

Annex B: Cost of Care Report – Lambeth Home Care (18+)

This report outlines the process followed by the London Borough of Lambeth to complete the cost of care exercise for the Market Sustainability and Fair Cost of Care Fund, working with local providers of home care. This includes the borough's approach to analysis of provider cost of care data to produce the information detailed in Annex A.

This exercise presented significant and fundamental constraints, including issues with data quality, lack of clarity in the structure and guidance for the exercise, insufficient time and unreliable results being produced by the mathematical median calculation method. These challenges are described in further detail under Part Two (page three). The limitations are such that, whilst the exercise complied with the prescribed requirements, the results may not fully reflect the true picture of our local care market. For this reason, Lambeth refers to this exercise with the title “cost of care” rather than “fair cost of care” as having followed the guidance provided, we are not confident that the resulting cost of care figures are fair or sustainable. This approach follows discussions with other local authorities nationally and within the London region via cost of care webinars facilitated by the Local Government Association and London ADASS in September and October 2022.

The parameters for this exercise have changed substantially since the exercise was first announced by DHSC. In November 2022, the Autumn Statement announced that Adult Social Care charging reform would be delayed by two years to October 2025. At the time of the submission deadline in October 2022, the DHSC guidance on the Market Sustainability and Fair Cost of Care Fund stated that ringfenced funding would be allocated to local authorities nationally to support costs for home care and older people's care home providers, with £562m to be allocated to local authorities by April 2024 (£162m for 2022/23; £562m for 2023/24 and £562m for 2024/25). In December 2022, the provisional local government finance settlement announced a 'Market Sustainability and Improvement Fund' to fund wider adult social care market sustainability, beyond home care and older people's care home services only. The total funding for 2023/24 is £562m – including the £162m previously announced for 2022/23. In summary, the scope has expanded to wider adult social care issues such as delayed discharges and workforce pressures as well as fee rates. This means that there is now set to be less ringfenced funding available specifically for home care and older people's care homes in comparison with the sums initially announced by central government in the guidance for this exercise.

Lambeth intends to continue to work with providers to agree local fee rates that are sustainable for the Lambeth market, including via a planned exercise to recommission home care services in 2023. The cost of care exercise does not replace the fee setting element of the local authority commissioning process, through which local fee rates will be determined. The outputs of the cost of care exercise will help to inform the fee setting process, alongside a range of other considerations including inflation, demand, capacity, benchmarking, quality, availability of funding and affordability for the Local Authority.

Part One: Overview of the process for completing the exercise:

Governance

- In May 2022, London Borough of Lambeth set up a core working group to lead delivery of the cost of care exercise, led by Commissioning, Finance and Adult Social Care. This workstream reported to the local authority Adult Social Care Reform Board, established to lead implementation of the Adult Social Care reform changes in Lambeth. Throughout the programme, the workstream has provided updates to the relevant internal governance boards and to Cabinet Members on engagement with providers and the analysis of cost of care data.

Defining the scope of the home care market

- To ensure a representative response to the Cost of Care exercise for home care, Lambeth defined the scope of the borough's home care market as:
 - all providers with registered offices in the borough of Lambeth, plus
 - all providers commissioned by Lambeth to provide care for Lambeth clients with registered offices in other boroughs.
- We also clarified with the LGA that this approach was correct, and the LGA advised that it was via email on 16 June 2022.
- Lambeth used the Excel-based home care cost of care toolkit for this exercise, using the template made available by the LGA and the Association of Directors of Adult Social Services (ADASS) as indicated in the DHSC exercise guidance.

Response rate

- In total, 22 home care providers submitted cost of care information to Lambeth, from a total of 75 organisations. The 22 responses give good representation of the cohort of 25 providers identified as the key organisations providing the highest volume of hours for Lambeth care clients.
- The response rate represents 29.33% of all Lambeth providers, but 88% of Lambeth's key commissioned providers. These 25 key providers deliver care to 95.8% of Lambeth social care clients with commissioned packages of care.
- Additionally, there are 14 home care providers registered in the borough but not commissioned by Lambeth – focusing only on providers commissioned by the council, the response rate represents 36% of all Lambeth commissioned providers.

Engagement with providers to promote completion of cost of care toolkits

- Whilst awaiting full details of the cost of care process from DHSC, Lambeth started to engage with providers in April 2022 to prepare them for the exercise. LB Lambeth Commissioning emailed providers on 28 April 2022 with an update on the national exercise, signposting to the DHSC guidance. Lambeth shared the home care cost of care toolkit for reference and indicated that the local authority would be in touch in May with further information about the process.
- LB Lambeth Commissioning and Finance leads spoke to providers at the online home care provider forum on 24 May 2022 to discuss the guidance and toolkit format and answer questions.
- On 28 May 2022, London Borough of Lambeth Integrated Commissioning issued a letter to all home care providers commissioned by Lambeth inviting

them to submit cost of care information by 9 June using the LGA cost of care toolkit. LB Lambeth also wrote to all non-commissioned providers registered in the borough on 28 June to invite them to submit their toolkit responses.

- LB Lambeth circulated guidance, information and event invitations relating to the national programme. This included signposting to the home care toolkit and associated guidance published on the Local Government Association website.
- LB Lambeth invited home care providers to support any queries regarding the exercise to the Integrated Commissioning shared mailbox, for commissioners to provide information and clarification as needed.
- LB Lambeth followed up directly with providers individually via emails and phone calls where providers did not submit their toolkit by the specified deadlines (initially 9 June, before extension extended to 30 June).
- LB Lambeth extended the final toolkit submission deadline twice to ensure providers had sufficient time to submit their cost information: first, an extension to 30 June and then a second extension to 31 July.

Quality assurance and provider queries

- After closing the final window for provider toolkit submissions on 31 July, Lambeth commenced a process of quality assurance led by the Finance department, with support from Commissioning.
- Lambeth collated the toolkit information submitted by providers and reviewed each submission line by line. Where specific cost lines diverged significantly from expected levels and / or other submissions, Lambeth contacted providers to query this and invited providers to review and re-submit their toolkit information if updates for accuracy were required. For example, where staffing costs varied significantly from expected pay rates, Lambeth asked providers to review and verify these costs and re-submit the information with corrections where errors were identified.
- Providers were offered the opportunity to have one-to-one support calls with Lambeth Commissioning and Finance to discuss and address quality assurance queries, to discuss the issues identified and confirm if any updates were required.

Provider engagement regarding Market Sustainability Plan and toolkit analysis

- Lambeth Commissioning developed the Market Sustainability Plan, with support from Public Health and the council performance team to identify and analyse latest data on population change and the care population in Lambeth.
- Lambeth has a home care provider forum which takes place bi-monthly—commissioners continuously engaged with providers at the forum throughout the exercise to answer questions, share guidance and discuss this exercise.
- To further inform our understanding of market pressures from a provider perspective, Lambeth surveyed home care providers on market sustainability issues and workforce challenges to inform the Lambeth Market Sustainability Plan. We opened the survey for three weeks and promoted this to providers by email and promoted the survey via regular home care provider forum meetings. We received 14 responses which provided valuable insights on market sustainability issues, informing the narrative of the Market Sustainability Plan.

- Through the home care provider survey, we asked providers directly what they considered to be the biggest challenges for the home care market in Lambeth over the next three years. Most responses highlighted issues relating to staffing, including recruitment, retention and staff pay. The views of providers, alongside market data analysis, provided the steer for Lambeth in responding to Section 5 within Annex A – identifying that ‘Workforce supply’ is the biggest sustainability challenge for the 18+ home care market in Lambeth.
- Lambeth’s analytical approach is outlined in Part Two of this report. Lambeth commissioners engaged with the London and South East London sub-region throughout August and September to share feedback on the analytical process. After determining the borough’s proposed approach to the analysis, Lambeth issued a communication to all 75 home care providers on Tuesday 27 September explaining the borough’s approach to Return on Operations (ROO). Providers were invited to share comments. Lambeth received one response from a home care provider querying the approach to ROO, which Lambeth acknowledged and responded to with confirmation of the local authority’s final position on ROO (see Part Two, Page Five for further details).
- In January 2023, prior to the publication of the Annex B reports on the Lambeth website, Lambeth wrote to all older people’s care providers in scope for this exercise to update on the cost of care exercise and national developments regarding the Market Sustainability and Improvement Fund. Providers will be invited to an engagement session in March 2023 before the publication of the final Market Sustainability Plan to explore its findings, building on prior engagement with providers to develop the draft Plan.

Part Two: Approach to the cost of care estimates (Annex A, section 3)

Lambeth engaged extensively with home care providers to maximise the rate of response to the exercise. However, the quality of the cost information produced by this exercise is limited to a significant extent by several key risks and issues. These limitations include the following:

- As the median rate simply selects one value in the middle of the range of prices submitted by providers, this does not guarantee that a median rate will correspond with an accurate market rate. The median calculation is more suitable for large data sets, whereas for small sample sizes the addition or removal of a single value can significantly impact the median. The method does not give weighting to relevant factors such as the actual number of clients supported by a provider – costs submitted by an agency supporting one Lambeth client would have an equal impact on the median calculation as an agency supporting 100 Lambeth clients. This means that smaller specialist providers with relatively few clients, charging higher rates for specialist care, disproportionately impact the median rate result. Additionally, the median calculation method diverges from current practice, whereby Lambeth uses a weighted average calculation method to determine iBCF rates
- Providers submitted return on operations across a wide range of values. It is advisable to uphold a degree of consistency to moderation of these cost lines to ensure that the median rates identified are accurate and sustainable.
- Providers also submitted costs that varied significantly across cost lines including Employer's National Insurance (ENI) contributions, energy costs, PPE, and travel. These inconsistencies present concerns regarding the accuracy of the data. However, in the absence of clear guidance from the Department on appropriate benchmarks for these cost lines, and within the short timeframe allocated to local authorities to complete the exercise, Lambeth judged that it was not feasible to amend the figures to a single value that could be clearly evidenced. Therefore, Lambeth did not amend these cost lines, despite concerns about the accuracy of the information submitted.
- There are several interdependencies that will significantly impact the costs of providing care. Since the deadline for data submissions closed at the end of July 2022, several new developments have emerged which are relevant to provider costs. These include:
 - Energy costs: on 8 September 2022, central government announced a policy to provide financial support for households ("energy price guarantee") alongside a new 6-month scheme for businesses and other non-domestic energy users.
 - Inflation: the rate of inflation is unpredictable and continuously changing. The inflation rate for 2022/23 is not a reliable benchmark for determining fees in future financial years; it is necessary to have a dynamic approach to working with providers to understand actual costs.
 - London Living Wage: on 22 September 2022, the Living Wage Foundation announced an uplifted London Living Wage rate for the 2022/23 financial year of £11.95.

- The toolkit survey template does not include information about income from self-funders. Consequently, the exercise does not facilitate increased understanding of the relationship between fee rates for clients with home care commissioned by local authorities and clients who fund their own care.

From the outset, it is important to acknowledge the fundamental limitations of the data and the unknown variables that are key constraints for the analysis of the cost of care data. Lambeth proceeded to analyse cost lines and requested providers to review specific cost lines for accuracy - notably around staffing costs where basic pay and on-cost rates were below minimum wage guidelines; travel costs where initially omitted; and surplus profit rates where higher than expected. A consistent approach to Return on Operations was applied, with reference to evidence-based industry guidance. Nevertheless, the data quality concerns are such that, even after the final analysis, it is necessary for the local authority to consider other factors in setting fee rates as the cost of care outputs alone do not provide a reliable basis for fee setting.

The outcome of the cost of care exercise is not intended to be a direct replacement for the fee setting element of the local authority commissioning process or individual contract negotiations. It is expected that actual fee rates may differ, as the outcome of sound judgement, evidence and local negotiation. The outputs of this exercise will be one element to inform future negotiations, taking into consideration other known market factors including inflation, demand, capacity, benchmarking, quality and importantly affordability for the Local Authority and availability of funding.

Approach to the analysis of the home care toolkit submissions

- A scenario based financial modelling approach was applied to the cost submissions, after the required adjustments had been made by providers and with reference to available guidance and benchmarking information, to:
 - Uphold a degree of consistency to cost lines where providers submitted costs values across a wide range such as for travel and return on operations.
 - Ensure that the median rates identified are accurate and sustainable
 - Understand the risks and cost impact of adopting certain median rates.
- The information submitted by providers in relation to Return on Operations (ROO) showed considerable variation for example between 0% to 8%. To support a consistent approach to the analysis of this cost line and with reference to available industry guidance, Lambeth applied a consistent rate of 3% for ROO. This figure was based on the minimum surplus profit level requirement identified by the United Kingdom Home Care Association (UKHCA) in their 'Minimum price for home care' guidance for 2022-23. The UKHCA guidance offers the clearest sector guideline on surplus profit (or ROO) for the home care market. An assessment of market sustainability (Annex C) also illustrated consistent growth in the local home care market in recent years, which supported the view that 3% ROO represented a sustainable surplus profit margin.

- The table below shows the count of the count of observations, lower quartile, median and upper quartile (where relevant) of all items in Annex A, Section 3:

Care cost type	Count of observations	Lower quartile	Median quartile	Upper quartile
Care worker costs	22	13.15	17.18	30.89
Business Costs	22	3.40	3.90	3.60
Total Return on Operations	22	0.50	0.66	1.03
		£17.05	£21.74	£35.52

- Providers were asked to submit actual costs as at 1 April 2022 (i.e. 2022/23 base year). If costs from the Cost of Care exercise are utilised in future years, they will be uplifted in future years based on relevant information such as general increase in costs and specific wage growth information such as changes in statutory pay rates and London Living Wage rates.
- The table below shows the values from Annex A, Section 3 with one column showing the overall median values for each care type subtotal, after final provider adjustments and the application of the 3% minimum surplus profit rate. This approach provides a more reliable median value and resolves some of the issues with the quality of the information relating to specific cost lines and the median calculation method. This is further broken down by the median cost per 15/30/45/60-minute visit table below, showing the overall median values for each cost type subtotal.

Cost of care exercise results - all cells should be £ per contact hour, MEDIANS.	18+ domiciliary care	15 mins visit	30 mins visit	45 mins visit	60 mins visit
Total Care worker Costs	£17.18	£4.30	£8.59	£12.89	£17.18
Total Business Costs	£3.90	£0.98	£1.95	£2.93	£3.90
Total Return on Operations	£0.66	£0.17	£0.33	£0.50	£0.66
TOTAL	£21.74	£5.44	£10.87	£16.31	£21.74

- The lower quartile/median/upper quartile of number of appointments per week by visit length (15/30/45/60 mins) and number of appointments re illustrated in the tables below:

	Lower percentile	Median percen- tile	Upper percentile
Length of Visit - mins	15	45	60

Length of visit	No of Observations	Lower Quartile – No of appointments	Median Quartile – No of appointments	Upper Quartile – No of appointments
15	3	11	15	51
30	21	14	655	3000
45	21	7	320	1184
60	22	1	143	2185

- The is further broken down to the mileage cost each of 15-, 30-, 45- and 60-minute visits based on a median mileage cost of £0.03p per minute.

Length of Visit - Mins	Cost per visit
15	£0.48
30	£0.96
45	£1.48
60	£1.91