LaingBuisson

Fair Cost of Care

Domiciliary Care (18+)

Results and Analysis from Toolkits submitted by Providers located in Sheffield Council

FINAL REPORT 5th October 2022

Prepared for Sheffield Council by LaingBuisson

CONTENTS

1 EXECUTIVE SUMMARY

LaingBuisson was commissioned by Sheffield Council in August 2022 to undertake a Fair Cost of Care exercise, as described and specified in government guidance[1], covering registered domiciliary care services for adults (18+) within the council's boundaries.

This written report is based on validated submissions of CQC registered domiciliary care providers, using the toolkit developed by ARCC in partnership with the Local Government Association. In the validation process, toolkit submissions were checked by LaingBuisson for sense and consistency, and anomalies were amended as necessary with the agreement of providers.

The report is presented together with a companion spreadsheet which lists all respondent providers, one row per provider, each with a range of available data points covering:

- All of the detailed operating cost categories and supporting items of information required by DHSC, extracted from respondents' toolkit submissions;
- Return on operations has been determined by the council on the basis of the best available evidence, namely the return on operations figures stated by providers in their toolkit submissions
- Key characteristics of each domiciliary care service, which may assist in analysis related to market sustainability, such as scale, sector, group ownership, etc. This data is sourced from CQC and LaingBuisson's data warehouse; and

1 Market Sustainability and Fair Cost of Care Fund 2022 to 2023: guidance, updated 25 August 2022
https://www.gov.uk/government/publications/market-sustainability-and-fair-cost-of-care-fund-2022-to-2023-guidance

- Other ratios derived from the toolkit submissions, which may assist in understanding drivers of costs.

1.1 Headline results

A summary of median total costs derived from the FCoC exercise is presented in Table 1. A more granular analysis of the cost of care results, including all of the cost lines prescribed by DHSC for councils to qualify for grant funding, is set out in Table 4.

Table 1 Median total costs[1] of providers of domiciliary care services located in Sheffield (including return on operations), £ per hour at 2022/23 prices

	Median total costs	A) Fully validated submissions	B) Partly validated submissions (with at least one cost line validated)	C) Services in scope	Response rate (A + B) / C
	£ per hour	Number	Number	Number	%
All domiciliary care	£21.60	14	4	95	19%

[1] Derived from Table.4

1.2 Response rates

At the date of this report, the LaingBuisson team had fully validated 14 toolkit submissions and partially validated 4 toolkit submissions, the latter being those for which one or more (but not all) of the cost lines had been validated. Adding these together, the 18 fully or partially validated toolkits represents a response rate of 19% of domiciliary care services in scope, Section 2.7. For some individual cost lines the effective response rate was higher and for others it was lower, see Table 4 for the number of respondents (in brackets) for each individual cost line.

1.3 Methodology - validation, correction of anomalies, outlier exclusions and calculation of medians

The methodology for calculating median costs from the submitted toolkits is described in Sections 2.4 to 2.6.

1.4 Sensitivity analysis

The results set out in Table 1 and Table 4 are sensitive to the following factors, Section 2.9:

- The efficacy of the validation process in eliminating implausible and incorrect toolkit submissions for individual cost lines;
- The validity of the rules adopted for elimination of outliers;
- The value of the return on operations benchmark that has been adopted; and
- The approach to calculating confidence intervals for the median total costs.

1.5 Confidence intervals

While there is no reason to believe that the toolkit responses were biased in any systematic way[2], the number of respondents in any given council area was limited and there was a high degree of variance in many of the cost lines submitted by respondents. This may give rise to concerns about the statistical validity of the calculated median. This concern is best addressed by calculating margins of error (confidence intervals) around the calculated medians, as illustrated in Section 2.12, Figure 1. The median hourly rate for visiting domiciliary care, calculated from the validated FCoC toolkits, was £21.60, with 95% upper and lower confidence limits of £25.52 and £20.17 respectively. In other words, subject to the individual toolkit results being normally distributed, we can be 95% confident that the true median (i.e. the median value that would have been calculated with a 100% response rate) lies somewhere between the upper and lower confidence limits of £20.17 and £25.52.

[2] We cannot, however, rule out the possibility that providers may have overstated their costs, and it was not practicable within the timescale available to carry out a range of checks applied by LaingBuisson in other cost of care exercises, including requesting evidence of staff costs from payroll records.

1.6 Conclusions

The key item of data that the national FCoC exercise has sought to reveal is the 'fee gap' (if any) between the calculated median cost of homecare and the fee rate currently being paid by councils, in order to inform policy decisions on the quantum of the gap to fill (if any) and the pace at which it can be filled with the resources available.

The average domiciliary care fee rates actually being paid by Sheffield Council, at the date of the report in October 2022, stood at £19.05 per hour[3]. This is £2.55 lower than the calculated FCoC median, and £1.12 below the lower 95% confidence bound of the calculated FCoC median.

This means that the council can be at least 95% confident that there actually is a gap between the £19.05 per hour average rate being paid by the council now and median provider costs calculated from the FCoC toolkits. It is statistically uncertain what the quantum of the gap really is, though it is possible to be 95% confident that it is at least £1.12, being the gap between the £19.05 paid by the council now and the £20.17 lower bound of the 95% confidence limits of the calculated FCoC median, and it may be more.

2 FAIR COST OF CARE RESULTS FOR SUBMISSION TO DHSC

2.1 The ARCC / LGA toolkit

Under the instructions of Sheffield Council, LaingBuisson opted to use the cost of care toolkit developed by ARCC in partnership with the Local Government Association. The ARCC toolkit takes the form of an Excel spreadsheet with a mix of editable and locked cells addressing different costs associated with domiciliary care business operations. The toolkit allows providers to enter their costs and other relevant data, while internal calculations in protected parts of the spreadsheet generate costs in a Data Output tab, in the format required for reporting results to DHSC.

[3] The gross hourly cost to the council of domiciliary care provision since 1 April,2022 divided by the number of paid contact hours, using improved Better Care Fund (iBCF) definitions.

Domiciliary care providers submitted their completed toolkit spreadsheets direct to their council or to the organisation (if any) supporting the council to undertake the FCoC work. Unlike the approved care home toolkit, domiciliary care cost data is held only in the toolkit spreadsheets. It is not held or maintained in any online portal.

2.2 Services in scope

There were 95 domiciliary care services in scope, with a CQC registered address located within the boundaries of Sheffield Council. In scope services include for-profit and not-for-profit providers which predominantly offer visiting domiciliary care to adults aged 18 or over, funded by local authorities, the NHS or privately. Those which predominantly serve clusters of users at fixed 'extra care' or 'supported living' locations are not in scope. Out of scope services can usually be identified through their CQC registrations as those with an 'extra care' or 'supported living' service type, but without a 'domiciliary care' service type.

2.3 Engagement with providers

LaingBuisson worked with the council to engage with providers through a variety of communication channels, including intensive, direct telephone contact with providers to encourage participation and completion of the toolkit.

Sheffield Council engaged with providers through a variety of communication channels, including, direct telephone contact to encourage participation and completion of the toolkit. In addition, the Council supported providers who were in the process of completing their submissions.

2.4 Quality of toolkit submissions

LaingBuisson's experience, gained from similar care cost exercises carried out in recent years, is that the quality of submissions is variable. Large corporate groups typically have the resources to submit consistent and reliable numbers, but SMEs and micro-businesses can find it challenging to deal with the volume and complexity of data requested in toolkits and may leave some questions unanswered or incorrectly answered. Consequently, it is necessary to apply a robust validation process, including querying anomalous submissions with respondents and assisting them to provide the appropriate data.

2.5 Validation

Toolkit submissions were inspected by LaingBuisson and checked for sense and consistency. All respondents were re-contacted by telephone following submission. Among other things, re-contact was necessary to resolve ambiguities around three specific data points reported in the toolkits, each of which could potentially have a significant impact on reported total costs:

- date of currency of costs, particularly carers' gross hourly pay rates. The ARCC toolkit does not ask for currency dates, meaning that stated pay rates may relate to either 2021/22 or 2022/23;

- payroll calculation: the internal formula within the ARCC toolkit calculates direct staffing costs (before on-costs) as gross hourly pay rate X contact + travel hours. However, we understand that the majority of domiciliary care employers calculate payroll as gross hourly pay rate X contact hours only, meaning that ARCC's internal formula is biased towards overstating staffing costs in many cases, the degree of overstatement depending on the ratio of travel hours to contact hours; and

- back office costs, which were highly variable. Some of them accounted for large proportion of total costs. Anomalies which we came across included staff doubling up as care workers and as back office staff members, leading to possible double counting, and back office staff being used to support other business lines, leading to possible overstatement of costs.

The opportunity presented by the re-contact call was taken to ask some further questions, for the purpose of gathering supplementary information which may be useful for FCoC and also for subsequent market sustainability work,

- *What is your approximate breakdown of billable hours by funding source?* – Local authority, Private, NHS and Others. Unfortunately, however, the homecare response rate was insufficient to estimate the sector-wide funding profile reliably.

- *How would you describe your catchment area: Mainly Urban, Urban, Rural, Mainly Rural?*

- *Which districts do you operate your services in?*

- *Does gross pay include an element of mileage? If so, please confirm that travel time is not double counted*.

In some cases, where the total cost returned in the initial toolkit submission was unusually high, we carried out an anonymous mystery shopper call, prior to the validation re-call. The question (paraphrased) was*: 'I want to arrange domiciliary care for my [relative], what's your hourly rate?*' The reason

for this was to test the plausibility of toolkit submissions. If the hourly rate quoted was less than the operating costs submitted in the toolkit, then the provider could be challenged as follows: *'Your service appears to be loss-making (toolkit operating costs are higher than charge-out rates). If you are not loss-making, how might your toolkit submission have overstated your costs*?

Depending on the answers to the above questions, appropriate adjustments were made with the agreement of providers in order to arrive at corrected total hourly costs at April 2022 prices for each submitted toolkit.

2.6 Incomplete toolkit submissions

2.6.1 Interpolation *vs* outlier exclusion

There are two basic approaches to optimising value from survey results where, even after a robust validation process, some cost lines in any given toolkit submission may be zero or empty (null), and some may be outside a reasonable range:

- **Interpolation** is one approach, in which null, zero or extreme outlier data for any individual cost line in any given toolkit submission is substituted by the median (or mean) value among those toolkits that submitted valid, in range data for that cost line. By this means, otherwise valid toolkits can avoid being discarded due to the absence of minor cost items. In this approach it is reasonable to interpolate values for minor cost lines, though not for major cost lines, such as staffing costs, which are major drivers of total costs; Interpolation maximises the number of valid toolkit responses, from which the median numbers for each individual cost line, as well as the median total cost for all validated toolkits can be calculated. A downside of the interpolation approach, however, is that the nature of medians (the DHSC's preferred measure of central tendency) means that the individual cost line medians do not add to the subtotal medians and the subtotal medians do not add to the total cost median.

- **Outlier exclusion** is another approach, in which median values are calculated separately for each cost line, using all submitted toolkits where that particular cost line was validated, and excluding all 'outliers' whether they be null or zero values or outside a defined range. The full output required by DHSC can then be built up from individual cost line medians. A bonus from this method is that the median total cost line required by DHSC is equal to the sum of the median subtotals and the median subtotals are equal to the sums of the relevant individual cost lines.

We have opted to use the **outlier exclusion** approach, and we have defined outliers to encompass:

a) Null (empty) or zero values for any cost lines where a null or zero value would be inappropriate

b) Non-zero values which are outside specified boundaries.

With respect to b), having researched various methodologies, we adopted Double Median Absolute Deviation (Double MAD) as the preferred approach to setting outlier boundaries for each individual cost line.

$$MAD = median(|X_i - \overline{X}|)$$

Median Absolute Deviation (MAD) is calculated by finding the absolute difference between each validated data point and the validated sample median, and then calculating the median of these absolute differences.

For normally distributed data, MAD is multiplied by a constant b = 1.4826, however, the distribution is unknown and not symmetric in our data sample.

Furthermore, statistically testing for skewness in the sample confirms that the data suffers from a highly asymmetric distribution across all categories. Using a singular Median Absolute Deviation value, disregarding the asymmetry in the distribution, would produce unreliable results. For this reason, we opted for an enhanced method called "Double MAD".

The premises underlying this method are similar to the classic version, with the only difference being the calculation of two Median Absolute Deviations: (1) the median absolute deviation from the median of all points less than or equal to the median and (2) the median absolute deviation from the median of all points greater than or equal to the median. This allows us to set pertinent outlier thresholds taking into account skewness in the data sample. Finally, for each cost line, we have defined as an outlier any data point which is more than 2 X MAD above or below the median. All such outliers have been excluded from the calculation of median costs in Table 4.

We have made one exception to the general outlier exclusion rule described above. It relates to the treatment of outliers in the Total Business Costs line. As noted in Section 2.5, these back-office costs were highly variable. Some of them accounted for large proportion of total costs. Anomalies which we came across included staff doubling up as care workers and as back-office staff members, leading to possible double counting, and back office staff being used to support other business lines, leading to possible overstatement of costs. We also noted that toolkit submissions for back office costs stood out as being substantially higher than the benchmark cost for 'Running the business' within the Homecare Association's pro forma minimum cost structure presented in Table 4. The balance of evidence is that many of the toolkit submissions did overstate Total Business Costs. Consequently, for this cost category, the outlier exclusion method has been customised to "Median – 3 X MAD" for the lower boundary and "Median + 1 X MAD" for the upper boundary. This has the effect of restricting the acceptable range of values above the median. Simultaneously, we consider it necessary to accept values which gravitate around the Homecare Association benchmark of £3.02 per hour for back-office staff, which would have been rejected if the threshold stayed "Median – 2 X MAD".

2.6.2. Base price year and uplifts

The base price year of toolkits has been given as 2022/23. As this was not an element covered within the LGA/CHIP toolkit, additional contact with providers was necessary. Data used in the included analysis has been taken from toolkits received from providers who have confirmed that a 2022/23 base price year has been used, or for toolkits with 2021/22 costs for which uplifts have been applied to cost totals. Uplifts for each cost item are identified in table 2 below, and have been gathered from NLW, CPI, and CPIH 12 month % change figures to April 2022[4], with future uplifting possible through application of later releases of the same indices/% change figures. Our approach to uplifting through application of figures on a point-by-point basis has been made with a view to reflecting relative differences as recommended in The Green Book 2022[5].

Table 2 – Price uplifts

	CPI Code	CPI Item	12 Month % change to April 2022
Direct Care	-	National Living Wage % increase[6]	6.6
Travel Time	-	National Living Wage % increase	6.6
Mileage	D7H3	07.2 Operation of personal transport equipment	16.5
PPE	D7NO	06.1 Medical products, appliances and equipment	1.3
Training (staff time)	-	National Living Wage % increase	6.6
Holiday	-	National Living Wage % increase	6.6
Additional Non-Contact Pay Costs	-	National Living Wage % increase	6.6
Sickness/Maternity & Paternity Pay	-	National Living Wage % increase	6.6
Notice/Suspension Pay	-	National Living Wage % increase	6.6
NI (direct care hours)	-	-	-
Pension (direct care hours)	-	National Living Wage % increase	6.6

[4] Table 22, https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation
[5] Section 5.13, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1063330/Green_Book_2022.pdf
[6] https://www.gov.uk/government/news/national-living-wage-increase-boosts-pay-of-low-paid-workers#:~:text=The%20improvement%20in%20the%20economic,2.2%20per%20cent)%20in%202021.

Back Office Staff	-	ONS estimated growth in earnings[7]	4.1
Travel Costs (parking/vehicle lease etc.)	D7GE	07 Transport	13.5
Rent / Rates / Utilities	D7GB	04 Housing, water, electricity, gas and other fuels	19.2
Recruitment / DBS	D7OB	12.7 Other services (nec)	-3.1
Training (3rd party)	L7TA	10.4 Tertiary education	5.1
IT (Hardware, Software CRM, ECM)	D7IY	08.2/3 Telephone and telefax equipment and services	2.6
Telephony	D7IY	08.2/3 Telephone and telefax equipment and services	2.6
Stationery / Postage	D7GF	08 Communication	2.8
Insurance	D7HF	12.5 Insurance	11.7
Legal / Finance / Professional Fees	D7GJ	12 Miscellaneous goods and services	2.9
Marketing	D7GJ	12 Miscellaneous goods and services	2.9
Audit & Compliance	D7GJ	12 Miscellaneous goods and services	2.9
Uniforms & Other Consumables	D7GA	03 Clothing and footwear	8.3
Assistive Technology	D7GJ	12 Miscellaneous goods and services	2.9
Central / Head Office Recharges	D7G7	CPI (overall index)	9.0
Other Costs	D7G7	CPI (overall index)	9.0
CQC Registration Fees (4)	-	-	-

2.7 Response rates

At the date of this report, the LaingBuisson team has fully validated 14 toolkit submissions and partially validated 4 toolkit submissions, the latter being those for which one or more (but not all) of the cost lines had been validated. Adding these together, the 18 fully or partially validated toolkits represents a response rate of 19% of domiciliary care services in scope, Section 2.7. For some individual cost lines the effective response rate was higher and for others it was lower, see Table 4 for the number of respondents (in brackets) for each individual cost line. Table 3 segments response rates according to key service characteristics which may (or may not) have a bearing on costs.

[7] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/july2022

Table 3 – Validated and partially validated responses and response rates as a percentage of services in scope, by key service characteristics

Key characteristics	Responses No.	Responses as % of services in scope with the relevant characteristic %
Total fully or partly validated	18	19%
Strategic providers	15	42%
For-profit	17	19%
Not-for-profit	1	20%
Large corporate group[1]	4	36%
Medium group[2]	5	25%
Small group or independent[3]	9	10%
Large service scale (100,000+ hours annually)	5	N/A
Medium service scale (15,000 – 99,000 hours annually)	12	N/A
Small service scale (<15,000 hours annually)	1	N/A
Good or Outstanding	12	21%
Requires improvement or Inadequate	5	31%
Urban	6	N/A
Mainly Urban	7	N/A
Rural	0	N/A
Mainly rural	0	N/A
Mainly (60%+) private pay	1	N/A
Mainly (+60%+) public pay	11	N/A
Sheffield City Council	16	18%
Doncaster Metropolitan Borough Council	1	100%
Barnsley Metropolitan Borough Council	1	100%

[1] 40 or more domiciliary care services across the UK
[2] 3 - 39 domiciliary care services across the UK
[3] Fewer than 3 domiciliary care services across the UK

2.8 Analysis and results

Summary results from fully and partly validated homecare toolkits submitted by home care services located in Sheffield are presented in Table 4, in the form prescribed by the DHSC guidance. The results are copied from the companion spreadsheet, which is populated with median operating costs derived from the validated toolkits.

Return on operations is based on the median 5% mark-up on operating costs entered in the toolkit submissions, see Section 2.9.1.

Table 4 Median costs of domiciliary care services located in Sheffield which submitted valid toolkits, £ per week at 2022/23 prices

	Median	Q1	Q3
	£	£	£
	(The numbers in brackets represent the number of fully or partially validated toolkits from which the given cost line median was derived)		
Total Careworker Costs:	**15.82**	**14.87**	**18.03**
○ Direct care	10.62 (15)	10.27 (15)	11.13 (15)
○ Travel time	0.18 (14)	0 (14)	1.06 (14)
○ Mileage	0.62 (12)	0.58 (12)	0.79 (12)
○ PPE	0.62 (11)	0.61 (11)	0.85 (11)
○ Training (staff time)	0.33 (15)	0.26 (15)	0.42 (15)
○ Holiday	1.53 (15)	1.5 (15)	1.56 (15)
○ Additional noncontact pay costs	0.14 (5)	0.12 (5)	0.18 (5)
○ Sickness/maternity and paternity pay	0.34 (13)	0.29 (13)	0.42 (13)
○ Notice/suspension pay	0.06 (6)	0.03 (6)	0.1 (6)
○ NI (direct care hours)	0.95 (15)	0.79 (15)	1.09 (15)
○ Pension (direct care hours)	0.43 (13)	0.42 (13)	0.43 (13)
Total business costs:	**4.75**	**3.44**	**6.81**
○ Back office staff	2.74 (14)	2.26 (14)	3.21 (14)
○ Travel costs (parking/vehicle lease et cetera)	0.04 (7)	0.01 (7)	0.07 (7)
○ Rent/rates/utilities	0.35 (13)	0.3 (13)	0.43 (13)
○ Recruitment/DBS	0.08 (14)	0.03 (14)	0.13 (14)

○ Training (third party)	0.03 (10)	0.01 (10)	0.14 (10)
○ IT (hardware, software CRM, ECM)	0.25 (17)	0.09 (17)	0.34 (17)
○ Telephony	0.16 (16)	0.09 (16)	0.19 (16)
○ Stationery/postage	0.05 (14)	0.03 (14)	0.06 (14)
○ Insurance	0.09 (14)	0.07 (14)	0.13 (14)
○ Legal/finance/professional fees	0.06 (9)	0.04 (9)	0.08 (9)
○ Marketing	0.04 (11)	0.04 (11)	0.17 (11)
○ Audit and compliance	0.03 (12)	0.03 (12)	0.07 (12)
○ Uniforms and other consumables	0.03 (12)	0.01 (12)	0.04 (12)
○ Assistive technology	0.01 (2)	0.01 (2)	0.02 (2)
○ Central/head office recharges	0.52 (10)	0.3 (10)	1.16 (10)
○ Other overheads	0.19 (11)	0.05 (11)	0.47 (11)
○ CQC fees	0.08 (14)	0.07 (14)	0.1 (14)
Total Return on Operations (5% of operating costs)	**1.03**	**0.92**	**1.24**
TOTAL	**21.60**	**19.23**	**26.08**
Supporting information on important cost drivers used in the calculations:			
○ *Number of location level survey responses received*			18
○ *Number of locations eligible to fill in the survey (excluding those found to be ineligible)*			95
○ *Carer basic pay per hour*			£10.71
○ *Minutes of travel per contact hour*			7.4
○ *Mileage payment per mile*			£0.37
○ *Total direct care hours per annum*			831,470
○ *Average direct care hours per annum*			69,289

Notes:
All data are derived from toolkits.

2.8.1 Supplementary information from homecare toolkits

DHSC guidance requires supplementary information on the number of appointments per week by visit length, direct care costs by visit length and travel costs per visit. The information is presented in Tables 5 and 6.

Table 5 Number of domiciliary care appointments per service per week by length of visit

Visit Length	Median	1st Quartile	3rd Quartile
15 minutes	199	56.5	295.5
30 minutes	915	420	1523.9
45 minutes	186	73	287
60 minutes	67	53	196

Table 6 Cost per visit by visit length

Visit Length	Average Cost	Median Cost
	£	£
15 minutes	6.45	6.31
30 minutes	11.86	11.52
45 minutes	17.27	16.74
60 minutes	22.68	21.96

2.9 Sensitivity analysis

The median total costs set out in Table 4 are sensitive to the following factors:

- The efficacy of the validation process in eliminating implausible and incorrect toolkit submissions for individual cost lines. We believe that the validation process, as described in Section 2.5 was effective;

- The validity of the rules adopted for elimination of outliers before calculating the medians for each cost line. Outlier exclusion was restrictive and we believe the rules adopted, as described in Section 2.6 were appropriate;
- The value of the return on operations benchmark that has been adopted, see Section 2.9.1
- The approach to calculating confidence intervals for the median total costs, see Section 2.9.2
- Special local factors, if any, see Section 2.11

2.9.1 Return on operations

LaingBuisson's advised setting the return on operations benchmark at a 10% mark-up on operating costs, see Appendix 1 for the evidence. However, after considering this evidence, Sheffield Council has determined that the benchmark should be a 5% mark-up on operating costs, being the median return on operations entered in the provider submissions. The 5% mark-up has been applied to operating costs in the calculation of median total costs in Table 4. If the council-determined benchmark were amended to the LaingBuisson recommended mark-up of 10% of operating costs, then the median total cost calculation in Table 4 would rise from £21.60 per hour to £22.63 per hour.

2.9.2 Comparisons with the Homecare Association pro forma cost structure for 2022/23

The Homecare Association is the trade body for the independent homecare sector in the UK. It has published pro-forma costing models, the latest of which is for the year 2022/23, Table 7. To date it has been the only benchmark in the public domain for the hourly costs of visiting homecare

Gross pay for careworkers' contact + travel time, before on-costs, is shown as £11.43 nationally in the Homecare Association model, compared with the FCoC result of £10.80 in April 2022 for Sheffield Council (Table 4).

The ratio of 'Total price' to gross pay works out at 2.03 in the Home Association pro-forma model, compared with an equivalent ratio (Total cost to (Direct Care + Travel Time) of 2.0 from the FCoC results in Sheffield Council presented in Table 4.

If the Homecare Association ratio of 2.03 were applied to the FCoC median gross pay per hour in Sheffield then the Total cost line in Table 4 would work out at £21.92 per hour.

It should be noted that the Homecare Association pro forma allows a 3% mark-up for 'profit or surplus' LaingBuisson considers this to be unrealistically low, even as a minimum, as indicated. It is unlikely that any commercial organisation would consider entering the domiciliary care sector with an average expected profitability of 3%.

Table 7 Pro forma minimum cost structure of the short duration visiting model of homecare, illustrated at National Living Wage for all care workers, £ per hour 2022-23

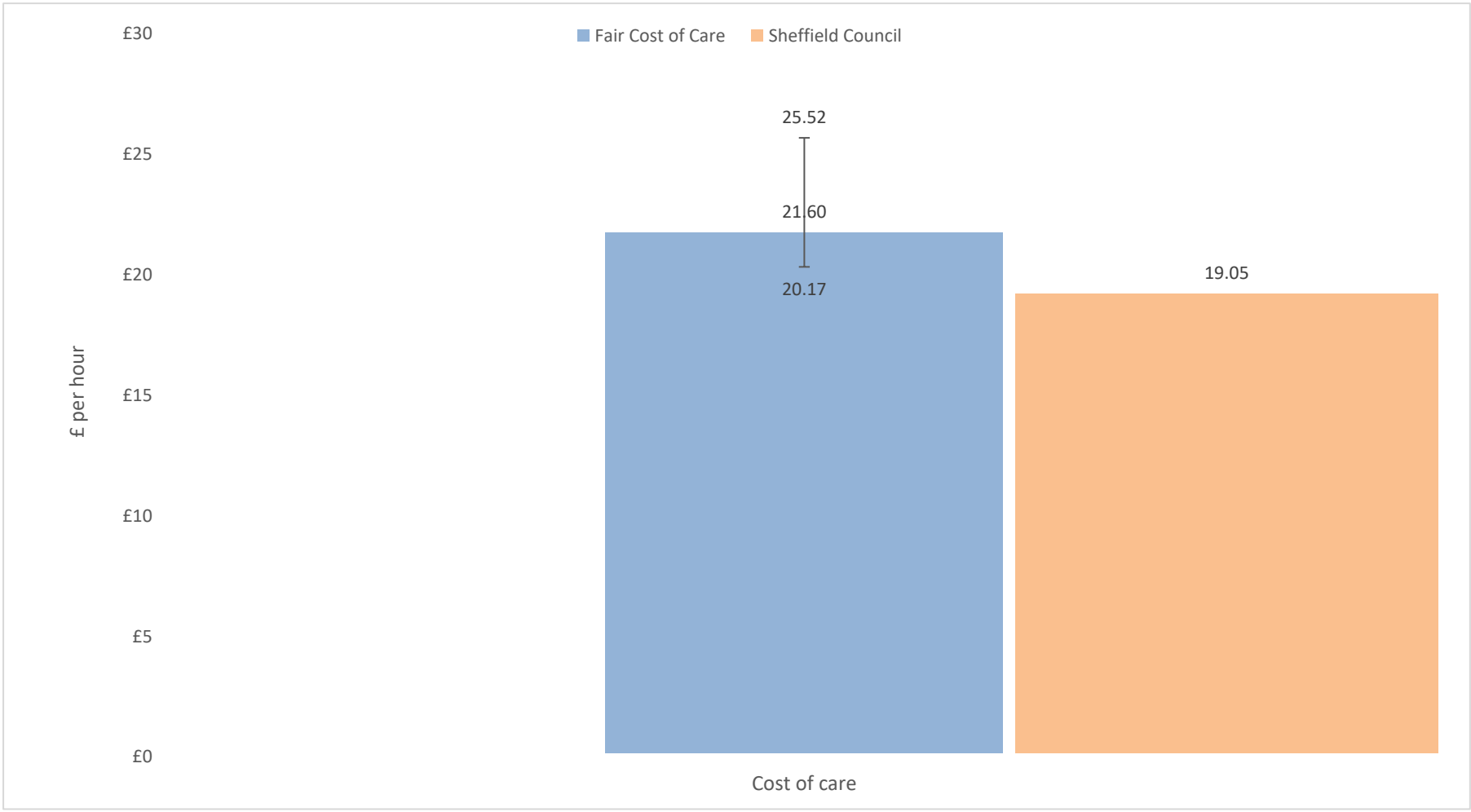
	£ per hour
Careworkers contact time (gross pay before on-costs)	£9.50
Careworkers travel time (gross pay before on-costs)	£1.93
NI and pension contributions	£1.34
Other wage-related on-costs	£2.28
Mileage	£1.52
Running the business	£5.95
Profit or surplus	£0.68
Minimum hourly price	**£23.20**

2.10 Confidence intervals

There is no reason to believe that the toolkit responses were biased in any systematic way[8]. However, because of the relatively low number of validated responses, and the high degree of variance among the sample of toolkits in most of the cost lines, councils will wish to have some indication of the margin of error, and particularly whether confidence limits for the FCoC median do or do not overlap with the average fee currently being paid by councils in financial year 2022/23. Calculation of the 95% confidence limits is set out in Figure 1.

[8] We cannot, however, rule out the possibility that providers may have overstated their costs, and it was not practicable within the timescale available to carry out a range of checks applied by LaingBuisson in other cost of care exercises, including requesting evidence of staff costs from payroll records.

Figure 1 Fair Cost of Care median total cost of domiciliary care for April 2022 with 95% confidence intervals, and comparison with fee rates paid by Sheffield council to independent sector providers in financial year 2022/23 to date



Note: The council's average hourly fee rate is calculated as Gross Fees divided by Service Users, using iBCF definitions.

2.11 Special local factors

Every local care economy is different, but there are no special features of the Sheffield domiciliary care market which justify variation of the analytical approach adopted for other councils that LaingBuisson has supported in the national FCoC exercise.

2.12 Conclusions

The key item of data that the national FCoC exercise has sought to reveal is the gap (if any) between the calculated median cost of care and the fee rate currently being paid by councils, in order to inform policy decisions on the quantum of the gap to fill (if any) and the pace at which it can be filled with the resources available.

The average domiciliary care fee rates actually being paid by Sheffield Council, at the date of the report in October 2022, stood at £19.05 per hour[9]. This is £2.55 lower than the calculated FCoC median, and £1.12 below the lower 95% confidence bound of the calculated FCoC median.

This means that we can be at least 95% confident that there actually is a gap between the £19.05 per hour average rate being paid by Sheffield Council now and median provider costs calculated from the FCoC toolkits. We cannot be certain what the quantum of the gap really is, though we can be 95% confident that it is at least £1.12, being the gap between the £19.05 paid by the council now and the £20.17 lower bound of the 95% confidence limits of the calculated FCoC median, and it may be much more.

Therefore, there is evidence to support an increase of at least £1.12 in the current average hourly fee rates paid by Sheffield Council to its domiciliary care providers, subject to available resources.

[9] The gross hourly cost to the council of domiciliary care provision since 1 April,2022 divided by the number of paid contact hours, using improved Better Care Fund (iBCF) definitions.

APPENDIX 1 EVIDENCE BASE FOR RETURN ON OPERATIONS BENCHMARK

Our FCoC report on care homes concluded with a recommendation for a 10% mark-up on operating costs, representing a reasonable return on operations for care home providers. The rationale and evidence is discussed at length in the Appendix of the FCoC care home report.

Our view is that the same mark-up of 10% can legitimately be applied to domiciliary care operating costs. The rationale is that, once the property costs have been stripped out of care homes, the operating business – employing and managing staff to deliver care and support – has more similarities than differences. Therefore, 10% is an equally appropriate mark-up on domiciliary care operating costs and head office costs.

We have also considered a supporting approach to determining a return on operations benchmark, based on historic returns posted by domiciliary care and supported living groups. LaingBuisson maintains structured data on profit and loss accounts posted on Companies House by the full range of independent sector operators of health and social care in the UK, going back for more than a decade. Nearly all domiciliary groups in this financial data set are for-profit. All not-for-profit groups specialise in supported living for younger adults.

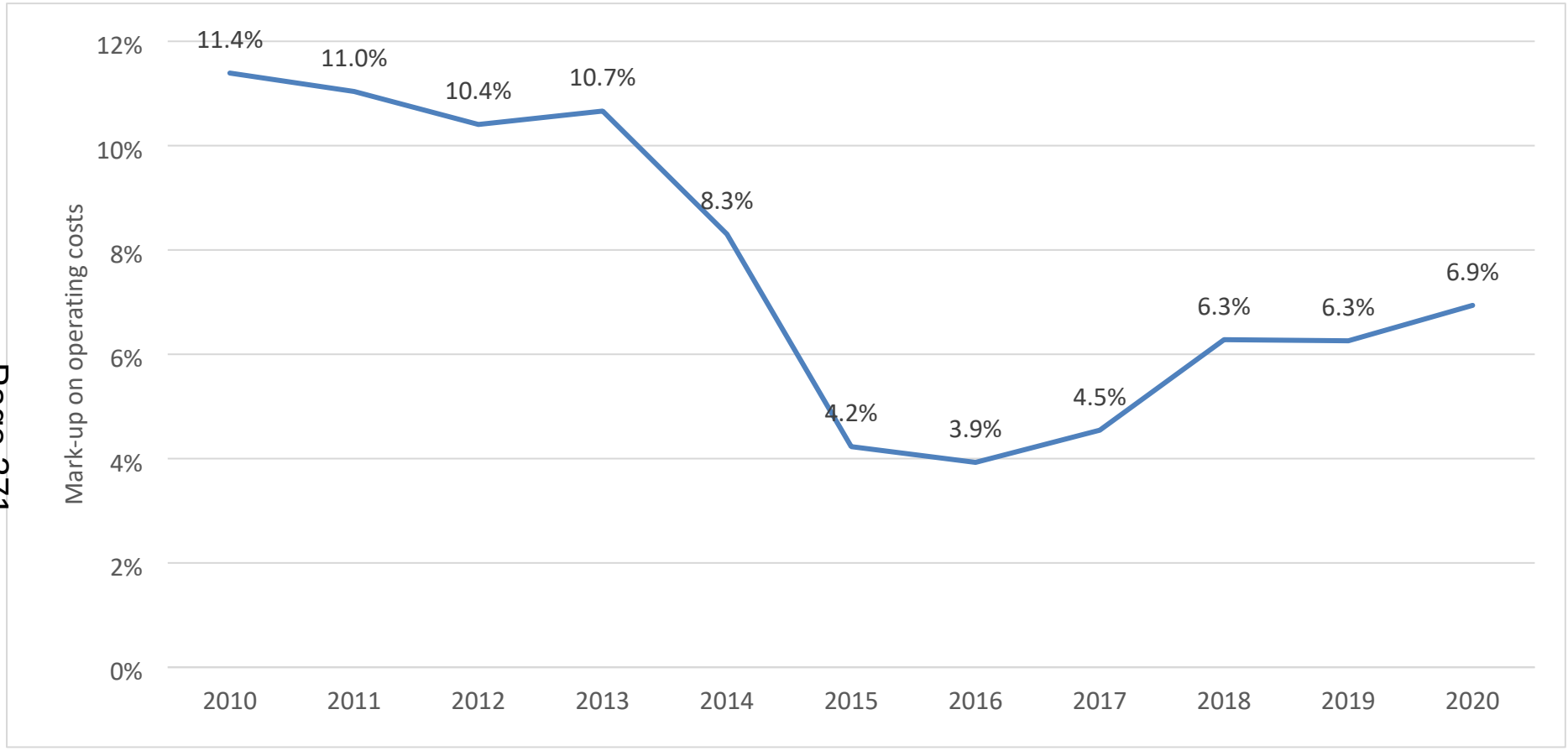
Trends in the profitability of for-profit groups over the period 2010 - 2020 are illustrated in Figure 1. The data support a narrative frequently expressed by independent sector interests, which is that financial pressures following the implementation of austerity measures from 2011/12 had a negative impact on profitability. The aggregate mark-up[10] of companies fell from a base of a little over 10% at the turn of the decade to a low point of 3.6% for statutory
accounts periods ending in 2016, before partially recovering to 6.9% for statutory accounts periods ending in 2020. Data for 2021 are as yet incomplete.

The aggregate revenue of for-profit domiciliary care companies covered in Figure 1 in 2020 was £1.3 billion, which represents 20% of the total UK domiciliary care market of £6.4 billion in 2020/21, as estimated by LaingBuisson[11]. Larger companies with full profit and loss accounts are more exposed to local authority funding than the market as a whole. Also, profitable franchise providers which typically focus on private pay are excluded from the analysis because their results do not consolidate their individual franchisees. Despite the skewed sample, LaingBuisson considers that the trends in profitability illustrated in Figure 1 are supportive of 10% as a mark-up norm for a competitive sector during a time (pre-austerity) when it was not subject to excessive pressure on margins.

In conclusion, we recommend a **10% mark-up on operating and head office costs as an appropriate return on operations for domiciliary care providers.**

[10] Mark-up is calculated as EBITDA / (Revenue – EBITDA)
[11] *Homecare and Supported Living UK Market Report,* LaingBuisson 2021

Figure 2 Aggregate mark-up on operating costs among larger, for-profit domiciliary care providers which have posted statutory accounts with full profit and loss at Companies House, UK 2010 - 2020



[1] Financial period ending in those years

APPENDIX 2 GLOSSARY

Cost of care

Cost of care best describes the actual costs a care provider incurs in delivering care at the point in time that the exercise is undertaken. It is typically presented as a unit cost for an hour of domiciliary care or a bed per week in a care home.

'Fee for care', 'rate for care' or 'fee rate for care'

These terms are often used interchangeably but most commonly refer to the figure a local authority sets and/or agrees to pay a provider for a particular service. Local authorities will have different commissioning frameworks and approaches to rates for care. In some situations, a local authority will set a fixed rate that it will pay for a type of service and this may be referred to as the 'local authority's set or usual rate for a care home bed'.

Cost of care exercise

A process of engagement between local authorities, commissioners and providers, data collection and analysis by means of which local authorities and care providers can arrive at a shared understanding of the local cost of providing care. The cost of care exercise will help local authorities identify the lower quartile, median and upper quartile costs in the local area for a series of care categories.

Fair

For reporting purposes for this fund, and in terms of understanding the cost of care, fair means the median actual operating costs for providing care in the local area (following completion of a cost of care exercise) for a series of care categories. This must include evidence values for return on capital and return on operations, and also travel time for domiciliary care. Together this is what is described as the 'fair cost of care' and is, on average, what local authorities are required to move toward paying providers.

In the context of specific rates for care paid, fair means what is sustainable for the local market.

For providers, this means they will be able to cover the cost of care delivery and be able to make a reasonable profit (including re-investment in their business), surplus or meet their charitable objectives.

Local authorities recognise the responsibility they have in stewarding public money, including securing the best value for the taxpayer.

Data collection tool

This is a spreadsheet or web-based system for use by each care location participating in the cost of care exercise to work out their breakdown of costs (per resident per week or contact hour) for submission in the cost of care exercise. The spreadsheet or web-based system will contain pre-programmed formulas to help providers consistently calculate these costs.

Cost of the care data table

A breakdown of the results of the cost of care exercise for each cost line as set out in Annex A, Section 3, for submission to DHSC.

Cost of care report

A PDF or Microsoft Word document explaining how the results in the cost of care data table were arrived at, including but not limited to, the contents described in Annex B. Separate reports should be produced for 65+ care homes and 18+ domiciliary care due to their very different cost bases. Local authorities are required to submit these reports to DHSC and publish them on their GOV.UK website.

Average

Averages (properly called 'means') cover the whole distribution, though have the disadvantage of being skewed by high outlier values.

Local authority fee rates in collections such as the Adult Social Care Finance Return and the Improved Better Care Fund collection are required to be reported as averages. For reporting purposes in this fund, fee rates paid are required to be reported as averages in line with wider fee rate reporting.

Median

Medians represent the middle value when a distribution (for example fee rates) is ordered by size (for example by the amount of the fee rate). The advantage of medians compared to averages is that they are less skewed by high outlier values.

Data collected through the cost of care exercise are required to be reported as medians to account for outliers in the distributions that are being analysed (such as staffing ratios or staff costs per resident at location level).

Sustainable market

A sustainable market has a sufficient supply of services but with provider entry and exit, investment, innovation, the choice for people who draw on care, and sufficient workforce supply. It also refers to a market which operates efficiently and effectively, linked to the market shaping duty placed on local authorities under section 5 of the Care Act 2014. Further detail on this can be found in the market sustainability plans section of the guidance.

Enterprise Scale

We use enterprise scale to refer to the number of home care providers/care homes operated by the same service provider as obtained from the CQC.