West Sussex Cost of Care Report Annex B
18+ Domiciliary Care

Provider response rate as a % of those invited
There were 145 domiciliary care services in scope, with a CQC registered address located within the boundaries of West Sussex County Council (WSCC). 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. WSCC fully validated 38 toolkit submissions and partially validated 1 toolkit submission, the latter being those for which one or more (but not all) of the cost lines had been validated. Adding the two together, the 39 fully or partially validated toolkits represents a response rate of 27% of domiciliary care services providers in scope. For some individual cost lines the effective response rate was higher and for some it was lower. See table 3 for the number of respondents (in brackets) for each individual cost line. Those which predominantly serve clusters of users at fixed 'extra care' or 'supported living' locations were considered 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.
Steps taken to engage with local providers
Both WSCC and Laing Buisson (LB) engaged extensively with local providers to maximise the number of respondents to the local cost of care exercise. LB worked with the council over the summer of 2022 to engage with providers through a variety of communication channels, the most important being intensive, direct telephone contact with providers to encourage participation and completion of the toolkit. Among the providers LB were able to make positive contact with, 5 gave outright refusals to participate. Reasons given by those who gave outright refusals or otherwise expressed uncertainty and did not submit were most commonly confidentiality of information sharing, company policy preventing participation in surveys and lack of interest. Additionally, a sizeable proportion of those homecare providers with whom successful contact was made expressed concerns about the lack of time they had available to participate in the exercise given the number and complexity of the questions within the toolkit, the privacy of data they were expected to submit, and/or about the value of the exercise. In terms of WSCC engagement (and aside from customer engagement which also took place as part of the development of the Market Sustainability Plan or MSP) provider engagement between May and September 2022 included the following: • Attended 5 provider forums to brief on the cost of care exercise and MSP, raise greater awareness and encourage participation (June 9/16/20 Aug 9, Sept 26) • Held 4 virtual sessions for providers with presentations and discussion on the cost of care exercise and MSP in order to increase awareness and understanding of the cost of care tools, encourage participation and answer questions • Held 4 virtual workshop discussions with providers on issues affecting market sustainability in order to jointly identify and analyse the key local issues and actions required to address them

- Held 3 analysis sessions with providers looking at specific issues identified at the workshops in order to have the opportunity for a deeper understanding of the issues from both council and provider perspectives
- Held 9 meetings with the West Sussex Partners in Care (May 27, June 13/27, July 11/22/25, Aug 22, Sept 1/22) including co-production of the Market Sustainability Plan
- Managed a specific 'cost of care' mailbox and responded to 100s of queries which were managed between WSCC and LB
- Weekly briefings to providers with information, links and contacts whilst the cost of care exercise was running.

Approach to Return on Operations

We were advised by LB to use a standard 10% for Return on Operations (ROO) within this cost of care exercise. The rationale for this within the care home sector is covered in detail within our Annex B report for Care Homes. LB's view was that the same mark-up of 10% can legitimately be applied to domiciliary care operating costs as, 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.

LB's view is based on reviewing historic returns posted by domiciliary care and supported living groups. LB 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 2. 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[1] 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 2 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 LB[2]. 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, LB considers that the trends in profitability illustrated in Figure 2 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.

For the purposes of the cost of care exercise, it was necessary to specify fixed percentages to allow comparable data to be compiled. In that context, WSCC has followed the advice of LB which enabled the data submitted by providers to remain unaltered (other than for statistical outliers) and supported the straight-forward and robust approach we wished to adopt.

However, this should not be interpreted as target amounts and use of a 10% ROO within the cost of care exercise is distinct from this being a standard for future commissioning. In reality, uniform rates cannot be applied to return on operations because the circumstances of individual providers and care markets are always

[1] Mark-up is calculated as EBITDA / (Revenue – EBITDA)

[2] *Homecare and Supported Living UK Market Report*, LaingBuisson 2021

unique. WSCC's overriding concern is to ensure that local care markets are vibrant and sustainable. As such it will take a flexible approach to return on operations, allowing for market conditions and our strategic commissioning priorities. In certain situations (e.g. where supply needs to be incentivised) higher rates may be appropriate. In others (e.g. where there is an excess of supply) the position will be different. It should be noted that the Homecare Association recommended minimum cost of care allows a 3% mark-up for 'profit or surplus' as opposed to the 10% figure adopted by WSCC for this exercise.
Table for each service type and each cost line
See Table 3 below
Data Period used in the collection of information (base price year)
22/23 (including uplifts to 22/23 where providers used 21/22 figures)
Approach used to uplift figures to 2022/23 values
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 7 below, and have been gathered from NLW, CPI, and CPIH 12 month % change figures to April 2022[3]. 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[4].
Questions asked and template used as part of the exercise
Additional questions asked.
WSCC opted to use the cost of care toolkit developed by ARCC in partnership with the LGA. See 'Validation process' below for additional questions asked of providers in order to validate toolkits that had been received.
Lower quartile, median and upper quartile of number of appointments per week by visit length (15, 30, 45 and 60 mins)
See Table 4 below
Cost per visit for different visit lengths (15, 30, 45 and 60 mins) based on the information from Annex A Section 3
See Table 5 below

[3] Table 22, https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation
[4] Section 5.13, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1063330/Green_Book_2022.pdf

Methodology

LB was commissioned by WSCC in June 2022 to undertake a Cost of Care exercise, as described and specified in government guidance[5], covering registered domiciliary care services for adults (18+) within the council's boundaries.

This 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 LB for sense and consistency and anomalies were amended as necessary with the agreement of providers.

The results set out in Table 1 and Table 3 are sensitive to the following factors:

- 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
- The approach to calculating confidence intervals for the median total costs

Validation process

We believe that the validation process was effective. Toolkit submissions were inspected by LB 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
- *Back office costs:* These 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 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?*

[5] Market Sustainability and Fair Cost of Care Fund 2022 to 2023: guidance, updated 29 June 2022 https://www.gov.uk/government/publications/market-sustainability-and-fair-cost-of-care-fund-2022-to-2023-guidance

- *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, LB tested the accuracy of data by carrying out an anonymous call asking providers for their hourly rate. Where the hourly rate quoted was less than the operating costs submitted in the toolkit, LB contacted the provider to discuss whether the service was loss making or whether the toolkit submission had mistakenly overstated 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.

Rules for the elimination of outliers

We wished to restrict the removal of outliers as much as possible and we believe the rules adopted, as described below, were appropriate. In partnership with LB, we reviewed 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**, 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, it 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 an 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 positive feature of 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.

WSCC 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), WSCC was advised by LB to adopt Double Median Absolute Deviation (Double MAD) as the approach to setting outlier boundaries for each individual cost line.

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

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, LB recommended that we opt 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 3.

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 elsewhere in this report, 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 minimum cost structure presented in Table 6.

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 considered 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".

<u>The approach to confidence intervals for the median total costs</u>

While we have no reason to believe that the toolkit responses were biased in any systematic way[6], there was a high degree of variance in many of the cost lines and the total costs per hour submitted by respondents. Due to the conservative approach adopted for outliers and applied to individual cost lines (see above), some providers were included with total costs which may normally be considered as outliers. The degree of variance raises concerns about financial viability at the lower levels submitted and affordability for any funder at the higher levels submitted.

DHSC guidance does not ask for any assessment of the reliability of the cost of care exercise results. 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, we asked LB to provide some indication of confidence limits, particularly whether confidence limits for the medians do or do not overlap with average fees currently being paid in financial year 2022/23. The calculations of confidence intervals are set out in Figure 1.

[6] 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.

Analysis of the data

Summary results for home care located in West Sussex are presented in Table 3, in the form prescribed by the DHSC guidance. All operating costs have been derived from validated toolkit submissions, after applying the outlier exclusion rules described in the Methodology section above. Return on operations is based on the benchmark set out above.

The median emerging from the WS cost of care exercise is £27.54 per hour.

Further in this section we look at the differential between this median and the current average fees paid by WSCC in this area of the care market.

There are however a number of challenges to the data and caveats which are important to establish. LB advised us that there was a high degree of variance as well as the number of validated responses means that we need to look at the median emerging from the exercise within the far wider margins of error (Figure 1). In addition, while the cost of care exercise provides a key source of data to be considered in future fee setting, it should not be relied upon in isolation and needs to be considered alongside other information and intelligence. The following section provides some of the key points arising from the cost of care data as well as the challenges presented by the data itself.

General comments

There were a limited number of respondents and high degree of variance in many of the cost lines submitted by providers. LB advised of the concerns regarding the statistical validity of the calculated medians.

Respondents and the shape of the local market

Table 2 segments response rates according to key service characteristics which may (or may not) have a bearing on costs.

- 27 out of 39 respondents were small providers, reflecting the shape of the market
- In terms of organisations in receipt of public pay, only 44% of the respondents had significant volumes of their business (over 50%) from public sector commissioning, with 26% of respondents having less than 30% business from public pay.
- There were some geographical areas with low representation including Crawley and Horsham.

Quality of data

LB'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 and incorrectly answer others. Consequently, we applied a robust validation process, including querying obviously anomalous submissions with respondents and assisting them to provide the appropriate data.

Nevertheless, within the timescale available, for the most part information needed to be taken at face value. It was not practicable to carry out a range of checks (as used by LB in other cost of care exercises) including requesting evidence of staff costs from payroll records and correlating returns against published accounts.

Without the evidence base behind the costs submitted, neither WSCC or LB can rule out the possibility that some providers may have overstated their costs due to double counting or by error.

Notable points from the data

- With the large degree of variance in the data received, the individual cost lines with the greatest extent of variance across providers were as follows (in descending order):
    - Back office staff
    - PPE costs
    - Mileage
    - Additional non-contact pay costs
    - Training
    - Assistive technology
    - Audit and compliance

- Total care worker costs (£17.59 median) represent 64% of total costs (median).
- Basic carer pay for hour is £12.04 (median), above the median rates within the care home exercise as well as above National Living Wage (£9.50 from April 2022) and Real Living Wage levels (£10.90 from Sept 2022)

- The spectrum of call lengths (within the median of 603 calls) was
    - 9% 15 min calls
    - 57% 30 min calls
    - 21% 45 min
    - 13% 60 min
    - As shown within Table 5, the cost of a 30 minute call is reported as more than half the cost of a 60 min call, a matter for WSCC to consider as part of future commissioning of home care

- Back office costs and salary costs may be inflated due to double counting or other inaccuracies. The costs reported were highly variable. Some of them accounted for large proportion of total costs. Anomalies 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 median minutes of travel per contact hour is 10.6
- There was a wide variation in respondent's approach to assumed travel time per contact hour:
    - The minimum was 1.3 minutes and the maximum was 24 minutes
    - 75% of respondents however fell within a 7 minute range between 7.8 minutes and 14.9 minutes per contact hour

- In estimating travel time costs, half of the providers in our area did not separate out travel time costs from direct staff costs. Therefore, the median travel time value reported is £0.13.
    - Amongst the minority of providers who did report a separate travel time cost, the median cost reported was £2.08.
    - In order to avoid double counting of travel time costs in both the travel time and direct staff cost lines, we have reported a travel time cost of £0.13, which is the median value between 0 and the highest reported travel time cost.

- The median travel costs paid by respondents was £3.25 per hour (combining travel time allowance and mileage).
    - This is 20p lower than the £3.45 recommended by the Home Care Association.

- 20 out of 39 providers stated they were paying less than the HCA recommendation
  - 9 providers stated they were paying between £2-£3
  - 7 providers stated they were paying less than £2
- Within these figures, the median mileage payments were 0.398 rather than the maximum of 0.45 allowed by HMRC

- The median provider investment in training was 0.39p per care hour.
  - This is 0.27p lower than the 0.66 recommended by the Home Care Association.
  - LB advised that there was no evidence that more training days/hours affected costs or profit of a provider in any way

Comparing the emerging median with average WSCC fees

	WSCC average price for purchased care	**West Sussex cost of care exercise median**	**% increase**	Lower 95% confidence boundary (see below)	Using Rate of Operations at 5% (see below)	Using HCA cost ratio (see below)
Home care 22/23	£24.74	£27.54	11%	£26.83 (or 8% increase	£26.29 (or 6%)	£24.54 (slightly lower than average paid by WSCC)

Taken at face value, this a significant gap which (alongside the gap reflected in the cost of care exercise for home care) would cost up to £34m if WSCC were to assume the median as the standard fee for purchasing care. For context, the size of the Adult budget in 2022/23 is £216m so an increase in fees of that magnitude would be unaffordable because of the scale of the savings that would be required to pay for it both in the Adult budget and elsewhere in WSCC.

It is essential that this is understood and that providers recognise that paying higher fees without sufficient additional resources may have implications for the mix, type and volume of care services WSCC would be able to afford purchasing from the market. There are a number of important factors to consider:

- The level of the additional resources that will be made available to WSCC in 23/24 and 24/25 through the Market Sustainability and Fair Cost of Care Fund will be critical in determining the feasibility and extent of moving towards these cost of care medians. A commitment also needs to be provided by Government to continue providing those resources on a recurring basis from 25/26. Without that, there will be a risk of a significant cost burden transferring to the local provider. If there is insufficient funding available to local authorities, the potential to reduce the gap between current averages and the median costs will be limited.
- As the data has potential margins of error, it will be important to adopt a financially prudent approach and consider additional wider intelligence and information when setting fees. This will include considering how to use available resources to tackle the key risks in the market including areas where providers require further investment and support.
- Due to the limitations of the data including the high degree of variance within the reported provider cost lines, LB used a standard mathematical approach to the data in order to give greater assurances of probability. With a confidence interval with a 95% confidence level, there is confidence that 95 out of 100 times the estimate will fall between the upper and lower values specified by the confidence interval (See Figure 1). Below, we review the data in light of the margins for error and compare WSCC paid rates with the lower of the 95% confidence interval related to the cost of care data set.
- As the table above shows, the gap between the median and the current WSCC price reduces in the event of:

- Using the lower of the figures within the 95% confidence boundary due to the concerns of data viability (see Approach A below)
- Comparing the ratio of gross pay to total costs to the model recommended by the Home Care Association which produces an hourly rate in keeping with current price paid by WSCC (Approach B below)
- Using a lower rate of operations than the 10% represented within the data (Approach C below)

Approach A – Using the confidence interval due to health warning with the data
In light of the margins for error we have compared WSCC paid rates with the lower of the 95% confidence interval related to the cost of care data set.

- The average domiciliary care fee rates being paid by WSCC, at the date of the report in September 2022, stood at £24.74 per hour. This is £2.80 lower than the calculated median, and £2.09 below the lower 95% confidence bound of the calculated median (see Figure 1).
- This means we can be 95% confident of the following:
  - There is a gap between the average rate being paid by WSCC now and the median provider costs calculated from the toolkits.
  - Although we cannot be certain what the quantum of the gap really is between the average WSCC rate and the median emerging from the data, we can be 95% confident that it is at least £2.09.

Approach B – Comparing the data with the Home Care Association's recommendations
The Homecare Association is the trade body for the independent homecare sector in the UK. It has published pro-forma costing models for a number of years, the latest of which is for the year 2022/23, Table 6. To date it has been the only benchmark in the public domain for the hourly costs of visiting homecare and has been used this year by WSCC as a recognised benchmark to inform uplifts.

Gross pay for care workers' contact + travel time, before on-costs, is shown as £11.43 nationally in the Homecare Association model, compared with the WS cost of care result of £12.09 median cost in April 2022 (Table 3).

The ratio of 'total price' to gross pay works out at 2.03 in the Home Association model, compared with an equivalent ratio (Total cost to (Direct Care + Travel Time) of 2.28 from the WS cost of care results presented in Table 3.

If the Homecare Association ratio of 2.03 were applied to the WS median gross pay per hour then the total cost line in Table 3 would work out at £24.54 per hour, rather than £27.54. This is **lower** than the average cost paid by WSCC currently.

Approach C – Using a lower rate of return than the 10% used in the cost of care exercise
Using a 5% return, the median within the cost of care exercise becomes £26.29, a 6% increase from the current prices paid by WSCC.

It should be noted that the Homecare Association pro forma allows a 3% mark-up for 'profit or surplus' as opposed to the 10% figure adopted by WSCC for this exercise.

Regardless of the extent of the actual differential between current WSCC and provider costs, WSCC has been investing strongly in local care markets to reduce cost pressures on local providers including significant inflationary increases from April 22 which averaged approximately 8%. 100% of the Market Sustainability and Fair Cost of Care Fund grant for 22/23 was used to fund these fee increases along with considerable additional investment from WSCC funds. A key risk for West Sussex care markets is for the actual cost of care to continue

to be outside of the resources available within the local authority and the important (albeit minority) market share that it influences. Self-funders in West Sussex are clearly paying fees well above the levels currently affordable to WSCC, though this may be for a higher level of service than needed to meet Care Act requirements.

The challenges posed to WSCC of moving towards these higher rates are matched by the challenge to providers of reducing the fees charged to self-funders so that a more affordable and sustainable set of rates can be established in the care home market.

WSCC fee setting

WSCC uses a range of rates with market providers, including agreed and/or enhanced rates where these are required, for example, to secure supply in those parts of the county where provider costs are highest. We apply % uplifts to this range of rates so, although we have used average commissioned price paid in the table above, there is a wider spectrum of rates used.

In setting rates for commissioned services, WSCC rates will be informed by the cost of care exercise as part of a broader spectrum of information including areas of the market in need of development or growth, assessment of local markets including specific market conditions operating in West Sussex, benchmarking with other neighbouring areas and feedback from providers.

In this, we are in keeping with DHSC guidance (August 2022) which states that:

- *The median figures for the broad service types within scope may oversimplify what is a complex picture of care and support needs.*
- *The outcome of the cost of care exercise is not 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".*
- *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.*

WSCC, with support from LB, adopted a standard approach to return on operations and our approach is detailed within this report. This enabled a consistent approach across a variety of providers and removed an important variable factor, assisting the focus on the operational costs facing providers in the local sector.

However, in a market that requires targeted intervention and support as well as enabling key areas of required growth to be suitably incentivised, we do not propose assuming a standard approach to ROO and fee setting across the services we commission. We plan to continue to work with providers and agree variable fee rates (including variable assumptions to ROO) depending on the nature of the service being commissioned. We are particularly interested in incentivising providers to move to market areas requiring growth, for example, by increasing levels of return on operations in these areas.

WSCC budget setting and use of the Market Sustainability and Fair Cost of Care Fund ('the Fund')

WSCC has been investing in local care markets to reduce cost pressures on local providers. More recently, with the objective of sustaining markets and mitigating market fragilities, the council approved significant inflationary increases from April 22 with an average uplift of 8%. 100% of the £2.23m DHSC Market

Sustainability and Fair Cost of Care Fund for 22/23 was used to fund these fee increases along with an additional investment of £16m from WSCC funds, an overall investment of £18.4m.

WSCC will follow a similar process in 23/24 and 24/25 combining its allocation of the Fund with the resources that it will provide from its own budget to create a funding envelope that will be available to fund increases in rates. However, it will be difficult to set sustainable rates for the future without knowing the extent and longevity of the Fund. Without this, rate increases in 23/24 and 24/25 will necessarily have to be set at lower levels which WSCC can be confident will be affordable. To do otherwise will risk disrupting the market further in future years and so would not be prudent.

Given the nature of the care market in West Sussex, blanket rate increases will not be appropriate or desirable either for WSCC as commissioner not for providers. Consequently, opportunities will be explored to use the Fund variably to support areas of required growth, areas facing particular challenge and to incentivise providers able to adapt to the requirements highlighted in our Market Sustainability Plan.

In line with the this, the ASC strategy and our published commissioning intentions, resources will be targeted at market areas requiring development including

- Supporting the capacity of providers to support people with dementia and more complex care
- Supporting the growth of extra care and supported living
- Support to people to remain in community settings
- Initiatives developed in partnership with providers which assist in addressing workforce challenges within the sectors in scope.
- Infrastructure costs to support the council in its work with the market

Table 1
Median total costs[1] of providers of domiciliary care services located in West Sussex County Council (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	£27.54	38	1	145	27%

[1] Derived from Table.3

Table 2
Validated plus partially validated responses and response rates as a percentage of services in scope, by key service characteristics

	Responses	Responses as % of services in scope with the relevant characteristic
Key characteristics	**No.**	**%**
Total	**39**	**27%**
For-profit	38	29%
Not-for-profit	1	6%
Large corporate group[1]	3	9%
Medium group[2]	7	19%
Small group or independent[3]	29	31%
Large service scale (100,000+ hours annually)	2	NA
Medium service scale (15,000 – 99,000 hours annually)	31	NA
Small service scale (<15,000 hours annually)	6	NA
Good or Outstanding	33	27%
Requires improvement or Inadequate	3	27%
Urban	3	NA
Mainly Urban	22	NA
Rural	2	NA
Mainly rural	11	NA
Mainly (60%+) private pay	9	NA
Mainly (+60%+) public pay	15	NA
Adur District Council	1	17%
Arun District Council	6	21%
Horsham District Council	1	5%
Chichester City Council	9	41%
Crawley Borough Council	2	13%
Mid Sussex District Council	6	38%
Worthing Borough Council	9	31%

[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

Table 3
Median costs of domiciliary care services located in West Sussex from submitted valid toolkits, £ per week at 2022/23 prices
The numbers in brackets represent the number of fully or partially validated toolkits from which the given cost line median was derived

	£ per hour	1st Quartile	3rd Quartile
Total Careworker Costs:	**17.59**	**15.92**	**20.21**
○ Direct care	11.96 (30)	11.54 (30)	12.51 (30)
○ Travel time	0.13 (38)	0 (38)	2 (38)
○ Mileage	1.26 (33)	0.96 (33)	2.45 (33)
○ PPE	0.36 (25)	0.3 (25)	0.5 (25)
○ Training (staff time)	0.33 (28)	0.18 (28)	0.43 (28)
○ Holiday	1.68 (28)	1.6 (28)	1.74 (28)
○ Additional noncontact pay costs	0.14 (11)	0.08 (11)	0.29 (11)
○ Sickness/maternity and paternity pay	0.32 (28)	0.14 (28)	0.43 (28)
○ Notice/suspension pay	0.05 (10)	0.04 (10)	0.08 (10)
○ NI (direct care hours)	0.89 (29)	0.67 (29)	1.28 (29)
○ Pension (direct care hours)	0.47 (32)	0.41 (32)	0.5 (32)
Total business costs:	**7.450**	**5.50**	**10.29**
○ Back office staff	4.94 (27)	4.09 (27)	5.4 (27)
○ Travel costs (parking/vehicle lease et cetera)	0.02 (15)	0.01 (15)	0.06 (15)
○ Rent/rates/utilities	0.54 (27)	0.36 (27)	0.73 (27)
○ Recruitment/DBS	0.13 (35)	0.04 (35)	0.3 (35)
○ Training (third party)	0.06 (34)	0.03 (34)	0.13 (34)
○ IT (hardware, software CRM, ECM)	0.24 (28)	0.21 (28)	0.4 (28)
○ Telephony	0.15 (31)	0.1 (31)	0.2 (31)
○ Stationery/postage	0.05 (33)	0.02 (33)	0.11 (33)
○ Insurance	0.14 (30)	0.11 (30)	0.19 (30)
○ Legal/finance/professional fees	0.17 (32)	0.08 (32)	0.36 (32)
○ Marketing	0.09 (33)	0.04 (33)	0.25 (33)
○ Audit and compliance	0.05 (27)	0.02 (27)	0.12 (27)
○ Uniforms and other consumables	0.05 (29)	0.02 (29)	0.06 (29)
○ Assistive technology	0.06 (9)	0.02 (9)	0.24 (9)

	£ per hour	1st Quartile	3rd Quartile
○ Central/head office recharges	0.39 (14)	0.17 (14)	1.32 (14)
○ Other overheads	0.26 (17)	0.08 (17)	0.3 (17)
○ CQC fees	0.11 (28)	0.1 (28)	0.12 (28)
Total Return on Operations (10% of operating costs)	**2.50**	**2.14**	**3.05**
TOTAL	**27.54**	**23.56**	**33.55**

Supporting information on important cost drivers used in the calculations:	
○ *Number of location level survey responses received*	38
○ *Number of locations eligible to fill in the survey (excluding those found to be ineligible)*	145
○ *Carer basic pay per hour (per hour of contact + travel time)*	£12.04
○ *Minutes of travel per contact hour*	10.6
○ *Mileage payment per mile*	£0.40
○ *Average direct care hours per annum*	24,510.95
○ *Total direct care hours per annum*	612,773.85

Notes:
All data are derived from toolkit responses except for return on operations, which has been superseded by the council based on a benchmark rate of 10% of operating costs.

Table 4 Number of domiciliary care appointments per service per week by length of visit

Visit Length	Median	1st Quartile	3rd Quartile
15 minutes	53	23	134
30 minutes	346.5	133.75	487.75
45 minutes	127	56	177
60 minutes	77	28.5	155

Table 5 Cost per visit by visit length

Visit Length	Average Cost	Median Cost
	£	£
15 minutes	£9.89	£9.15
30 minutes	£16.70	£15.75
45 minutes	£23.51	£22.35
60 minutes	£30.32	£28.95

Table 6 Homecare Association 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**

Table 7 - Price uplifts

	CPI Code	CPI Item	12 Month % change to April 2022
Direct Care	-	National Living Wage % increase[7]	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
Back Office Staff	-	Average earnings index, April – April	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

[7] 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.

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)	-	-	-

Figure 1
CoC median costs for April 2022 with 95% confidence intervals, and comparison with post-April 2022 fee rates paid by councils to independent sector providers

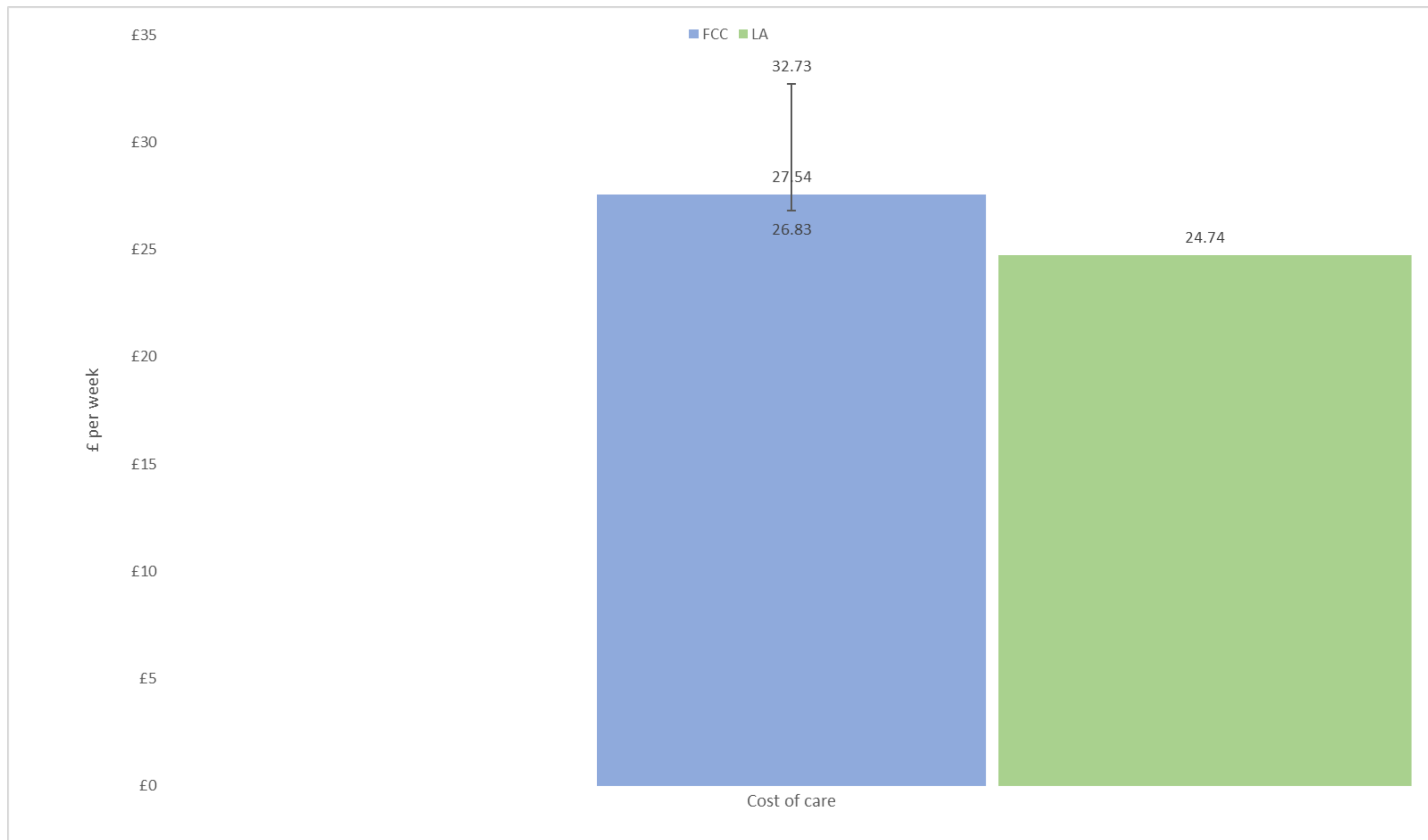

Figure 2
Aggregate mark-up on operating costs among larger, for-profit domiciliary care providers which have posted statutory accounts with full profit and loss at Companies House, UK 2010 - 2020
[1] Financial period ending in those years

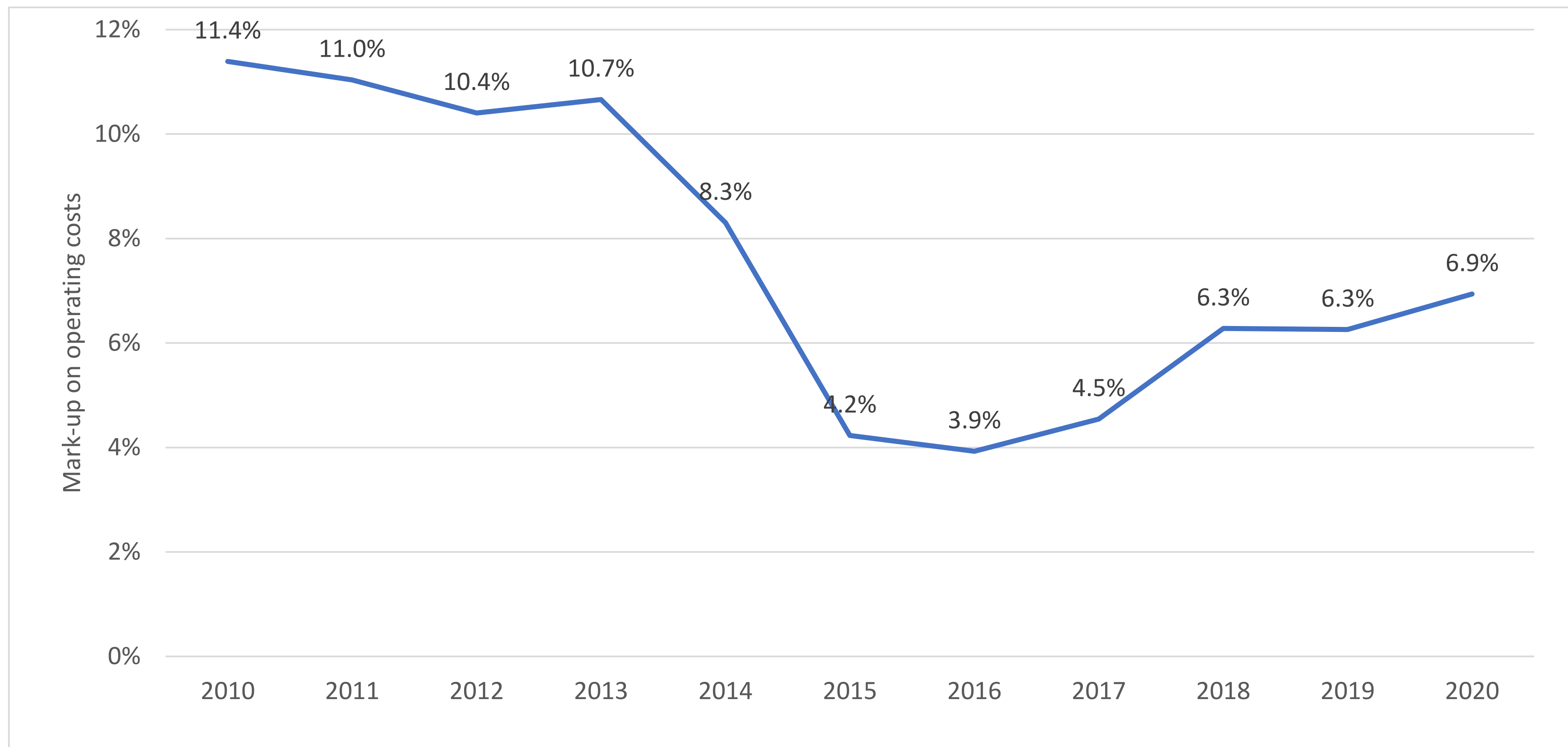

Figure 3 - Geographical spread of home care providers in West Sussex (respondents in comparison to non-respondents)

- Respondents
- Non-respondents

West Sussex Homecare Providers