Harrow Council's Annex B: Market Sustainability and Fair Cost of Care Fund 2022 to 2023 Exercise

The Market Sustainability and Fair Cost of Care Fund sets out funding parameters in support of local authorities to prepare their markets for reform, including the further commencement of Section 18(3) of the Care Act 2014 in October 2023, and to specifically support local authorities to move towards paying providers a fair cost of care.

As a condition of receiving future funding from the fund, local authorities are required to evidence the work undertaken to prepare their markets for wider charging reform and thereby increase market sustainability. This required them to produce:

- Cost of care exercises for 65+ care homes and 18+ domiciliary care
- A provisional market sustainability plan, using the cost of care exercise as a key input to identify risks in the local market, with consideration given to the further commencement of Section 18(3) of the Care Act 2014 (which is currently in force only for domiciliary care) – a final plan will be submitted in February 2023
- A spend report detailing how funding allocated for 2022 to 2023 is being spent in line with the fund's purpose

This report sets out the approach adopted by Harrow Council in meeting the conditions of the fund and how the cost of care estimates submitted to DHSC within Annex A have been arrived at.

Cost of Care Report for 18+ Homecare

Harrow Council's approach to the cost of care exercise

Harrow Council made an early decision to appoint an organisation to undertake the cost of care exercise on the basis:

- of the valued benefit of using an independent third-party organisation with considerable local experience of care markets
- of the reassurance to providers that their information would be treated confidentially and not shared with the council. This was particularly well received in the provider engagement sessions
- to provide the right focus and expertise we decided to invest some of our grant monies for external support to carry out the work and deliver the analysis required

Harrow Council commissioned Care Analytics to carry out its cost care exercise analysis. Harrow Council coordinated extensive engagement and communications

with of the providers during all stages of the exercise. Care Analytics were similarly commissioned by two other North-West London Local Authorities and ten outside of London.

Care Analytics have specialised in the financial analysis of services in adult social care, it has built its expertise in care markets and the costs of care as a company since 2009.

Harrow Council has not altered any of the cost analysis presented by Care Analytics.

Provider engagement

Harrow Council made a significant attempt to positively engage with all providers in its border that were in scope. A great deal of officer time was devoted to completing the exercise, involving several officers in the People's Directorate including Senior Director input and overview.

The range of engagement activities employed are listed below:

- Formal letters
- Dedicated and specific webinars and Team's meetings to the whole group of providers or for smaller groups
- Discussions in the fortnightly bedded care provider forums
- One to one telephone calls and Teams meetings
- Production of Guidance Documents
- Teams meetings with Care Analytics to discuss the process and consider any provider concerns
- The use of a dedicated cost of care email address and quick responses
- Regional engagement with North-West London Local Authorities through the WLA
- Allowing providers to contact Harrow Council and/or Care Analytics directly for any concerns or points of clarification
- Extensions to deadlines in response to provider requests (which meant less time for analysis)
- Chasing up regional or head office staff directly when providers had a policy to provide a response in this manner

Harrow Council sent all providers a detailed Provider Survey designed by Care Analytics to capture the necessary information. Reponses 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 were reviewed by Care Analytics, with responses clarified where needed, to produce the resulting data analysis of median and quartile costs required from this exercise.

Response rates

There are 34 Homecare providers in Harrow that were in scope for this exercise, this excluded new providers that did not have sufficient cost data; very small providers that did not have sufficient volumes of care packages and registered providers that provide a substantial amount of live in care or respite care which would be too difficult to disaggregate from its regulated Homecare packages. The inclusion of these providers would have adversely skewed the data analysis. The table below sets out the final submission status

Care home submission status	No.
Usable submitted surveys	10
Unusable submitted surveys	11
Did not send a submission	13

The table shows:

- **A response rate of 61.7%**

A total of 21 Homecare provider submitted a response.

- **A usable response rate of 29.4%**

Only 10 of the 21 surveys submitted were usable due to a range of data quality issues, such as gaps from unanswered questions that meant reliable unit costs could not be calculated. 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. Providers were asked to resubmit returns once their first return was analysed by Care Analytics but some providers chose not to resubmit, or their subsequent return was still unusable.

Reponses were received directly by Care Analytics, rather than by the local authority, in order to address any concerns regarding confidentiality of business data. The returns were reviewed by Care Analytics, with responses clarified where needed, in order to produce the resulting data analysis of median and quartile costs required.

We have therefore been able to use 10 Homecare surveys to underpin the analysis in the Council's cost of care return. All the usable surveys have full unit cost calculations, both for care worker costs and for business costs.

How the cost of care information will be used and data integrity

Harrow Council understands and acknowledges the DHSC's aims in asking Local Authorities to carrying out a cost of care exercise. Harrow Council has positively

entered into the spirit of the exercise and made genuine efforts for a successful outcome which is reflected in its response rates.

However, the overall conclusion is that the cost of care exercise cannot be a replacement future fee setting and the median rates are just one factor. Data reliability and quality concerns of the exercise are addressed further below. Fee setting will continue to be governed by many other factors such as inflation, pending national grant funding settlements and the council budget's; local authority commitments to the London Living wage; demand pressures; demographic changes; inflation and of course quality, amongst other factors.

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. As Harrow's usable survey response resulted in a usable sample size of less than 30% (see section below on 'response rates'), this should not be taken as necessarily indicating that the sample was sufficiently representative of the market as a whole. 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 this reason, we must be cautious that the cost of care 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 Homecare. The data collected through this process will provide rich intelligence on which to base further work to support future council commissioning and market shaping. The Council will now undertake further detailed analysis of the data obtained through the cost of care exercise and the composite of the median costs, in order to help 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 forward. This work will be evidenced in the final market sustainability plan, to be submitted in February 2023.

The response rate of usable returns was under 30% and there is no guarantee that this represented the whole of the market.

It should be noted that Harrow's Homecare arrangements are due to be re-procured during 2023-24. It is likely that the council's commissioning of Homecare will 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 Homecare in the future, as costs incurred by providers tend to be intrinsically linked to how the council commissions and pays for home care. This will include decisions around the payment of London Living wage as a contractual requirement for providers.

The cost of care exercise has however, reinforced to Harrow Council that it needs to carefully review its Homecare rates, which are lower than regional authorities and

when compared to London as a whole. This will be a major consideration during its reprocurement process and sets the tone for the direction of travel, subject to affordability. Harrow is one of the few London Local Authorities that either does not pay LLW or has a current timeframe to do so. Harrow's Market Sustainability Plan will cover reprocurement in more detail.

Justification of the proposed approach to return on operations

Councils can decide what return on operations (or surplus) to include in their cost of care 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 ridged 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 Homecare 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 Homecare 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 cost of care analysis. It is noted 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 in this report, further work will be undertaken to inform the rates on which to base usual fee rates/commissioning going forward. The return on operations element of the fee will be further considered as part of that work.

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

Table 1 below sets out the appointment visits per week across Harrow from providers that submitted data

	5 mins	10 mins	15 mins	20 mins	25 mins	30 mins	35 mins	40 mins	45 mins	50 mins	55 mins	60 mins	>60 mins	Total
First quartile	0.0	0.0	0.0	0.0	0.0	54.0	0.0	38.0	8.0	11.0	0.0	15.3	5.0	143.5
Median	0.0	0.0	0.0	0.0	0.0	183.5	0.0	70.0	17.0	35.0	0.0	105.5	20.0	505.5
Third quartile	0.0	0.0	0.0	0.0	0.0	547.3	0.0	231.0	28.0	138.0	1.5	193.3	78.0	1578.0

Lower quartile, median and upper quartile cost

The table below, sets out details showing the count of observations, lower quartile, median and upper quartile (where relevant) of all items in Annex A, Section 3. To be included in the cost of care 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 median average visit duration of this sample was 50.55 minutes.

Cost of care exercise results – all cells should be £ per contact hour, MEDIANS

Total care worker costs

Type of care worker costs	18+ domiciliary care	Response rates by question	1st quartile	Median	3rd quartile
Direct care	£9.62	10	£9.62	£9.62	£9.64
Travel time	£0.76	10	£0.65	£0.76	£0.82
Mileage	£0.09	10	£0.04	£0.09	£0.24
PPE	£0.12	10	£0.03	£0.12	£0.18
Training (staff time)	£0.18	10	£0.18	£0.18	£0.18
Holiday	£1.27	10	£1.25	£1.27	£1.28
Additional no contact pay costs	£0.00	0	£0.00	£0.00	£0.00
Sickness/maternity and paternity pay	£0.11	10	£0.10	£0.11	£0.11
Notice/suspension pay	£0.03	10	£0.03	£0.03	£0.03
NI (direct care hours)	£0.74	10	£0.64	£0.74	£0.80
Pension (direct care hours)	£0.19	8	£0.13	£0.19	£0.23

Total care worker costs:

- 18+ domiciliary care: £13.11
- Response rates by question: 10
- 1st quartile: £12.91
- Median: £13.11
- 3rd quartile: £13.25

Totals for business costs

Type of business costs	18+ domiciliary care	Response rates by question	1st quartile	Median	3rd quartile
Back-office staff	£2.53	10	£2.05	£2.53	£3.12
Travel cost 9parking/vehicle lease et cetera)	£0.17	8	£0.11	£0.17	£0.37
Rent/rates/utilities	£0.58	10	£0.49	£0.58	£0.80
Recruitment/DBs	£0.06	7	£0.05	£0.06	£0.08
Training (third party)	£0.08	5	£0.02	£0.08	£0.47
IT (hardware, software, CRM, ECM)	£0.13	10	£0.10	£0.13	£0.23
Telephony	£0.06	10	£0.03	£0.06	£0.09
Stationery/postage	£0.09	10	£0.04	£0.09	£0.20
Insurance	£0.10	10	£0.07	£0.10	£0.14
Legal/finance/professional fees	£0.09	10	£0.06	£0.09	£0.17
Marketing	£0.06	8	£0.02	£0.06	£0.09
Audit and compliance	£0.03	2	£0.03	£0.03	£0.03
Uniforms and other consumables	£0.05	10	£0.03	£0.05	£0.10
Assistive technology	£0.06	2	£0.04	£0.06	£0.07
Central/head office recharges	£0.19	3	£0.18	£0.19	£0.62
Other overheads	£0.21	10	£0.11	£0.21	£0.27
CQC fees	£0.06	8	£0.05	£0.06	£0.08

Total business costs:

- 18+ domiciliary care: £4.47
- Response rates by question: 10
- 1st quartile: £4.27
- Median: £4.47
- 3rd quartile: £5.31

Overall Totals

Totals	18+ domiciliary care	Response rates by question	1st quartile	Median	3rd quartile
Total Return on Operations	£0.88		£0.86	£0.88	£0.93
Total	£18.46		£18.04	£18.46	£19.49

Supporting information on important cost drivers used in the calculations:	18+ domiciliary care	Response rate by question	1st quartile	Median	3rd quartile
Number of location level survey responses received	10	10	10	10	10
Number of locations eligible to fill in the survey	0				
Carer basic pay per hour	9	10	£9.50	£9.50	£9.50
Minutes of travel per contact hour	5	10	4.1	4.7	5.1
Milage payment per mile	0	7	£0.38	£0.40	£0.45
Total direct care hours per annum	65,398	10	34,908	65,398	80,270

The table below shows (consistent with the cost per contact hour of Annex A), sets out the cost per visit for each of 15, 30, 45 and 60 minute visits. These 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.

The median average visit duration of this sample was 50.55 minutes

Cost of care exercise results – all cells should be £ per contact hour, MEDIANS

Total care worker costs

Types of care worker costs	18+ domiciliary care	15 minutes	30 minutes	45 minutes	60 minutes
Direct care	£9.62	£9.62	£9.62	£9.62	£9.62
Travel time	£0.76	£2.57	£1.28	£0.86	£0.64
Mileage	£0.09	£0.30	£0.15	£0.10	£0.08
PPE	£0.12	£0.41	£0.20	£0.14	£0.10
Training (staff time)	£0.18	£0.21	£0.19	£0.18	£0.18
Holiday	£1.27	£1.49	£1.33	£1.28	£1.25
Additional no contact pay costs	£0.00	£0.00	£0.00	£0.00	£0.00
Sickness/maternity and paternity pay	£0.11	£0.12	£0.11	£0.11	£0.10
Notice/suspension pay	£0.03	£0.03	£0.03	£0.03	£0.03
NI (direct care hours)	£0.74	£0.87	£0.78	£0.75	£0.73
Pension (direct care hours)	£0.19	£0.22	£.20	£0.19	£0.29

Total care worker costs:

- 18+domiciliary care: £13.11
- 15 minutes: £15.85
- 30 minutes: £13.90
- 45 minutes: £13.25
- 60 minuets: £12.93

Total business costs

Type of Business Costs	18+ domiciliary care	15 minutes	30 minutes	45 minutes	60 minutes
Back-office staff	£2.53	£2.53	£2.53	£2.53	£2.53
Travel cost 9parking/vehicle lease et cetera)	£0.17	£0.17	£0.17	£0.17	£0.17
Rent/rates/utilities	£0.58	£0.58	£0.58	£0.58	£0.58
Recruitment/DBs	£0.06	£0.06	£0.06	£0.06	£0.06
Training (third party)	£0.08	£0.08	£0.08	£0.08	£0.08
IT (hardware, software, CRM, ECM)	£0.13	£0.13	£0.13	£0.13	£0.13
Telephony	£0.06	£0.06	£0.06	£0.06	£0.06
Stationery/postage	£0.09	£0.09	£0.09	£0.09	£0.09
Insurance	£0.10	£0.10	£0.10	£0.10	£0.10
Legal/finance/professional fees	£0.09	£0.09	£0.09	£0.09	£0.09
Marketing	£0.06	£0.06	£0.06	£0.06	£0.06
Audit and compliance	£0.03	£0.03	£0.03	£0.03	£0.03
Uniforms and other consumables	£0.05	£0.05	£0.05	£0.05	£0.05
Assistive technology	£0.06	£0.06	£0.06	£0.06	£0.06
Central/head office recharges	£0.19	£0.19	£0.19	£0.19	£0.19
Other overheads	£0.21	£0.21	£0.21	£0.21	£0.21
CQC fees	£0.06	£0.06	£0.06	£0.06	£0.06

Total business costs:

- 18+domiciliary care: £4.47
- 15 minutes: £4.47
- 30 minutes: £4.47
- 45 minutes: £4.47
- 60 minuets: £4.47

Overall totals

Totals	18+ domiciliary care	15 minutes	30 minutes	45 minutes	60 minutes
Total Return on Operations	£0.88	£1.02	£0.92	£0.89	£0.87
Total	£18.46	£21.33	£19.28	£18.60	£18.26

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 providers 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.

Measures to determine how the cost of care data could be inflated in future years:

- 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 consider structural changes relevant to Homecare costs.

Using the data collected through this exercise, Harrow Council will work with Care Analytics to configure various standardised cost models to inform the Council's future commissioning. This will provide a clear basis to update these cost models for inflation based on the above considerations.

Description of the questions asked/template used as part of the data gathering exercise

A Provider 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. Care Analytics market reviews have a wider scope than the DHSC's cost of care and therefore has a greater set of questions, which will allow a thorough analysis of the marketplace to be undertaken subsequent to the current DHSC process.

The survey asked detailed questions about Homecare delivery and the operating practices of each branch. It also asked 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. In addition the survey 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 a format easiest for them. This is essential for homecare owing to the diverse ways homecare 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 the format that 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.

A copy of the Homecare survey is attached as ‘Appendix – Homecare survey Harrow’.