



## CALCULATING THE REAL COST OF HOME CARE

### A COSTING MODEL PROVIDED BY THE UNITED KINGDOM HOME CARE ASSOCIATION

There are a number of reasons why it is timely to undertake a thorough examination of the costs involved in providing home care. Foremost among these is the introduction of regulation. Regulation is by no means the only cost driver, but it is an important one. Independent home care providers are anxious to obtain increases in fees which will enable them to meet the new national minimum standards and other costs of regulation. Purchasers understandably have concerns that demands for higher fees are genuinely necessary and will be employed for this purpose.

Another reason for undertaking this work at the present time is the national policy emphasis on developing domiciliary support as a preferred option. If capacity is to increase to the sorts of levels which are needed, the service must be adequately funded. But there is as yet no reliable data and a lack of transparency in the components and real costs of providing home care services.

#### United Kingdom Home Care Association funded to analyse costs

The United Kingdom Home Care Association (UKHCA) has received financial support from the Department of Health through Section 64 funding to undertake a thorough analysis of the costs of providing home care services. We gratefully acknowledge this financial support but this does not necessarily imply endorsement of the model by the Department. From this a costing model has been produced which may be used in a variety of ways:

- to produce a unit, or range of, cost(s) for a specific service
- to produce a 'reasonable' unit cost in a specific area or region
- it will provide an opportunity for benchmarking nationally, regionally and locally once the model is being used extensively

The model will be useful to all home care organisations, including in-house providers, and to the industry more generally. There will be a more reliable basis for judgements about Best Value. The government will have a clearer yardstick by which to assess whether or not authorities are being funded at an appropriate level to enable them to purchase the necessary volume and types of home care support. Perhaps most important of all, the model should introduce some transparency into the whole question of costs and funding.

#### It will provide answers to the questions:

##### From the Provider:

How much does  
an hour of  
home care actually  
cost?

##### From the Commissioner:

How much  
should it cost – what  
is a  
fair price for care?

## Stakeholders from all sectors have been involved in the project

An Expert Group with representatives from a wide group of key stakeholders, including both independent and public sector providers, leading health care analysts, government etc. has steered the project and input was also sought from a number of providers.

The model was developed by Starfish Consulting who are well known for their work with the LGA and for extensive benchmarking in the public sector, to a brief prepared by Lucianne Sawyer CBE. The model has now been tested in a number of sites which comprised a range of different types of provider organisations such as: a large voluntary organisation; a small private agency in a rural area; an in-house service; etc., five in all.

### Launch at ADSS conference in October 2003

The first, and major, stage of this work will be demonstrated at the UKHCA AGM and conference in Edinburgh at the beginning of October, and formally launched at the ADSS conference in Brighton later that month. The first stage model will effectively enable organisations to analyse current costs and establish credible unit costs. The second stage of the work will add to this model to enable organisations to achieve viable costs and prices for planned service development.

## Background

Cost and quality was one of the recurring themes in the submissions to The King's Fund Care and Support Inquiry – *Future Imperfect* (2001). The report commented that there was a striking consensus and that the key themes transcended differences that might have been expected between different groups. "It is an inescapable conclusion" they said, "that the care sector is under-resourced. Unless this is addressed, it will be impossible to raise the quality of care significantly."

Both independently provided and in-house home care services are feeling the pressures:

Independent sector providers of home care have traditionally charged for their services at rates which are low relative to the costs of such services provided directly by local authorities. Despite changes in employment law and other pressures on workforce costs which have, to some extent, been recognised by price increases rates have still not reached the necessary level to cover the real costs of providing the service and to give a reasonable margin to allow for risk or to enable a realistic return on the capital involved in providing the service.

In-house teams in many areas have experienced changes designed to make them more competitive in the market. For some this has meant reductions in guaranteed hours, changes in terms and conditions, restructuring of services. Much in-house provision has now been externalised (64% of state funded home care is now provided by independent organisations).

## Regulation

Regulation is imposing new costs on the industry. Training and supervision are thought to be the two major cost drivers, but registration fees, the development and implementation of QA systems, and many other aspects of the National Minimum Standards will also add to costs.

## Non-contact time

One of the chief reasons for the cost discrepancy between in-house and externally provided services has been the extent to which in-house staff have been paid for non-contact time, i.e. time which is not spent in direct service provision. Increasingly non-contact time is now also having to be paid in the independent sector. This is likely to be primarily for:

- time spent travelling between service users
- time spent training
- time for supervision
- guaranteed time

Also in 2001 the Department of Health published *Building Capacity and Partnership in Care*. This agreement between the statutory and the independent social care, health care and housing sectors set out good practice guidelines for relationships between commissioners and providers.

It required councils to balance cost and quality, and stated that 'commissioners must have up-to-date information about prices (to them) and costs (to the provider) of services...'. It was also concerned that some commissioners had used their dominant position to drive down or hold down fees to a level that recognised neither the costs to providers nor the inevitable reduction in the quality of service provision that followed. Good practice demands that 'Fee setting must take into account the legitimate current and future costs faced by providers as well as the factors that affect those costs, and the potential for improved performance and more cost effective ways of working. Contract prices should not be set mechanistically but should have regard to providers' costs and efficiencies, and planned outcomes for people using services, including patients'.

## The model takes account of:

- Care workers wages and on-costs
- Use of agency staff
- Non-contact wage costs
- Care workers' travel costs and travel time
- Front line management
- Redundancy costs
- Administration and other support staff costs
- Training
- Recruitment
- Quality
- Marketing
- Legal costs
- Financial administration
- Audit of annual accounts
- Cost of finance
- Insurance
- Office premises
- IT, computer costs
- Postage and telephone
- Office equipment
- Equipment
- Printing and stationery
- Subscriptions, membership of professional organisations, attendance at conferences
- Costs of Registration and Regulation
- Consultancy
- Motor expenses and cost of travel for staff other than care workers
- Capital costs
- Return on capital (profit/surplus)

It also enables an organisation to input information such as the intensity of service provision, i.e. number of service users receiving any particular volume of service, since each additional service user adds cost. The second phase of the work will develop the facility to take account of whether costs are fixed or variable and thus to calculate much more accurately the real costs/price for providing a service over a longer term. Both of these aspects of the model will help purchasers and providers to get behind the over-simplistic assumption that there are necessarily economies of scale to be achieved from larger contracts.

## Who is the model intended for?

The model will be useful both to individual home care organisations and to the industry more generally. Service commissioners will be able to rely on the figures it produces. There will be a more reliable basis for judgements about best value. The government will have a clearer yardstick by which to assess whether or not authorities are being funded at an appropriate level to enable them to purchase the necessary volume and types of home support.

## How does the model work?

The format of the Costing Model is a very user-friendly spread-sheet. It calculates the actual cost of an hour of home care based on existing contractual commitments.

Information on current commitments are input, for example: the direct hours of care provided, the number of service users, the number of visits, the timing of visits (time bands), travel (distance and time).

It then moves to the staff resources needed to provide the service, including the posts in the organisation, their roles and the hours they work, the time spent on management and/or client care, non-contact time. It provides an initial check so that the organisation can see whether it is providing adequate cover for the hours of care to which it is committed. It then uses the staffing information and adds the costs of posts, factoring in the on-costs. At this stage it will be possible to establish the costs of induction and basic training, ongoing training and supervision, leave and sickness costs, unsocial hours etc.

Indirect costs, such as office accommodation, equipment, marketing etc. are then added into the equation.

The model allows for a surplus/profit margin to be applied with the resulting unit costs broken down by yearly, weekly and hourly costs (this is also illustrated within a pie chart within the model). The resulting breakdown of costs will enable open discussion between providers and commissioners as a means of negotiating the price of providing services by using justifiable cost components.

## References

- *Future Imperfect: Report of the Kings Fund Care and Support Inquiry*. Kings Fund. 2001
- *Building Capacity and Partnership in Care: An Agreement between the statutory and the independent social care, health care and housing sectors*. Department of Health. 2001

## Contact Details

For further information contact: UKHCA Ltd. 5 Beeches Avenue, Carshalton Beeches, Surrey, SM5 3LB. Telephone: 020 8288 1713. Fax: 020 8288 1712. E-mail: kim.grove@ukhca.co.uk

## CHANGES TO THE UKHCA COSTING MODEL

The UKHCA costing Model is almost three years old and some of the content within the Model may need updating. Unfortunately we do not have any additional funding to be able to update the entire model and so here are some tips on how you can do this yourself as well as some of the more common problems found.

Q. The National Minimum Wage figure is wrong.

A. You can change this figure yourself to the current rate by changing the pale yellow box in Table 16 of the Staff Cost section. This figure will then automatically default to the National Minimum Wage figure.

Q. In the Cost Summary section, the surplus figure is 0%. How do I change this?

A. You must complete the 'Mark Up for Surplus' box at the bottom of the Indirect Cost section. It requires a percentage figure to be entered to be able to work out the mark up cost per hour.

Q. The disclosure fee is different from the fee that I pay.

A. The disclosure fee is set at the UKHCA rate for an enhanced fee. If you pay something different, or require an additional POVA 1<sup>st</sup> check, you will need to amend the rate. You can do this by double clicking the yellow box at the bottom of Table 16 – Criminal Record Board Disclosure Fee, and changing it to the fee you pay.

Q. I have #DIV/0! written in some of the boxes in my spreadsheet.

A. You have omitted to enter a vital piece of information into a table above this point. Pale yellow boxes are for inserting information into. Go back and check that you have entered everything associated with the table where the #DIV/0! is.

The Costing Model is now only available as a downloadable document from the UKHCA Website. It can be found at [www.ukhca.co.uk/downloads.aspx?ID=98](http://www.ukhca.co.uk/downloads.aspx?ID=98).