



# **Annex B**

## **Fair Cost of Care**

### **Domiciliary Care (18+)**

Results and Analysis from Toolkits submitted by Providers in Luton

FINAL REPORT 14 October 2022

Prepared for Luton Council by LaingBuisson



# CONTENTS

<b>1 EXECUTIVE SUMMARY</b>	<b>4</b>
1.1 Headline results	5
1.2 Response rates	6
1.3 Methodology - validation, correction of anomalies, outlier exclusions and calculation of medians	6
1.4 Sensitivity analysis	6
1.5 Confidence intervals	6
1.6 Conclusions	7
<b>2 FAIR COST OF CARE RESULTS FOR SUBMISSION TO DHSC</b>	<b>8</b>
2.1 The ARCC / LGA toolkit	8
2.2 Services in scope	8
2.3 Engagement with providers	9
2.4 Quality of toolkit submissions	9
2.5 Validation	9
2.6 Incomplete toolkit submissions	11
2.6.1 Interpolation vs outlier exclusion	11
2.6.2. Base price year and uplifts	13
2.7 Response rates	15
2.8 Analysis and results	17
2.8.1 Supplementary information from homecare toolkits	20



2.9 Sensitivity analysis	21
2.9.1 Return on operations	21
2.10 Confidence intervals	22
2.11 Special local factors	23
2.12 Conclusions	23
<b>APPENDIX 1 GLOSSARY</b>	<b>25</b>



## EXECUTIVE SUMMARY

LaingBuisson was commissioned by Luton Council in May 2022 to undertake a Fair Cost of Care exercise, as described and specified in government guidance<sup>1</sup>, covering domiciliary care services that the council commissions services from for adults (18+).

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.

This report was prepared using detailed responses from all providers who submitted a validated response with a range of 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, being a benchmark rate determined by the council on the basis of the best available evidence in line with DHSC guidance. This benchmark has been used to supersede 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
- Other ratios derived from the toolkit submissions, which may assist in understanding drivers of costs.

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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>

## 1.1 Headline results

As a condition of receiving future funding, Luton Council undertook cost of care exercises for 65+ care homes and 18+ domiciliary care using the national toolkits that were available. From the outset, we acknowledge that the exercises haven't achieved what we would have hoped due to the subjective methodology of the toolkits and the output providing results that are inconsistent with local market intelligence and recent tendering financial due diligence activity.

In line with the guidance, median figures are published within this report. However, this is with the government recognising that 'this may oversimplify what is a complex picture of care and support needs. But for data collection purposes it is necessary to find a way of standardising cost reporting.'

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<sup>1</sup> of providers of domiciliary care services commissioned by Luton 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	£24.90	11	0	15	73%

1. Derived from Table 4



## 1.2 Response rates

At the date of this report, the LaingBuisson team had fully validated 11 toolkit submissions. There were no partially validated toolkit submissions, i.e. those for which one or more (but not all) of the cost lines had been validated. The 11 fully validated toolkits represents a response rate of 73% of domiciliary care services in scope, Section 2.7.

## 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 evidence that the toolkit responses were biased in any systematic way<sup>2</sup>, 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 £24.90, with 95% upper and lower confidence limits of £20.43 and £32.51 respectively.

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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 Luton Council, at the date of the report in September 2022, stood at £18.32 per hour<sup>3</sup>. This is £6.58 lower than the calculated FCoC median, and £2.11 below the lower 95% confidence bound of the calculated FCoC median.

This means that the council can be at least 95% confident that the exercise shows a gap between the £18.32 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 £2.11, being the gap between the £18.32 paid by the council now and the £20.43 lower bound of the 95% confidence limits of the calculated FCoC median, and it may be more. In the council's view if providers had been working with such a significant gap this would have resulted in very severe financial issues for them. Luton Council will continue to engage with our providers to further build on the data gathered in this exercise in order to establish the costs of local providers with greater certainty.

It has been made explicit that the outcome of this exercise is not intended to be a replacement for the fee-setting element of the council's commissioning processes and the information from this exercise will be used as part of the process of informing subsequent fee setting. Luton Council will continue to work with providers to ensure that they are properly remunerated for the support that they provide within the resources that are available. Luton Council appreciate the grant support that has been made available to support providers but this is coupled with concerns that the funding is not sufficient.

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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.



## 2 FAIR COST OF CARE RESULTS FOR SUBMISSION TO DHSC

### 2.1 The ARCC / LGA toolkit

Under the instructions of Luton 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.

Domiciliary care providers submitted their completed toolkit spreadsheets direct to LaingBuisson. 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 15 domiciliary care services in scope who Luton Council commission services from. 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. There were a total of 112 contacts with providers by LaingBuisson.

Among the providers with whom positive contact was made in Luton, one refused outright to participate. Looking across all 10 local authorities that LaingBuisson has supported in the FCoC exercise, the reasons given by those who refused outright 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 home care 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, given the perceived lack of meaningful results from comparable exercises in the past. It is not possible to measure the exact extent, but it can be expected that these issues will have affected the number and quality of submissions received.


## 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:

- The price year of results, particularly carers' gross hourly pay rates. The ARCC toolkit does not ask for the year the actual costs relate to, meaning that stated pay rates may relate to either 2021/22 or 2022/23

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- 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 a 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. Luton Council's Home Care providers tend to be smaller and locally based organisations, this may account for high levels of back office costs that they have stated in their returns. We will work with providers to improve the efficiencies of their back office operations including by encouraging them to consider working together in areas such as recruitment, training and logistics. The council have found that the back office costs of London based providers are more than we are seeing from Luton based providers and we will continue working with them to ensure that rates reflect the Luton position

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?*
- *Are you a For Profit or Not for Profit organisation?*
- *Are you an Independent or part of a Group operator?*
- *Are you a Franchisee?*
- *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.


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

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, 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<sup>4</sup>, 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<sup>5</sup>.

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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](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1063330/Green_Book_2022.pdf)

**Table 2 – Price uplifts**

	<b>CPI Code</b>	<b>CPI Item</b>	<b>12 Month % change to April 2022</b>
Direct Care	Change to April 2022	National Living Wage % increase <sup>6</sup>	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 and 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
Audit and 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)	-	-	-

6. <https://www.gov.uk/government/news/national-living-wage-increase-boosts-pay-of-low-paid-workers#:~:text=The%20improvement%20in%20the%20economic>

## 2.7 Response rates


At the date of this report, the LaingBuisson team has fully validated 11 toolkit submissions representing a response rate of 73% of domiciliary care services in scope, Section 2.7. For individual cost lines the effective response rate (after outlier exclusions) varied, 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.

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

	<b>Responses</b>	<b>Responses as % of services in scope with the relevant characteristic</b>
Key characteristics	No.	%
Total fully or partly validated	11	73
Strategic providers	10	91
For-profit	10	71
Not-for-profit	1	100
Large corporate group <sup>8</sup>	0	0
Medium group <sup>9</sup>	1	10

8. 40 or more domiciliary care services across the UK

9. 3 - 39 domiciliary care services across the UK



Small group or independent <sup>3</sup>	10	28
Large service scale (100,000+ hours annually)	5	N/A
Medium service scale (15,000 – 99,000 hours annually)	4	N/A
Small service scale (<15,000 hours annually)	2	N/A
Good or Outstanding	8	73
Requires improvement or Inadequate	3	75
Urban	7	N/A
Mainly Urban	3	N/A
Rural	0	N/A
Mainly rural	0	N/A
Mainly (60%+) private pay	0	N/A
Mainly (+60%+) public pay	9	N/A

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 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 a benchmark 5% mark-up on operating costs, requested by the council. This benchmark supersedes the mark-up on operating costs entered in the toolkit submissions.

**Table 4 Median costs of domiciliary care services 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:	18.04	15.25	21.97
• Direct care	10.67 (10)	9.88 (10)	11.22 (10)
• Travel time	1.40 (11)	0.40 (11)	2.36 (11)
• Mileage	0.83 (9)	0.80 (9)	1.13 (9)
• PPE	0.92 (8)	0.64 (8)	1.18 (8)
• Training (staff time)	0.21 (7)	0.14 (7)	0.35 (7)

• Holiday	1.42 (7)	1.36 (7)	1.50 (7)
• Additional noncontact pay costs	0.43 (8)	0.26 (8)	0.59 (8)
• Sickness/maternity and paternity pay	0.34 (9)	0.25 (9)	1.53 (9)
• Notice/suspension pay	0.26 (3)	0.14 (3)	0.41 (3)
• NI (direct care hours)	1.16 (8)	0.98 (8)	1.21 (8)
• Pension (direct care hours)	0.42 (9)	0.41 (9)	0.49 (9)
Total business costs:	5.67	4.62	7.45
• Back office staff	3.33 (7)	3.12 (7)	4.04 (7)
• Travel costs (parking/vehicle lease et cetera)	0.04 (8)	0.01 (8)	0.15 (8)
• Rent/rates/utilities	0.29 (10)	0.18 (10)	0.38 (10)
• Recruitment/DBS	0.08 (10)	0.04 (10)	0.17 (10)
• Training (third party)	0.04 (9)	0.02 (9)	0.09 (9)
• IT (hardware, software CRM, ECM)	0.29 (11)	0.16 (11)	0.44 (11)
• Telephony	0.07 (8)	0.06 (8)	0.09 (8)
• Stationery/postage	0.04 (8)	0.03 (8)	0.04 (8)
• Insurance	0.05 (9)	0.04 (9)	0.07 (9)
• Legal/finance/professional fees	0.07 (10)	0.03 (10)	0.13 (10)

• Marketing	0.06 (8)	0.04 (8)	0.11 (8)
• Audit and compliance	0.06 (7)	0.04 (7)	0.09 (7)
• Uniforms and other consumables	0.06 (11)	0.02 (11)	0.11 (11)
• Assistive technology	0.02 (5)	0.01 (5)	0.06 (5)
• Central/head office recharges	0.74 (2)	0.56 (2)	0.91 (2)
• Other overheads	0.34 (4)	0.18 (4)	0.47 (4)
• CQC fees	0.09 (7)	0.08 (7)	0.1 (7)
Sub-total Operational Costs	23.71	19.87	29.42
Total Return on Operations ( 5% of operating costs)	1.19	0.99	1.47
TOTAL	24.90	20.87	30.89
Supporting information on important cost drivers used in the calculations:			
• Number of location level survey responses received	11		
• Number of locations eligible to fill in the survey (excluding those found to be ineligible)	15		
• Carer basic pay per hour (per hour of contact + travel time)	£10.54		
• Minutes of travel per contact hour	12		
• Mileage payment per mile	£0.32		
• Total direct care hours per annum	552,802		

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 5% of operating costs.

### 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	42	6	172
30 minutes	1014	130	1297
45 minutes	385	158	746
60 minutes	100	25	167

Note: Values are rounded.

**Table 6 Direct care and mileage cost per visit by visit length**

Visit Length	Average Cost	Median Cost
	£	£
15 minutes	7.82	7.53
30 minutes	13.95	13.42
45 minutes	20.07	19.31
60 minutes	26.20	25.20



## 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 advises setting the return on operations benchmark at a 10% mark-up on operating costs. However, after considering this evidence, Luton council determined that the benchmark should be a 5% mark-up on operating costs.

The council decided that a level of 5% should apply for return on operating costs for the following reason:

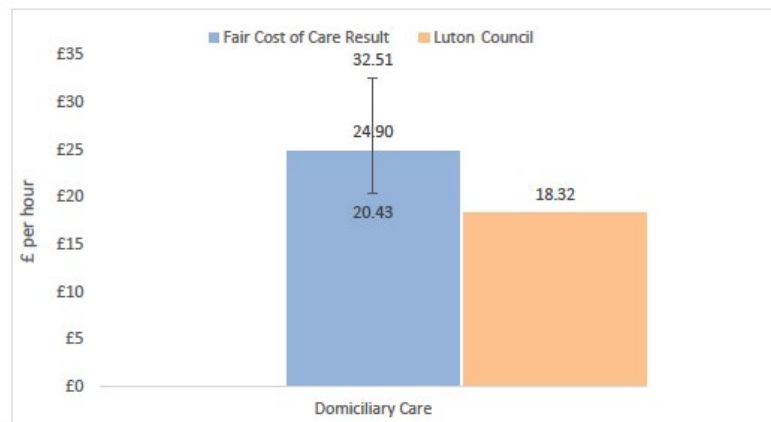
- The home care market in Luton is fairly stable and has potential for growth so applying a 5% return on operating costs is considered to be a fair balance of reward for people providing services in Luton and stewardship of the public purse.

This benchmark rate has been applied in the calculation of median total costs in Table 4.

## 2.10 Confidence intervals

There is no reason to believe that the toolkit responses were biased in any systematic way<sup>11</sup>. 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.

**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 Luton Borough 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.

11. 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.



## 2.11 Special local factors

Every local care economy is different, but here are no special features of the Luton 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 Luton Council, at the date of the report in September 2022, stood at £18.32 per hour<sup>12</sup>. This is £6.58 lower than the calculated FCoC median, and £2.11 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 £18.32 per hour average rate being paid by Luton 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 £2.11, being the gap between the £18.32 paid by the council now and the £20.43 lower bound of the 95% confidence limits of the calculated FCoC median, and it may be more.

In the council's view the Home Care submissions do not appear to have sufficiently accounted for both the lack of rurality and the local labour market with current figures in our view too closely reflecting those in higher cost rural areas.

A large number of staff employed by Luton providers are on zero hour contracts. These often wrap up pension and holiday payments in the overall hourly rate. In our view, the tool may not pick up these and other nuances well enough and the council are continuing to work with providers to ensure that the rates of pay and total staffing costs that have been submitted are not over-inflated.

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<sup>12</sup>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.



In 2021 and 2022 Luton council carried out three Home Care procurements and received a high number of responses from providers who are working with us at our existing rates. This includes a number of providers whose Annex A returns have come in significantly higher than their current rates.

Analysis of submissions does not explain this significant variation and the council are continuing to work with providers to understand what is causing the differences.

In spite of our considerable concern about the anomalies of the tool over-inflating prices, Luton council will continue to work in close partnership with providers and use additional investment to improve the quality of services that we commission. This will ensure that providers are fairly rewarded for services that they are providing which support vulnerable people in Luton to have their needs met effectively within available resources.

The council will shortly be undertaking a wider procurement of all of our Home Care Services which will include open book exercises to fully understand costs. The council again expect a good response to the procurement from providers at rates which are in our view are both fair to them and affordable to the local authority

The council have used the support grant to provide an uplift that is significantly above inflation uplifts to our Home Care providers to assist us to achieve our overarching strategic goal of supporting people to remain independent at home for as long as possible. We will focus a significant percentage of any new investment on continuing to make more progress in this area.





# APPENDIX 1 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 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.



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