfil the conditions of the Market Sustainability and Fair Cost of Care Fund Grant.

## Introduction

DHSC published on 24<sup>th</sup> March 2022 guidance to support local authorities in administering the Market Sustainability and Fair Cost of Care Fund. One of the conditions of the fund is to return a report on the output of a local 'cost of care' exercise on the costs of providing home care for adults aged 18 and over in Herefordshire.

Council officers have worked with home care providers locally, and regionally with ADASS, LGA, other local authority and provider association colleagues to complete the exercise in compliance with DHSC published guidance.

The submission is an accurate illustration of the median costs returned by those providers who participated in the exercise, however it does not represent a fair or accurate fee rate for the provision of local authority funded care in Herefordshire, for a number of reasons including:

- Participation in the exercise by care providers was not mandatory. The results set out below are a median of returns submitted by a voluntary and self-selecting sample of Herefordshire home care providers. Council officers worked with the whole local home care market to encourage participation in order to achieve a high level of responses; however, the nature of the process and the decision by some providers not to participate, means that it is not possible to give assurance that the output of the exercise is properly representative of the costs of providing care in the Herefordshire home care market.
- Providers returned the best information they could in the time available for the exercise and council officers and local providers have worked together to present as accurate and representative an output as possible. However, the cost collection process does not allow for council officers to have access to primary sources of information for each provider, so it has not been possible to audit the returns for accuracy, and nothing in the process compels providers to correct errors or respond to queries from council officers.

Whilst there is no suggestion that participating providers have misrepresented the costs of providing care in Herefordshire, it is not possible to give assurance that the output of the exercise is a true and fair view of those costs. A description of some of the weaknesses in the data is included in Appendix 3 of this report.

- Herefordshire is a large county geographically with a relatively sparse but significantly dispersed population; providing home care into rural locations brings a set of factors and

costs that complicate any cost of care exercise. Furthermore, each provider in the market has a unique set of circumstances, business structure, operating environment and strategy. Even with the most robust process it would not be possible to identify one single fee rate that would be sustainable for every provider in every situation. This is discussed further in the section on 'Return on Operations'.

## Provider Engagement and Response Rates

There are 54 CQC registered providers of home care in Herefordshire. Providers who are registered in neighbouring counties also provide care in Herefordshire and they have been invited to take part in the exercise for Herefordshire.

Herefordshire Council purchases home care from a range of providers, but most council-commissioned home care is provided by eleven home care organisations that are part of a framework agreement. There are a significant number of individuals in Herefordshire who fund their own home care, and a significant number who arrange their own home care whilst being in receipt of a direct payment from Herefordshire Council. Provider returns are based on the costs of all provision.

Herefordshire Council has good relationships and communication with most home care providers, and places or has placed social care funded individuals with many of the providers in scope for the exercise. The focus of the council's approach to the data collection exercise was personal engagement on a one-to-one basis with providers.

Council officers worked with local providers, and with regional and national colleagues at DHSC, LGA, ADASS, and other local authorities to maximise the quantity and quality of responses from home care providers and achieved a comparatively strong response rate, particularly from providers with whom the council commissions a significant amount of care.

Council officers, including the Service Director, frequently contacted providers to encourage participation and answer queries; and providers were offered individual private sessions to discuss queries and their financial information confidentially. Contacting providers individually to encourage participation in the process had a positive impact on the response rate, but, despite multiple attempts at contact by council officers, providers did not engage so well with the opportunity to improve the quality of their submitted data by responding to queries or correcting errors.

**Table One- Response Rates for Home Care Providers**

Care Type	% response rate by Provider	% response rate by Herefordshire Council commissioned care hours
Home Care	23% of providers in scope	75% of commissioned hours

The cost of care exercise was discussed with providers prior to and during the data collection period, encouraging providers to take part, answering questions, giving advice and sign-posting

providers to other sources or information, webinars, and guidance on the national templates for data collection.

Dedicated communication channels were set up to allow home care providers to ask questions and receive a response from council officers, with such communication remaining confidential.

Herefordshire Council allocated funds from the Market Sustainability and Fair Cost of Care Fund to assist providers with the costs of completing returns. Providers were offered £500 per appropriately completed return. Offering this payment did not have a significant effect on the response rate.

Nationally, there were regular messages, advice and webinars by LGA, ADASS and Care Provider industry bodies, regional and national fora for providers to attend, dedicated websites and other online resources for providers to access.

Regionally, council officers and local providers participated in working groups and contributed to regular messages of advice and assistance from LGA, ADASS and provider associations. Locally, council officers ensured that national and regional messages, invites to webinars, FAQs and other information were circulated to all providers in-scope for the exercise alongside bespoke local information.

## Output of Exercise

Due to the challenging timescales for the exercise, the levels of experience and local knowledge of council officers who have been working with this market for some time, and the limited availability of interim commissioners and finance professionals, Herefordshire Council chose to carry out the exercise internally using existing resources.

The full detailed output is included in this report as appendices one and two.

## Data Collection Methodology

Herefordshire deployed the nationally available 'Home care cost of care toolkit' co-developed by LGA and ARCC-HR Ltd. A full description of the tool and its functionality is available from the LGA website.<sup>1</sup> Provider responses were submitted directly to Herefordshire Council and were collated by approved council officers. Only three council officers have access to the individual provider returns to reassure providers that their commercially-sensitive data will remain confidential.

The initial data collection period for home care ran from 5<sup>th</sup> May 2022 to 6<sup>th</sup> June 2022; the deadline for returns was extended to 31<sup>st</sup> July 2022, and then to 31<sup>st</sup> August 2022 to give providers the maximum amount of time to complete and submit returns.

A professionally qualified council finance officer carried out an analytical review of each return and worked with each participating provider to resolve any queries that the review generated.

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<sup>1</sup> <https://www.local.gov.uk/our-support/sector-support-offer/care-and-health-improvement/commissioning-and-market-shaping/cost-of-care-toolkit>

Herefordshire Council is committed to continuing this process of clarification and refinement with individual providers beyond the submission deadline to produce the best quality dataset.

## Calculation Methodology

DHSC guidance requires that the cost of care value be the *median* of the provider responses received. The guidance is not specific as to how the median should be calculated, which leads to the potential for inconsistency between returns from different local authorities and difficulties in usefully comparing results between local authority areas.

Herefordshire Council has chosen a calculation methodology that presents the median of returns from participating providers without significant adjustment, other than the resolution of queries as described above. The median output cost of care is the summation of the 'line by line' median values with zero responses included where providers have submitted a cost return with a zero value shown against particular cost lines.

Herefordshire Council has chosen to include zero entries within the median calculation described above for two reasons:

- including the zero entries means that the median value is calculated from the data on a line by line basis exactly as it was returned from each provider; and
- it has not been possible to establish in every case whether individual providers do not incur such a cost at all, or such a cost is incurred but is combined with costs reported on other lines.

## Base Price Year

Herefordshire Council received returns from providers in different cost bases. Where providers returned costs on an April 2022 basis, those costs were left unchanged; where providers submitted costs on a 2021/22 bases each return was adjusted each return by the same inflation indices to generate April 2022/23 values:

- Pay related lines have been increased by 6.62%, reflecting the increase in National Living Wage (NLW) rates for 2022/23. In the care sector, NLW increase has a direct impact on the pay costs of staff whose basic wage is above NLW. Experience of the local market, and the need for providers to maintain an appropriate pay differential between different grades of staff, makes it appropriate to inflate all pay-related costs by the increase in NLW.
- Non-pay related lines have been increased by 9% based on the Consumer Price Index 12-month rate to April 2022<sup>2</sup>.

Herefordshire has used these indices to calculate fee-rate increases for home care placements for a number of years and plans to continue to use the same or similar indices as part the fee-rate setting exercise for future years.

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<sup>2</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23>

# Return on Operations

The exercise required providers to return information on operating costs excluding interest and tax. Local authorities are required to determine a transparent approach for calculating consistent values for return on operations appropriate for a sustainable local market to apply to the median of provider operating costs.

Return on operations (RoO) is the surplus generated from the day-to-day running of the business; it is broadly analogous to an operator's profit and represents the difference between income and expenditure. A sustainable business will generate reasonable returns on operations and capital; what represents a reasonable return depends upon the sector, locality, and ownership model of the business.

The Herefordshire home care market has a mixed model of provider structures: there are a number of smaller owner-operator businesses as well as a number of larger regional or sub-regional providers. Each of these, as well as many other factors, means that every home care provider has different costs, overheads and target rates for return on operations. This makes it unlikely that one rate for return on can properly reflect the circumstances of all providers.

For clarity and simplicity, Herefordshire Council has elected to use the profit / surplus rate of 3% of operating costs adopted by the Home care Association in its 'Minimum Price for Home Care 2022-2023' report<sup>3</sup> as a reasonable average rate of return for an average home care business reflecting the average operating costs output of the DHSC cost of care exercise

## Use of Cost of Care Exercise Output in Future Decision Making

On 25<sup>th</sup> August, DHSC revised the published guidance for this exercise and published a policy note entitled 'Department of Health and Social Care Market Sustainability, Fair Cost of Care Fund and charging reform policy' which clarifies Government policy in this area.

*"Our policy expectation is that local authorities make as much progress as possible towards the fair cost of care identified locally in your exercise within this Spending Review period"*<sup>4</sup>

The policy note goes on to describe the expected role and relative importance of the output of this exercise in local authority fee-setting processes. Herefordshire Council will follow this policy direction when deciding future fee rates for commissioned home care provision for over 18s:

*"We know the median actual operating costs from which local authorities arrive at a fair cost of care in their area will not reflect the costs of each individual provider in their local area."*

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<sup>3</sup> [https://www.homecareassociation.org.uk/resource/homecare-association-minimum-price-for-homecare-2022-2023.html#:~:text=The%20Homecare%20Association%20\(formerly%20United,and%20National%20Living%20Wage%20increase](https://www.homecareassociation.org.uk/resource/homecare-association-minimum-price-for-homecare-2022-2023.html#:~:text=The%20Homecare%20Association%20(formerly%20United,and%20National%20Living%20Wage%20increase)

<sup>4</sup> Department of Health and Social Care Market Sustainability, Fair Cost of Care Fund and charging reform policy 25/08/2022 page 1 The current Spending Review Period runs from April 2022 to March 2025

*We recognise also that outlining median figures for the broad service types within scope (standard residential care, residential care for enhanced needs, standard nursing care, nursing care for enhanced needs and domiciliary care) may oversimplify what is a complex picture of care and support needs.*

*The outcome of the cost of care exercise is not therefore intended to be a replacement for the fee setting element of local authority commissioning processes or individual contract negotiation.*

*In practice we will expect actual fees to be informed by the fair cost of care, which is the median value rate local authorities will be moving towards. Fee rates will also continue to be based on sound judgement, evidence, and through a negotiation process, as is the case currently. As such there will be variation in the rates providers are paid to reflect the quality and level of service. Ultimately paying a fair cost of care does not mean that all providers are paid the same rate, but rather the fair cost of care is the median value which fee rates will be “moving towards”.*

*The Fair Cost of Care guidance therefore states that: “as many local authorities move towards paying the fair cost of care, it is expected that actual fee rates paid may differ due to such factors as rurality, personalisation of care, quality of provision and wider market circumstances”.<sup>5</sup>*

In short, Herefordshire Council will have regard to the results of the cost of care data collection as one element informing the annual process of setting fee rates for commissioned home care.

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<sup>5</sup> Ibid Page 2

# Appendices

For an accessible version of these tables please email Adrian Griffiths: [Adrian.Griffiths2@herefordshire.gov.uk](mailto:Adrian.Griffiths2@herefordshire.gov.uk)

## Appendix One: full table in Annex A, Section 3 with one column of median values for each care type

Cost of care exercise results - all cells should be £ per contact hour, MEDIANS.	18+ domiciliary care
<b>Total Careworker Costs</b>	<b>£19.29</b>
Direct care	£11.06
Travel time	£2.24
Mileage	£1.54
PPE	£0.71
Training (staff time)	£0.28
Holiday	£1.63
Additional noncontact pay costs	£0.00
Sickness/maternity and paternity pay	£0.47
Notice/suspension pay	£0.00
NI (direct care hours)	£0.90
Pension (direct care hours)	£0.45
<b>Total Business Costs</b>	<b>£6.06</b>
Back office staff	£4.62
Travel costs (parking/vehicle lease et cetera)	£0.00
Rent/rates/utilities	£0.43
Recruitment/DBS	£0.13
Training (third party)	£0.05
IT (hardware, software CRM, ECM)	£0.32
Telephony	£0.12
Stationery/postage	£0.04
Insurance	£0.11
Legal/finance/professional fees	£0.09
Marketing	£0.07
Audit and compliance	£0.02
Uniforms and other consumables	£0.05
Assistive technology	£0.00
Central/head office recharges	£0.00
Other overheads	£0.00
CQC fees	£0.12
<b>Total Return on Operations</b>	<b>£0.76</b>
<b>TOTAL</b>	<b>£26.24</b>
<b>Supporting information on important cost drivers used in the calculations:</b>	<b>18+ domiciliary care</b>
Number of location level survey responses received	12
Number of locations eligible to fill in the survey (excluding those found t	54
Carer basic pay per hour	£10.48
Minutes of travel per contact hour	14
Mileage payment per mile	£0.40
Total direct care hours per annum	34938

**Appendix Two: one table for each service type, with each showing the count of observations, lower quartile, median and upper quartile (where relevant) of all items in Annex A, Section 3**

<b>Herefordshire Homecare Provider Returns</b>				
<b>Cost Type</b>	<b>Responses</b>	<b>1st Quartile</b>	<b>Median</b>	<b>3rd Quartile</b>
Direct Care	12	£10.87	<b>£11.06</b>	£11.41
Travel Time	11	£1.61	<b>£2.24</b>	£3.36
Mileage	12	£0.90	<b>£1.54</b>	£1.89
PPE	10	£0.38	<b>£0.71</b>	£1.07
Training (staff time)	10	£0.17	<b>£0.28</b>	£0.57
Holiday	11	£1.51	<b>£1.63</b>	£1.73
Additional Non-Contact Pay Costs	2	£0.00	<b>£0.00</b>	£0.00
Sickness/Maternity & Paternity Pay	10	£0.23	<b>£0.47</b>	£0.60
Notice/Suspension Pay	3	£0.00	<b>£0.00</b>	£0.00
NI (direct care hours)	12	£0.63	<b>£0.90</b>	£1.21
Pension (direct care hours)	11	£0.40	<b>£0.45</b>	£0.50
Back Office Staff	12	£3.61	<b>£4.62</b>	£6.12
Travel Costs (parking/vehicle lease etc)	5	£0.00	<b>£0.00</b>	£0.17
Rent / Rates / Utilities	11	£0.37	<b>£0.43</b>	£0.51
Recruitment / DBS	12	£0.05	<b>£0.13</b>	£0.19
Training (3rd party)	9	£0.03	<b>£0.05</b>	£0.15
IT (Hardware, Software CRM, ECM)	12	£0.27	<b>£0.32</b>	£0.56
Telephony	12	£0.10	<b>£0.12</b>	£0.31
Stationery / Postage	10	£0.01	<b>£0.04</b>	£0.05
Insurance	12	£0.09	<b>£0.11</b>	£0.14
Legal / Finance / Professional Fees	11	£0.07	<b>£0.09</b>	£0.15
Marketing	12	£0.03	<b>£0.07</b>	£0.35
Audit & Compliance	8	£0.00	<b>£0.02</b>	£0.06
Uniforms & Other Consumables	11	£0.03	<b>£0.05</b>	£0.08
Assistive Technology	1	£0.00	<b>£0.00</b>	£0.00
Central / Head Office Recharges	4	£0.00	<b>£0.00</b>	£0.66
Other Costs	7	£0.00	<b>£0.00</b>	£0.00
CQC Registration Fees	12	£0.10	<b>£0.12</b>	£0.13
<b>Total Excl Profit</b>		<b>£21.45</b>	<b>£25.47</b>	<b>£31.98</b>
<b>Surplus / Profit Contribution</b>		<b>£0.64</b>	<b>£0.76</b>	<b>£0.96</b>
<b>Total Cost Per Hour</b>		<b>£22.10</b>	<b>£26.24</b>	<b>£32.94</b>



**Appendix Three: consistent with the identified cost per contact hour, the cost per visit for each of 15, 30, 45 and 60 minute visits (shorter visits have larger relative travel times so cost relatively more)**

	15 Minute Call			30 Minute Call			45 Minute Call			60 Minute Call		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Cost less Travel Time & Mileage	£4.90	£5.61	£6.92	£9.79	£11.23	£13.85	£14.69	£16.84	£20.77	£19.59	£22.46	£27.70
Travel Time & Mileage Cost	£2.51	£3.78	£5.25	£2.51	£3.78	£5.25	£2.51	£3.78	£5.25	£2.51	£3.78	£5.25
<b>Total Cost per Visit</b>	<b>£7.41</b>	<b>£9.40</b>	<b>£12.17</b>	<b>£12.30</b>	<b>£15.01</b>	<b>£19.09</b>	<b>£17.20</b>	<b>£20.62</b>	<b>£26.02</b>	<b>£22.10</b>	<b>£26.24</b>	<b>£32.94</b>

**Appendix Four: the lower quartile/median/upper quartile of number of appointments per week by visit length (15/30/45/60 mins)**

Appointment Type	No. of appointments per week		
	Lower Quartile	Median	Upper Quartile
15 minutes	25	28	32
30 minutes	442	618	861
45 minutes	167	218	364
60 minutes	89	191	270

## Appendix Five: Examples of issues with data collection and data accuracy

Some of the issues Herefordshire Council has encountered in collecting and processing data related to this exercise are described in the main report, others are set out below, as well as some issues with the design of the exercise vis a vis assessment of sustainability of individual providers and of the local market as a whole.

The issues are not ranked in terms of impact, but are set out here to illustrate some of the difficulties providers have had in providing information in the time available and the difficulty council officers have experienced in processing the data to produce a reasonable output in Annex A format.

The cumulative effect of such issues is to reduce the relative weight that can be given to the information collected and the output of this exercise in setting future fee rates for home care. As stated in the main report, Herefordshire Council finance officers continue to work with providers to improve the quality of the data collected during this exercise.

- Individual provider sustainability cannot be assessed by comparing operating expenditure to local authority average fee rates. Whilst operating profitability is one factor, a proper assessment of sustainability needs to include analysis of each provider's balance sheet, total income and expenditure, debt, equity, cash flows, liquidity, access to finance, ownership status and also the local market context and the relative position of the provider compared to sector averages.
- Presenting figures on an EBIT basis is a useful way of assessing how much operating cash is generated by every pound of revenue earned and can be a useful way of understanding the relative profitability of companies, but it has significant drawbacks when assessing the overall performance or sustainability of a company:

EBIT ignores interest payments and taxation in assessing the costs of doing business. Companies with significant levels of borrowing may have large interest payments to make which EBIT does not take into account, but which will nonetheless be significant cash outflows which affect overall levels of return from the business.

- Provider staff completing returns were not usually qualified accountants, and, through no fault of their own, did not always have the right skills to analyse their organisation's financial data accurately or to engage in informed discussion on concepts such as those set out above. The timescale of the exercise made it difficult for providers, particularly smaller providers, to engage qualified accountants to produce their returns.
- Many providers have financial years that are different to the tax year. This is perfectly appropriate, businesses are at liberty to decide which accounting period is most appropriate for them, but it made it more challenging for providers to have to restate their costs on a 2021/22 basis in the limited time available for this exercise.
- Some returns have not stated, or have found it impossible to state, how their data has been adjusted to remove COVID-19 specific expenditure.

- Many returns have not included costs for PPE. Providers have received PPE free of charge directly from Herefordshire Council, as well as receiving and continuing to receive PPE via the national portal; this means that many providers have not incurred significant costs for PPE and find it difficult to estimate what 'normal' PPE costs may be.
- Providers have used different, sometimes inaccurate, thresholds for Employer's National Insurance Contributions. This confusion is compounded by the cancelling of the increases in NI part way through this financial year. Council Officers have amended provider returns to correct and consistent thresholds for each financial year.

As well as the general issues listed above and in the main report, a number of returns from individual providers raised queries or contained obvious errors. As noted in the main report, not all providers have engaged with resolving queries or correcting errors, and therefore the quality of data received is not as strong as it could be.