

## Annex B – Cost of Care Report for 18+ Domiciliary Care in Cheshire West and Chester (October 2022)

### Section 1 - Introduction

Cheshire West and Chester (CW&C) previously conducted a Fair Cost of Care exercise for the 18+ domiciliary care market in 2019, linked to the recommissioning of the care at home provision. The Council made a commitment in 2016 to sign up to the principles of the unison ethical care charter and to ensure that the charter was embedded in all future commissions and recommissions. Therefore, the rates arrived at during this exercise supported the key charter commitment to ensure that those carers employed by our contracted domiciliary care agencies were paid Local Living Wage (LLW) as a minimum, as a stipulation of the contract. As a result of this exercise our rates were uplifted by an average of 11.4% (excluding inflation) and have been subsequently uplifted by inflation each subsequent financial year.

As a result of the requirements of the Fair Cost of Care & Market Sustainability Fund, CW&C undertook a new cost of care exercise for the 18+ domiciliary market, during spring/summer 2022. CW&C elected to undertake this work in-house rather than through a consultant for several reasons.

Firstly, CW&C built on our already good working relationships with our providers through regular, sometimes daily, communication and support during the Covid-19 pandemic. The regular engagement and open and honest dialogue have continued to grow over the last 12 months. Conducting the exercise ourselves meant we could rely on these existing relationships between providers and Council staff, with the hope that this would result in increased levels of provider engagement with the exercise. We felt that there was a risk that through using a consultancy, providers would not recognise the people involved and be less likely to engage with events or submit returns. Having previously conducted fair cost of care exercises both in-house and through consultants, we have found that exercises using consultants have consistently had poor engagement and uptake from providers.

Secondly, conducting the financial analysis ourselves has enabled us to be as close as possible to the data submitted by providers. This has had benefits while the exercise is being conducted in terms of our ability to understand and challenge data and assumptions based on our local market intelligence. Furthermore, we are fully conversant with the underlying data and assumptions which our fair cost of care rate is based upon, which will be of benefit both for future exercises and when making decisions on how the cost of care rates arrived at will interlink with our fee setting process.

Finally, the decision not to commission consultants enabled us to pass our full 2022/23 Fair Cost of Care and Market Sustainability Fund allocation to providers via increased rates, as reported in Annex A.

In order to gather the requisite data from providers, CW&C used the 'Homecare cost of care toolkit' developed by the Local Government Association (LGA) in conjunction with ARCC-HR Ltd. This toolkit is significantly more detailed than the templates we have used for previous domiciliary care cost of care exercises and enabled us to fully capture the information required to complete Annex A. While we did hold some concerns that the complexity of the toolkit may deter some providers from completing it, we made the decision that any simplification of the toolkit would result in us being unable to satisfactorily complete the level of detail required in Annex A. Furthermore, use of the nationally recognised tool enabled providers to access a range of supporting materials and guidance e.g. the [www.costofcaretoolkit.co.uk](http://www.costofcaretoolkit.co.uk) website and the CHIP Helpdesk email address.

## Section 2 - Provider Engagement

CW&C undertook extensive provider engagement to support the cost of care exercise, to ensure we maximised the number and quality of provider returns. On 20<sup>th</sup> June 2022 we wrote out to all CQC registered 18+ domiciliary care providers in CW&C launching the exercise and providing providers with the toolkit for completion.

This was subsequently followed up by two webinars hosted by CW&C commissioning, contracts and finance staff on 23<sup>rd</sup> and 27<sup>th</sup> June. In these informal sessions we introduced providers to the requirements of the Fair Cost of Care and Market Sustainability Fund, and what, as a Local Authority, we were required to submit to DHSC and by when. We also provided an introduction to the cost of care toolkit and pointed providers to the range of supporting materials available to them to aid in its completion. We encouraged providers to take part in the exercise and emphasised that the process was different to previous cost of care exercises undertaken by CW&C, because in this instance it would be submitted to DHSC and enable a broader national conversation on the true cost of providing domiciliary care services.

In total, 38 eligible providers were invited to participate in the exercise, of which 26 attended the two webinars (68%). The engagement in this most recent exercise is significantly higher than that of the previous cost of care exercise in 2019, where only 11 providers participated in face-to-face meetings.

We also launched a dedicated website and email address for the cost of care exercise so providers could easily find all of the relevant information in one place, and get in touch with any questions they had.

Initially we set a deadline of 15<sup>th</sup> July 2022 for providers to return submissions (i.e. a four week submission window); by this date we had received returns from 12 providers. Once the deadline had passed, we wrote out to all providers encouraging them to submit returns, and individually contacted our main contracted providers who had not already responded. This resulted in an additional 2 returns.

In total, we received returns from 14 of the 38 providers invited to take part which equates to an overall response rate of 37%. In CW&C a large proportion of our care (37%) is commissioned via two main providers who both submitted returns. Equally, there are many providers who focus on the significant self-funder market within CW&C who chose not to participate in the exercise. Overall, the 14 submitted returns cover 73% of the domiciliary care hours we are commissioning in 2022/23 (based on data as at September 2022), which represents the majority of our market.

We are satisfied that the overall level of provider engagement is good (73% of our total market – hours commissioned) and that we made significant attempts to maximise engagement with all providers in the borough. The data received is broadly representative of the CW&C market.

## Section 3 - Data Validation

Once received, all provider templates were reviewed in detail. Whilst the quality of returns varied, on the whole we had considerable concerns over the quality of information received, with many containing what appeared to be obvious errors, missing data and some cost lines varying hugely across different providers. We adopted the principle of partnership and as far as possible wished to agree revised returns with providers as opposed to either excluding or unilaterally making the decision to amend erroneous data.

All providers were contacted with a list of queries and offered a meeting with Council officers to discuss. In some cases, this was to gain their agreement to correct obvious errors (e.g. incorrect NI thresholds input into the toolkit) and in other areas it was to gain supporting evidence for any specific cost lines which appeared to be outliers. We met individually with the 4 providers where we had the most concerns over their submissions. In these meetings we discussed the toolkit and our queries and supported them to complete it correctly. On the whole this was a very positive process and the vast majority of providers welcomed the opportunity to discuss their returns with us. In some cases we were satisfied that the return had been appropriately justified and accepted it, and in others we agreed a version two of their return. The changes made at this stage are summarised in Table 1 below.

*Table 1 – Summary of toolkit amendments agreed with providers*

<b>Amendment</b>	<b>No. of returns</b>
NI threshold & rates errors	9
Reduced PPE unit costs	3
Added provision for staff sickness	1
Added provision for maternity	1
Added training days	1
Added PPE costs	1
Correcting Back Office pay (hours input instead of FTE)	1
Increasing hourly rate of pay to correct error	1

We also reviewed basic carer pay with each provider to ensure that the rates quoted aligned with actual rates of pay being paid to carers, in line with the DHSC guidance that our fair cost of care exercise should be based on “median actual operating costs”. As is set out in our Annex A submission, this resulted in median carer pay of £10.70 per hour. While this is significantly higher than the LLW in April 2022 of £9.90 per hour, it reflects the local job market in CW&C, whereby higher rates of pay are required to keep workers in the care sector as opposed to other sectors e.g. health, retail and hospitality. We are therefore satisfied that the carer basic pay arrived at in our submission is reflective of the current actual cost of delivering care in CW&C.

We subsequently re-compiled the revised returns and completed a second overall review. In a small number of cases there were examples of individual cost lines we considered to be outliers, which providers had been either unable or unwilling to justify. However, upon review we concluded these outliers were not having any significant impact on the median rates, due to the nature of the median moderating for outlying data. We therefore did not exclude these lines from our analysis.

There was one example where we did exclude a significant volume of data from a provider. This provider delivers only a very small volume of care, meaning that their overheads were disproportionately high per hour of care delivered, due to the fixed costs involved in running a domiciliary care agency. This resulted in overheads forming over 50% of their submitted rate, compared to a median of 24% across all returns. We therefore excluded overheads for this provider from our calculation. We included their data on direct costs, including carer pay and travel time, as this was not impacted by the low number of care hours delivered.

## Section 4 - Inflationary Considerations

We asked providers to submit data based on their April 2022 costs and therefore no inflationary adjustments were required to arrive at the median fair cost of care rates submitted in Annex A. However, following the announcement in September 2022 of the removal of the additional NI rate increase, we have subsequently manually amended returns to base our Employer's NI rate on 13.8% rather than the increased 15.05% which provider returns were based on. This will therefore not require any further adjustment when the fair cost of care rate is revised for 2023/24.

Our proposed approach for future inflationary uplifts to the domiciliary care rates submitted in Annex A is in line with the current methodology used to uplift our domiciliary care contract rates each April, and is set out in Table 2 below.

*Table 2 – Approach to Inflationary Uplifts*

Annex A line	Inflationary approach
Direct care	Percentage uplift applied equivalent to the percentage uplift on the Real Living Wage
Travel time	
Training (staff time)	
Holiday	
Additional noncontact pay costs	
Sickness/maternity and paternity pay	
Notice/suspension pay	
NI (direct care hours)	
Pension (direct care hours)	
All other Careworker & Business cost lines	Percentage uplift applied based on October Consumer Prices Index (CPI)
Return on Operations	As this is based on a percentage of the above costs, it will be automatically uplifted for inflation based on the above

Note that uplifts for the following April will be based on data usually announced in November (both Real Living Wage and October CPI), in order to facilitate the Council's Budget Setting process for the subsequent financial year.

## Section 5- Varying rates across urban and rural areas

In CW&C there is a mix of both urban and rural areas and as such mileage and travel time between calls can vary significantly. In order to gather as much information as possible to inform future fee setting processes, we asked providers who deliver care across both area types to submit two returns; one for urban areas and one for rural areas. However, on the whole providers elected to submit one return only. The median rate submitted within our Annex A reflects median travel time of 5.72 minutes per care call, and median miles travelled of 1.55, as submitted by providers. Our assessment is this reflects a fair average across the Borough, but that actual median rates would, in reality, vary across urban and rural areas within CW&C. The detailed breakdown within Annex A and the LGA toolkit will enable us to vary individual assumptions about travel time, by area, as part of intelligence used for future fee setting processes.

## Section 6 - Approach to Return on Operations

The return on operations value quoted in Annex A is based on applying a 4% margin to all care worker and business costs. In arriving at the 4% value we considered a variety of information. Firstly, we reviewed the median return on operations percentage submitted by providers in their returns, which was 4% (although it should be noted this varied significantly from 0% to 15%).

We also noted that the UK Homecare Association Minimum Price for Homecare uses a surplus of 3% but stresses that this is “an absolute minimum and makes it difficult to ensure financial resilience or to enable investment in the workforce, innovation or technology”. A 4% return on operations therefore seemed reasonable to ensure the financial resilience of the sector while also having mind to the Council’s duty to ensure value for money on its contracts.

Furthermore, in the Supported Living fair cost of care exercise undertaken by CW&C during 2021, we similarly arrived at a return on operations level of 4% based on the average of provider returns. Finally, we took part in benchmarking exercises across the North West and nationally which provided further assurance that 4% was a reasonable basis on which to set return on operations.

It should be noted that the return on operations received by a provider is ultimately a product of both the percentage applied, and total direct and indirect costs. Therefore, the return on operations value included in Annex A represents a significant increase in the return on operations currently paid to providers, due to the higher cost baseline on which the calculation is made.

## Section 7 - Approach to calculation of overall rate; use of subtotals and individual cost lines

The original Annex A published by DHSC based the overall rate on the sum of the medians of the individual cost lines included within the detailed breakdown. After evaluating the flexibility subsequently made available to Local Authorities by DHSC to base the overall rate on other calculations e.g. the sum of the median of subtotals, CW&C have elected to use the original methodology. As such the overall rate is based on the sum of the medians of the individual cost lines; a decision taken for multiple reasons.

Firstly, the use of the median of subtotals would increase the overall rate by 10% from £23.08 to £25.41. Based on market intelligence both locally and regionally this did not seem representative of the actual median operating costs being incurred by providers of domiciliary care in CW&C.

Furthermore, we identified that basing the overall rate on individual cost lines would enable us to better interrogate and inform the rate both now and in future. It will give us the ability to:

1. Minimise any exclusions of provider data to individual cost lines; any analysis of outliers could be performed in much greater detail when analysing which data may need to be excluded.
2. Apply inflation at individual cost line level
3. More easily alter for any changes in employer pay costs e.g. NI thresholds or minimum pension contributions
4. Alter for changes to assumptions on travel times and mileage for individual areas as set out above

Therefore, the rate of £23.08 reported in Annex A agrees to the total of the individual cost lines within Annex A.

## Section 8 - Summary of results

Table 3 below shows the count of observations, lower quartile, median and upper quartile of all items in Annex A, Section 3, as arrived at following the process set out above.

*Table 3 – Analysis of Provider Returns by Cost Line Detail*

	Count of observations	Lower quartile	Median	Upper Quartile
Direct Care	14	10.66	10.86	11.28
Travel Time	14	1.18	1.67	2.33
Mileage	14	0.42	1.03	2.20
PPE	14	0.28	0.46	0.82
Training (staff time)	14	0.19	0.32	0.39
Holiday	14	1.46	1.60	1.72
Additional Non-Contact Pay Costs	14	0.00	0.00	0.00
Sickness/Maternity & Paternity Pay	14	0.26	0.36	0.79
Notice/Suspension Pay	14	0.00	0.00	0.02
NI (direct care hours)	14	0.60	0.87	1.17
Pension (direct care hours)	14	0.33	0.42	0.46
Back Office Staff	13	2.64	2.98	3.26
Travel Costs (parking/vehicle lease etc.)	13	0.00	0.00	0.04
Rent / Rates / Utilities	13	0.27	0.40	0.56
Recruitment / DBS	13	0.11	0.22	0.46
Training (3rd party)	13	0.04	0.07	0.09
IT (Hardware, Software CRM, ECM)	13	0.16	0.29	0.42
Telephony	13	0.05	0.17	0.20
Stationery / Postage	13	0.00	0.02	0.04
Insurance	13	0.07	0.07	0.10
Legal / Finance / Professional Fees	13	0.02	0.06	0.28
Marketing	13	0.01	0.03	0.07
Audit & Compliance	13	0.00	0.07	0.10
Uniforms & Other Consumables	13	0.01	0.05	0.06
Assistive Technology	13	0.00	0.00	0.00
Central / Head Office Recharges	13	0.00	0.08	0.44
Mileage	13	0.00	0.00	0.00
Cleaning	13	0.00	0.00	0.00
Loan Repayments	13	0.00	0.00	0.00
Carer Mobility and Transport	13	0.00	0.00	0.00
Wellbeing Staff	13	0.00	0.00	0.00
Branch Incentives	13	0.00	0.00	0.00
Social Value / ESG Initiatives	13	0.00	0.00	0.00
CQC Registration Fees(4)	13	0.06	0.08	0.12
Return on Operations*	14	0.49	0.89	1.73
<b>Total</b>		<b>19.32</b>	<b>23.08</b>	<b>29.14</b>

Table 4 replicates the information on key cost drivers behind the overall rate, as provided in Annex A (Section 3).

*Table 4 – Summary of Key Cost Drivers*

Key Cost Driver	Value
Number of location level survey responses received	14
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	43
Carer basic pay per hour	£0.70
Minutes of travel per contact hour	8.88
Mileage payment per mile	£0.40
Total direct care hours per annum	809,793

## Section 9 - Variations by visit length

Table 5 below sets out, based on the information submitted in the provider returns, the lower quartile, median and upper quartile of number of appointments per week by visit length, firstly for all calls (including those funded by the NHS and self-funders), and secondly for only those calls commissioned by the Local Authority. The Local Authority has signed up to the principles of the Unison Ethical Care Charter and time allocated to visits will match the needs of the clients.

*Table 5 – Number of appointments per visit length*

All appointments	15m	30m	45m	60m
Lower Quartile	0	326	107	66
Median	0	1,086	290	137
Upper Quartile	50	2,483	556	233
Local authority appointments only	15m	30m	45m	60m
Lower Quartile	0	295	90	66
Median	0	1,086	290	137
Upper Quartile	46	2,467	551	233

Table 5 demonstrates that the vast majority of calls are 30 minutes in length and are commissioned by the local authority (for those providers who chose to engage in the cost of care exercise). There is significant variation in the lower and upper quartiles. This is reflective of issues outlined earlier in the report; namely that some providers deliver very low volumes of care, and that a small number of providers are contracted to deliver the majority of the care calls in CW&C.

Table 6 sets out the cost per visit of the various call lengths, based on the cost per contact hour. Shorter calls are more expensive per commissioned hour of care due to the additional travel time and mileage incurred between calls.

*Table 6 – Cost per visit by call length*

Length of visit	Cost per visit	Cost per commissioned hour of care	% of visits of this length
15 minutes	£7.06	£28.24	0%
30 minutes	£12.13	£24.26	72%
45 minutes	£17.19	£22.92	19%
60 minutes	£22.26	£22.26	9%

## Section 10 - Overall assessment of reliability of data

Overall, we are satisfied that the levels of provider engagement received, and data validation work performed, have enabled us to perform a satisfactory cost of care exercise for the 18+ domiciliary care market, and that therefore the resulting Annex A submission represents a reasonable estimate of the median actual operating costs for delivering care in CW&C in April 2022. However, it should be noted that while the cost of care information submitted in Annex A will be one contributor to future fee setting exercises, any future changes to contract rates will differ once other factors have also been taken into consideration. These include, but are not limited to, different rates required for different providers, across different urban and rural areas of the borough, and for different visit lengths, as well as wider market sustainability and financial considerations, as covered in more detail in Annex C (Market Sustainability Plan).