



Cost of Care Annex B Merton domiciliary care report

Introduction

The government is implementing wide-ranging and ambitious reform of Adult Social Care. In December 2021 it published a White Paper, [People at the Heart of Care](#), that outlined a 10-year vision that puts personalised care and support at the heart of Adult Social Care. Ensuring market sustainability and moving towards a fair cost of care are some of the first steps in the journey to achieve this. Local authorities are required to start preparing markets for wider reform and thereby increase market sustainability.

As part of these preparations and to evidence work being done to prepare their markets, local authorities have been required to carry out a cost of care exercise for 18+ domiciliary care to determine the actual median cost of delivering care within the local area. This cost of care report is produced in line with government guidance and sets out how:

- the exercise was carried out
- providers were engaged; and
- the resulting cost of care for the local area has been determined - this includes the approach taken for return on operations (ROO).

This exercise presented Merton significant issues with data quality and some unreliable results due to the small number of returns impacting on the median calculation. The Council intend to continue to work with providers to agree 2022/23 rates that are sustainable for the Merton market.

To improve understanding of the actual cost of delivering care in Merton the Council has surveyed the 18+ domiciliary care providers within the borough. Merton engaged extensively with providers to maximise the rate of response to the exercise, however, 20% of the homecare providers responded. We therefore consider the cost information produced as it not fully representative of Merton's homecare market which includes a wide range of different sized providers. We consider that costs tend to vary significantly from provider to provider, with factors such as the size of the organisation, variations in staff pay rates and use of agency staff.

Cost of Care Provider Engagement and Response

Supporting information on important cost drivers used in the calculations:	18+ domiciliary care
Number of location level survey responses received	10
Number of locations eligible to fill in the survey (excluding those found to be ineligible)	50

All homecare providers registered within Merton were invited to participate in this cost of care exercise. They were contacted by email in May 2022 alerting them to the requirement for all local authorities to start preparing local markets for implementation of wider charging reforms, and specifically the requirements for increased market sustainability through Fair Cost of Care funding. The government required the Council to collect consistent data from local providers on actual costs to enable subsequent analysis. The Council decided to use the MS Excel based Fair Cost of Care Toolkit, co-designed by Local Government Association (LGA) and ARCC-HR Ltd.

This tool was also used by the other five South West London boroughs to support a consistent approach to the costing exercise with neighbouring Councils. Providers were invited to participate in Homecare CoC Toolkit demonstrations and Q&A webinars. Providers were then individually contacted by phone to encourage participation and to gauge any issues they might have with the process. Some providers stated that they found the toolkit too complicated. Other providers were positive about the exercise however they claimed capacity issues prevented them engaging in the exercise fully.

To assist Merton home care provider's submit cost of care data returns, further invitations to participate were sent in a Cost of Care Forum in mid July 2022, in partnership with Richard Ayres of Care England (part of the Care Provider Alliance). This provided guidance on completing the exercise from the industry perspective. After another telephone call round to all providers, a further webinar forum was organised for the end of July, with an invitation for both Merton and South-West London providers, to participate in a forum, in which Richard Ayres of Care England presented on the homecare toolkit.

Merton is concerned that fundamental issues related to data quality, lack of clarity in the guidance and the pursuit of the mathematical median calculations produced cost of care figures that are neither fair or sustainable. The cost data collated for DSHC is presented without real context and the insight that it gives is not in our judgement an accurate reflection of the true costs of care within Merton. Since the end of data collection deadlines background circumstances which directly affect the providers operating costs have changed significantly. With rising inflation, living and running cost increases we consider that the data submitted through this exercise is less than accurate. Further developments relevant to homecare provider costs 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. The details of the scheme are yet to be published.
- Inflation: 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, the Living Wage Foundation announced an uplifted London Living Wage rate for the 2022/23 financial year of £11.95.

Base Cost and Inflation

Ten Merton providers submitted cost information at 2022/23 prices, however the inflation rate applied to the 2021/22 cost base is not known as the data collection tool did not require providers to submit 2-years data. As Merton moves towards the cost of care, inflationary pressures in the market will need to be closely monitored along with the impact of other changes to the social care charging system. The rate will be updated to reflect actual inflation increases at the point of implementation. The cost of care exercise is not a replacement for the fee setting / annual uplift process. As such the exercise will inform fee future rates and demonstrate a move towards the median cost of care but will not replace the current process. The actual fee rates paid will still differ due to factors such as personalisation of care, quality of provision and wider market circumstances. The outputs of this exercise therefore 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 Merton and availability of funding.

Approach to Return on Operations

The cost of care exercise is required to report monetary amounts per contact hour for return on operations (ROO). Merton notes a significant variation in Return on Operations costs submitted by home care providers and likewise with respect to Return on Capital. The ROO is the reward and incentive for operating the care and support services in a care home and the ROC is the return that investors require to invest in a business, it reflects the inherent level of risk of operating in the care home market. Calculation of the ROO involves judgement, and Merton should retain flexibility to vary the return paid to any individual provider depending on the individual business and the prevailing market conditions at the time it is being applied. Levels of ROO applied by providers vary greatly and given this variation, to arrive at median cost, the Council made the decision to adjust to a flat rate of 3% in line with the value cited by the UKHCA. This approach ensures a consistent and fair basis to the calculation of ROO and provides a fair level of operating profit for providers.

Merton Cost of Care Tables

Cost of care median estimates from Annex A

Cost of care exercise results - all cells should be £ per contact hour, MEDIANS.	18+ domiciliary care
Total Careworker Costs	£16.64
Direct care	£10.84
Travel time	£1.52
Mileage	£0.76
PPE	£0.22
Training (staff time)	£0.15
Holiday	£1.42
Additional non-contact pay costs	£0.00
Sickness/maternity and paternity pay	£0.18
Notice/suspension pay	£0.03
NI (direct care hours)	£1.12
Pension (direct care hours)	£0.40
Total Business Costs	£6.47
Back office staff	£4.85
Travel costs (parking/vehicle lease et cetera)	£0.06
Rent/rates/utilities	£0.65
Recruitment/DBS	£0.07
Training (third party)	£0.07
IT (hardware, software CRM, ECM)	£0.17
Telephony	£0.12
Stationery/postage	£0.06
Insurance	£0.12
Legal/finance/professional fees	£0.09
Marketing	£0.04
Audit and compliance	£0.02
Uniforms and other consumables	£0.04
Assistive technology	£0.00
Central/head office recharges	£0.02
Other overheads	£0.00
CQC fees	£0.09
Total Return on Operations	£0.69
TOTAL	£23.80

Lower quartile/median upper quartile number of appointments

<u>Homecare Mins per visit</u>	<u>Count</u>	<u>Lower Quartile</u>	<u>Median</u>	<u>Upper Quartile</u>
15	0	0	0	0
30	7	244	273	482
45	7	89	140	399
60	9	53	78	349

Cost per contact hour, the cost per visit for each of 15,30,45 & 60 minute visits

Care Hourly Cost	£25.40		
<u>Total Visits</u>	<u>Total Cost</u>	<u>Mins</u>	<u>Hours</u>
0	£0.00	15	0.25
3444	£43,738.80	30	0.5
2018	£38,442.90	45	0.75
2334	£59,283.60	60	1

Count observations lower quartile, median and upper quartile

Cost of care exercise results - all cells should be £ per contact hour, MEDIANs.	Count of Responses	Lower Quartile	Median	Upper Quartile
Total Careworker Costs		£7.72	£17.71	£23.38
Direct care	9	£1.84	£9.90	£11.47
Travel time	7	£1.66	£2.27	£3.07
Mileage	7	£0.69	£0.94	£2.23
PPE	6	£0.30	£0.61	£1.50
Training (staff time)	7	£0.15	£0.16	£0.40
Holiday	8	£1.17	£1.43	£1.61
Additional non-contact pay costs	2	£0.12	£0.14	£0.15
Sickness/maternity and paternity pay	8	£0.18	£0.22	£0.51
Notice/suspension pay	6	£0.30	£0.45	£0.60
NI (direct care hours)	8	£0.93	£1.19	£1.39
Pension (direct care hours)	9	£0.38	£0.40	£0.45
Total Business Costs		£3.85	£6.76	£11.58
Back-office staff	8	£2.79	£4.85	£7.88
Travel costs (parking/vehicle lease etc)	6	£0.06	£0.13	£0.33
Rent/rates/utilities	8	£0.27	£0.65	£1.41
Recruitment/DBS	8	£0.05	£0.07	£0.17
Training (third party)	7	£0.05	£0.07	£0.12
IT (hardware, software CRM, ECM)	8	£0.07	£0.17	£0.45
Telephony	8	£0.07	£0.12	£0.24
Stationery/postage	8	£0.04	£0.06	£0.07
Insurance	8	£0.06	£0.12	£0.15
Legal/finance/professional fees	7	£0.06	£0.09	£0.17
Marketing	8	£0.03	£0.04	£0.06
Audit and compliance	5	£0.03	£0.04	£0.06
Uniforms and other consumables	6	£0.04	£0.06	£0.09
Assistive technology	3	0.05	£0.05	0.07
Central/head office recharges	5	£0.02	£0.07	£0.11
Other overheads	2	£0.07	£0.08	£0.09
CQC fees	7	£0.09	£0.09	£0.11
Total Return on Operations	8	£0.93	£1.44	£1.76
TOTAL		£12.50	£25.91	£36.72

Data submitted by providers was subject to verification and validation process with providers requested to clarify the issues and anomalies within submissions, however, there was insufficient time to comprehensively review cost data and there is no robust way of scrutinising central overheads. This particularly concerns us as even within the limited sample size we noted that some providers have included costs that we would not cover in the rates we presently pay.

In our judgement the median rate simply selects a random value in the middle of the range of prices submitted by providers which does not accurately reflect the market rate. This is particularly evidenced by a recurrent anomaly we found of median calculations producing higher rates for standard care than for 'enhanced' care categories for both residential and nursing care. In practice of course, enhanced rates should be higher than standard rates. Merton therefore considers that the median calculation method produces results that do not reliably reflect market costs. We also consider the guidance for these reports and data gathering processes to be unclear. For example there was no clear criteria for moderation (e.g. adjusting for ROO / ROC). Within the DHSC guidance it recommends that council's query outliers with providers, however in this there is no clear line between a cost being inefficient or this being considered a true outlier.

In recognising shared elements of the regional care market, Merton advised providers that we are working closely with other South-West London boroughs of Croydon, Kingston, Sutton, Richmond and Wandsworth in undertaking the cost of care exercises and the development of our separate provisional Market Sustainability Plans. In doing so boroughs have shared learning on data methodologies, coordinated their approach to engagement with providers, shared one another's median costs of care and developed a shared understanding of the risks, issues and opportunities regarding care market sustainability across the sub-region. Moving forward the intention is to continue to work together to develop as consistent as possible overall strategic direction to support a sustainable care market in south-west London, taking collective action where appropriate but also recognising the need for local level decisions and action. Merton will continue working with providers to agree local fee rates that are sustainable in the context of the Merton market for 2022/23.