

Costing methodologies and cost pressures in adult care homes, domiciliary care and supported living services in Wales.

Report from National Commissioning Board Task & Finish Group

[January 2021]

Amended May 2021 – p3: Care homes (adults) - Market rates as established by the National Collaborative Framework for Adults (18+) in Mental Health and Learning Disabilities Care Homes & Care Homes with Nursing

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Context

The National Commissioning Board's work programme for 2020/21 includes a strategic priority to **measure the costs of quality care and support**.

In October 2020, the Board established a [Task and Finish Group](#) of commissioners and providers to collate all Wales information on:

- Evidence of current and likely future (2021/2) cost pressures (*indirect and ongoing Covid related and other cost / risk issues*) within care and support services in Wales.
- Local, regional and / or national approaches to cost calculation and fee setting.

The scope of the review was limited to care homes for adults and domiciliary care – both 'homecare' and 'supported living'. The Children's Commissioning Consortium Cymru ('4Cs') negotiate with children's residential care providers and independent foster care as part of their annual market engagement activities.

At an early stage in the group's work, it was acknowledged that 'market segments'¹ (the range of services and / or settings) may experience cost pressures and indeed the impact of Covid-19 differently. For example:

- Many care homes for older people have seen significant cost pressures related to excess deaths and much lower occupancy linked to Covid-19 outbreaks and / or 'false positive' testing of care staff resulting in 28-day embargos on transfers of existing residents back from hospital and / or new residents moving into the home.
- The percentage of direct workforce costs within the overall hourly cost of domiciliary care has risen during the Covid-19 pandemic from around 75% to at least 80%. In supported living this is around 68% of costs.

During the review, the group acknowledged:

- The importance of highlighting the difference in costs of provision between paying care staff the legal minimum and real living wage rate.
 - That there may be a significant difference between 'fees paid' and 'costs of delivery'.
 - Costs of regulation (e.g., physical standards for new care home registrations, registration and qualification of the workforce) though generally unquantified, were not insignificant.
 - Commissioning and procurement approaches can impact on both costs of delivery (e.g., if contract specifications are onerous and risky for Providers) and fees charged (e.g., to self-funders and for third party top ups²).
 - That fees afforded by statutory commissioners varies across Wales, with up to £12k p.a. differential across local authority commissioned care for older people in care homes³.
 - That there appears to be little rationale for the local, regional & national fee setting approaches, for residential, continuing healthcare and funded nursing care placements for older people in care homes, when commissioning should be integrated, under a single regional budget.
- It was also recognised that adoption of the Lets Agree approach in domiciliary care under a single national cost methodology may benefit market sustainability and fair work agendas.

¹ The group defined these 'market segments' in line with regulatory definitions, i.e.

- Care homes – children; with and without education.
- Care homes - adults (aged 18 – 64 years, physical & sensory disability, learning difficulty & mental health); with and without nursing & older people and older people mental health; with and without nursing.
- Domiciliary support ('homecare', extra care & supported living).
- Foster care.
- Shared lives.

² The [Competition and Markets Authority](#)² have written about the impact of procurement approaches and fees paid by statutory commissioners for older person care home placements on charges to individuals under 'third party arrangements' and rates charged to self-funders.

³ [Care Forum Wales](#)

Results: Anticipated costs of care in 2021/22

Summarised below and based on agreed cost matrices and open book exercises:

Service	Minimum Wage	Real Living wage	Notes
Domiciliary Care <i>National Commissioning Board endorsed cost matrix developed by UKHCA Domiciliary Care Expert Reference Group and National Provider Forum representatives.</i>	£21.43 - 60 minutes £17.34 - 45 minutes £13.26 - 30 minutes £9.18 - 15 minutes	£22.72 - 60 minutes £18.36 - 45 minutes £14.01 - 30 minutes £9.56 - 15 minutes	A version of the excel calculator will be provided for local determination of costs by Providers and commissioners of costs. Commissioned rates vary significantly across Wales and also vary based on procurement methodology e.g. <ul style="list-style-type: none"> - Rates set by commissioners / tendered by or negotiated with providers - paying for a block of service (outcomes approach) or payment by minute (time and task).
Domiciliary Support (supported living) <i>NCB endorsed cost matrix developed by Cymorth Cymru LD Providers Group</i>	£19.27 per hour	£20.51 per hour	Evidence from Providers show a current (2020/1) range of hourly rates between £14.50 - £18.30 and an average of £16.42 per hour with sleep-ins paid at an average of £81.73 / night (range = £76.53 - £86.24)

Service	Weekly rates				Notes
Care Homes (older people)	£ 766 - 771 per week - residential				Evidence from providers shows that the 'market rate' to attract care home workers is higher than minimum wage but does not meet real living wage levels. Some pay enhancements are included, e.g. for bank holidays.
	£ 790 - 873 per week - OPMH residential				
	£ 963 - 1036 per week - nursing				
	£1036 - 1056 per week - OPMH nursing				
Care homes (adults) Market rates as established by the National Collaborative Framework for Adults (18+) in Mental Health and Learning Disabilities Care Homes & Care Homes with Nursing		Mental Health	Learning Disability	MH & LD	Framework prices updated from April 2021.
	Residential	£1,511 - £2,227 / week	£1,537 - £2,421 / week	£1,513 - £2,212 / week	Care input tariffs (additional care staff hourly rate) are consistent with staff costs detailed within above models
	Nursing	£1,122 - £1,699 / week	£1,613 - £2,735 / week	£1,372 - £2,735 / week	
	Care input tariff (additional care staff hourly rate) - £12.50 - £16.00 / hour				

Notes on the models:

As illustrated by the [WIHSC⁴](#) Review of Terms and Conditions for Social Care worker in Wales, it should be noted that the calculators below do not assume a parity of terms and conditions with statutory sector employment contracts.

Specifically:

Cost line	Notes on assumptions
Basic Pay	<p>In <u>2019/20</u> the median minimum basic hourly pay for NHS health care support workers was £9.03 and for Local Authority care & support workers was £9.74.</p> <p>These calculators are largely based on the <u>2021/2</u> national minimum wage of £8.91 and 2020/1 real living wage of £9.50 per hour.</p> <p>The Task and Finish Group recommend that all social care employers adopt a policy of paying social care and support workers at the real living wage for entry level workers and £10 per hour for workers qualified at level 2, with appropriate base pay and on-cost differential for additional skills sets/ senior roles (level 3) and nursing / clinical lead & management (level 4 / 5) staff.</p>
Evening, night-time weekend & bank holiday enhancements	The Domiciliary (Home Care) Cost Matrix makes no assumption for pay enhancements, although this may be varied at local calculation based on employer contract terms.
	<p>The Supported Living Cost Model assumes 1% enhancement.</p> <p>The cost of care illustrations for care homes (all adults) include some assumptions for enhancements on basic pay</p>
Holiday entitlement	<p>Models assume the statutory minimum holiday entitlement, whereas entitlement for statutory workers increases with length of service.</p> <p>The costs of statutory holiday pay can only be earned while the employee is actually working (important consideration is regard zero hours workers) and is calculated based on 52 weeks less the 5.6 weeks that the worker takes as annual leave. The calculation for holiday pay expressed as a percentage is $(5.6 \div 46.4) \times 100$ or 12.07%. For more information on holiday pay see: www.gov.uk/holiday-entitlement-rights.</p>
Sick pay	The Domiciliary (Home Care) Cost Matrix assumption of 2.9% oncosts is based on ONS sickness absence rates and costs to employers of statutory sick pay (SSP) as this can no longer be claimed back.
	The Supported Living Cost Model assumption of 6% oncosts is based on evidence of Providers actual costs for long and short term absence.
Pension	Models are based on employer's minimum contribution to workplace pensions of 3% from 6th April 2019.
Notice / suspension pay	Notice pay covers payments to workers who are either suspended on full pay (for example during safeguarding investigations), or who must be paid in lieu of working their notice as a result of employment disputes.

Employer NI rates are assumed at 8% for domiciliary care and supported living (rather than full 13.8%) due to low pay and many part time workers not meeting the earnings threshold.

Employers' actual rate is anticipated to vary between 7% and 9%, depending on working hours and pay rates above the National Minimum Wage.

⁴ Review of Evidence of Variation in Terms and Conditions for Social Care Employment Contracts in Wales

The costs of meeting minimum legal training requirements, qualification, supervision and team meetings (group supervision & support) are illustrated in the Supported Living Cost calculator as:

Training – Core (3 days)

Training - All Wales Induction Framework / CPP (12 days)

Training - Qualifications (2.40 days)

Training - Supervision (1.5 hour * 4.33 = 0.83 days) & Team Meeting (2 days)

Total Training (days) = 20.23 / Total Training (weeks) = 4.05

Number of Weeks Per Year = 52.00: Actual Worked Weeks Per Year = 47.95

Calculation = + 8.44% on cost

Turnover: Competition from similar jobs (often with less responsibility) in the statutory sector, in particular the NHS impacts on recruitment and retention in the independent sector.

High turn-over levels result in wasted costs. The domiciliary care cost matrix attempts to illustrate the wasted cost of turnover; however this is likely to be an underestimate of the full costs as

- i) does not include management costs / time invested in inducting and support qualifications and
- ii) turnover in some areas / providers may be considerable higher than 25%.

These additional costs will need to be considered in regards the registration of the care home workforce.

PPE and consumables: Personal protective equipment, disposable items and staff uniforms are assumed in the supported living calculator as 1.45% of support worker costs and 1.1% in the domiciliary (home care) cost matrix. This may need to be reviewed in light of the Covid-19 pandemic and lessons learned in regards standard operation procedures and infection prevention and control practice.

Occupancy assumptions differ across younger adult and older adult care home services.

Evidence suggests occupancy levels of between 70 – 87% in the National Framework Providers' care homes for adults aged 18-64 with learning disabilities and / or mental health support needs. Whereas older adult care home services operate on average 90% occupancy in normal times (it is noted that the Covid-19 pandemic has significantly affected occupancy and reduced length of stay in a number of homes).

Return

Domiciliary models are based on an assumption of a 3% return ('profit' or surplus'), however, there is a question over whether returns below 10% would attract investors. Commissioners may need to consider how to attract other kinds of investors e.g. impact investors looking for lower financial return in favour of social return.

Key to the considerations here is the annual financial turnover of the agency. E.g. 3% of 200 hours / week may not provide sufficient return to encourage people to operate. Commissioners and providers will need to appropriate return to mitigate business contingency and ensure sustainability at a local level.

Care home (property / accommodation) models need to distinguish between:

- Return on capital invested.
- Profit / surplus.

All businesses need to bring in more income than their costs, in order to remain sustainable, ensure reserves for business contingencies (e.g. higher costs of pandemics) and invest in organisational and service development. The not for private profit sector may call this an 'operating surplus'.

A return on capital / investment / accommodation (**ROI**) is not necessarily 'profit'. The 'ROI' is a measure of the amount of return on a particular investment, relative to the investment's cost.

In their 'care cost benchmarks' toolkit, Laing & Buisson advise that care home development and operation is viewed by investors as moderately risky, who therefore expect a reasonable 'whole business rate of return' on capital. Since 2015/6, Laing & Buisson have used a figure for older persons care homes of 11% [annual home level EBITDARM as % of asset value] in their cost benchmark toolkit - it was previously 12%. This 11% incorporates 2 component parts - the return on property / accommodation [capital] element of the business and operators return or 'profit'.

- 6% return on capital for investment in accommodation, % of capital per annum
- 5% return for management of operations and business risk; this is roughly equivalent to 10% operators profit (% mark-up on direct home level + corporate overhead costs).⁵

To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment - the result is expressed as a percentage or a ratio. Lenders, including banks may require as a condition of financial support, that services be operated at a minimum return. This is also sometimes referred to as EBITDA - earnings before interest, taxes, depreciation, and amortization (a period in which a debt is reduced or paid off by regular payments).

This is used as an indicator of the overall profitability of a business. It should also be noted that some operators operate on a rental model (i.e. do not own the buildings) and hence the return on property cost is set at rentable value and the operators profit is additional.

Return on accommodation incorporates rent or financing costs - the opportunity cost of investment in land and buildings. Assuming a consistent benchmark figure recognises the *genuine cost regardless of the ownership model* and enables like for like comparison between different businesses, eliminates the inevitable annual variances between providers due to unforeseen costs incurred in any particular year and averages likely spend smoothing the peaks and troughs.

Given the range of accommodation stock of older persons' care homes in Wales, it is important to understand the range in capital employed across care homes. Care Forum Wales have estimated around £65,000 – £70,000 per bed for older care home stock, whereas newer build properties and in particular those registering since the implementation of RISCA are more likely to require capital of around £120,000 per bed.

In considering future capital programmes and market shaping strategies, commissioners will wish to balance the relative costs and benefits of housing with support models such as extra care with care homes (in particular care homes with nursing).

Depreciation (medium term capital costs) The range of survey data available (Laing & Buisson, Knight Frank, Christie & Co) from independent research on the amount required to maintain a home in its current condition, suggests a cost of up to £1,400 - £1,800 per bed per annum.

A social return on **investment (SROI)** is a principles-based method for measuring extra-financial value (such as environmental or social value not currently reflected or involved in conventional financial accounts). It can be used by any entity to evaluate impact on stakeholders, identify ways to improve performance, and enhance the performance of investments.

⁵ Figures from Laing & Buisson Care Cost benchmarks 7th edition - will need to be reviewed when the 2021/2 cost benchmark is published (expected in late Spring 2021).

Domiciliary (Home Care) Cost Matrix⁶

The following is an illustration of the

- Pro-rata (15, 30 and 45 minute) and hourly costs of standard domiciliary care, paid at national minimum and real living wage rates – ensuring that employers comply with minimum wage requirements for all direct care and indirect (training, travel etc) work activity.
- Additional costs of qualification and registration (many employers are funding the registration fee for workers paid at minimum rates to meet compliance requirements / support low paid staff in financial difficulties⁷). Evidence of 'wasted' costs due to turn over is also illustrated.

A copy of the excel calculator will be provided for local determination of costs by Providers and commissioners, as assumptions for e.g. travel time & miles will vary at local level. It should also be noted that some larger providers will also incur costs for apprenticeship levy.

Commissioned rates will also vary based on procurement methodology e.g. paying for a block of service or payment by minute.

This illustration is informed by evidence of costs from CIW registered Providers:

NCB Wales Home Care Cost Matrix
Beta Version - April 2021

Key
Manual Entry Automatically Populated

		Data	Cost	£	£
minutes	Enter the length of visit (Minutes)	60			
per hour	Hourly Rate - Weekday	£8.91		8.91	
per hour	Hourly Rate - Weekend	£0.00		-	
	Bank Holiday Premium	0%		0.00	8.91
miles	Mileage between visits	3.89			
miles per hour	Speed of travel (MPH)	20.00			
minutes	Travel time	11.67		1.73	
minutes	Break time	0		0.00	
Gross pay including NI and pension					
	- NI	8.00%		0.85	
	- pension	3.00%		0.32	11.81
	- holiday pay	12.07%		1.43	
	- training time	1.73%		0.20	
	- sick pay	2.90%		0.34	
	- notice/suspension pay	0.30%		0.04	2.01
	Travel payment per mile	0.35		1.36	
	Parking	0.00		0.00	1.36
					£15.18
Staffing, recruitment and training					Employee Cost
	- management and supervisors	19.00%		2.88	
	- staff recruitment	1.50%		0.23	
	- continuing training costs	2.70%		0.41	
	- worker registration costs	0.30%		0.05	
	- registration qualification costs	1.00%		0.15	
	- apprenticeship levy	0.00%		0.00	3.72
Premises, utilities and services					
	- rent, rates and utilities	1.90%		0.29	
	- IT equipment	1.90%		0.29	
	- telephony	0.80%		0.12	
	- equipment hire	0.30%		0.05	0.74
Consumables					
	- ppe & consumables	1.10%		0.17	
	- stationery and postage	1.10%		0.17	0.33
Professional					
	- marketing	0.40%		0.06	
	- cost of finance	1.20%		0.18	
	- insurance	2.00%		0.30	
	- legal / professional	1.00%		0.15	0.70
Other business overheads					
	- business travel	0.50%		0.08	
	- general	0.30%		0.05	0.12
	Profit/Surplus	3.00%		0.62	£5.62
					Business Cost
					£21.43
					Total Costs
					£21.43
					Rate
Cost implication of careworker registration and qualification costs per annum					
	Staffing Level	150			
	Anticipated staff turnover	25%			
	Hours per week	1,200			
					£4,619

Minutes	60	45	30	15
Cost	£21.43	£17.34	£13.26	£9.18
Per Hour	£21.43	£23.12	£26.52	£38.72

Real Living Wage				
Minutes	60	45	30	15
Cost	£22.72	£18.36	£14.01	£9.66
Per Hour	£22.72	£24.46	£28.02	£38.64

Calculation purposes only
Speed #DIV/0!
Time -

⁶ With credit to UKHCA & Wales' National Provider Forum Domiciliary Care Expert Reference Group representatives

⁷ [Social care has a low paid workforce that can result in care workers facing financial difficulties](#)

Domiciliary support – supported living⁸

The following is an illustration of the hourly costs (excluding sleep-ins) of domiciliary supported living, paid at national minimum and real living wage rates; ensuring that employers comply with:

- minimum wage requirements for all direct care and indirect (e.g. training and supervision) work activity
- RISCA⁹ regulations 34 (staffing – overarching requirements), 35 (fitness of staff), and 36 (supporting and developing staff).

This illustration is informed by evidence of costs from CIW registered Providers, the UKCHA Minimum Price for home care - <https://www.ukhca.co.uk/downloads.aspx?ID=434> and Chartered Institute of Public Finance and Accountancy guidance - <https://www.cipfa.org/policy-and-guidance/reports/working-with-care-providers-to-understand-costs>

Note: The illustrations exclude any specific requirements relating to service provision, such as food (staff / people supported), costs for staff supporting social activities & holidays, transport costs (e.g. provision of vehicles / mileage) etc.

Management costs are assumed as:

- Operational Manager with salary of £40k covering a region of 3000 hours
- Supervisory management at 10% of support worker costs (1:10 ratio of manager: worker)

		National Living Wage								
	Cost Item	Summary of Assumptions	%	Notes	Costs					
Support Worker Costs	Gross Pay	Hourly Rate for contact time	100% National Living Wage		1	£ 8.91				
		Management Hourly Rate for contact time	Not Applicable	0.00%	1					
		Unsocial Hours / Bank Holidays	1% of hourly rate	1.00%	2	£ 0.09				
		Other Allowances (Premium Rates for Overtime /Wake In Night)	Not Applicable	0.00%	3					
	NI & Pension	On Call Allowance	Allowance payable is £30 / Allocated over 3000 hours		3	£ 0.07				
		Support Workers travel time	Not Applicable	0.00%			£ 9.07			
		National Insurance Employers	8% of Gross Pay	8.00%	4	£ 0.73				
		Pension Contribution Employers	3% of Gross Pay	3.00%	4	£ 0.27	£ 1.00			
	Other wage related oncosts	Relief Cover:								
		Statutory Annual Leave (Including Bank Holidays)	Based on minimum statutory requirement	12.07%	5	£ 1.22				£ 13.14 68.22%
		Training / Induction /Supervision / Team Meeting & Travel Time		8.44%	7	£ 0.85				
		Sickness Pay		6.00%	8	£ 0.60				
		Notice and Suspension Pay		0.54%	9	£ 0.05	£ 3.08			
	Travel Costs	Additional Holiday Pay payable on "Other wage related oncosts"	Based on minimum statutory requirement	12.07%	6	£ 0.33				
		Disclosure Barring Service	Based on Enhanced at £44.00 every 3 years		10	£ 0.01				
		Registration Fee (Professionalisation of the Workforce)	Based on 2021-22 Rate of £30		10	£ 0.01				
		Mileage Payment	Not Applicable							
		Travel Time	Not Applicable							
Mgt Costs	Gross Pay	Contract / Area / County Manager	Based on Salary of £14.33 covering region of 3000 hours		11	£ 0.26				
		Management of the Support Provision		10.00%	11	£ 0.91				
	NI & Pension	National Insurance Employers	8% of Gross Pay	8.00%	4	£ 0.09			£ 1.29 6.68%	
		Pension Contribution Employers	3% of Gross Pay	3.00%	4	£ 0.03				
Gross Margin	Business Costs	Registration Fee (Professionalisation of the Workforce)	Based on 2021-22 Rate of £80		10	£ 0.00				
		Staffing Recruitment & Training		17.25%		£ 2.27				
		Premises & Utilities & Services		5.75%		£ 0.76				
		Consumables		3.45%	12	£ 0.45			£ 4.84 25.10%	
	Reserves	Professional / Accreditation Costs		4.85%		£ 0.64				
		Other business overheads		2.50%		£ 0.33	£ 4.44			
		Investment / Reserves Contribution		3.00%	13	£ 0.39	£ 0.39			
						£ 19.27				
Note this cost excludes any specific requirements relating to service provision; such as Food, Social Activities, Holidays, Mileage etc.										

Note this cost excludes any specific requirements relating to service provision; such as Food, Social Activities, Holidays, Mileage etc.

The second (ethical supply chain) illustration is based on the Unison (2013) "Ethical Care Charter", which calls on local authorities to commit to paying homecare workers, including those outsourced to the independent and voluntary sector, the applicable (voluntary) Living Wage: Unison (2013) <https://www.unison.org.uk/content/uploads/2013/11/On-line-Catalogue20142.pdf>

⁸ With credit Cymorth Cymru and their learning disability Provider members

⁹ [Regulation & Inspection of Social Care \(Wales\) Act 2016](#)

Ethical Supply Chain Calculation

Cost Item			Summary of Assumptions		%	Notes	Costs		%	
Support Worker Costs	Gross Pay	Hourly Rate for contact time	100% Real Living Wage		1	£ 9.50	£ 13.99	68.23%		
		Management Hourly Rate for contact time	Not Applicable	0.00%	1					
		Unsocial Hours / Bank Holidays	1% of hourly rate	1.00%	2	£ 0.10				
		Other Allowances (Premium Rates for Overtime /Wake In Night)	Not Applicable	0.00%	3					
	NI & Pension	On Call Allowance	Allowance payable is £30 / Allocated over 3000 hours		3	£ 0.07			£ 9.67	
		Support Workers travel time	Not Applicable	0.00%						
		National Insurance Employers	8% of Gross Pay	8.00%	4	£ 0.77				
		Pension Contribution Employers	3% of Gross Pay	3.00%	4	£ 0.29				£ 1.06
	Other wage related oncosts	Relief Cover:								
		Statutory Annual Leave (Including Bank Holidays)	Based on minimum statutory requirement	12.07%	5	£ 1.29				
		Training / Induction /Supervision / Team Meeting & Travel Time		8.44%	7	£ 0.91				
		Sickness Pay		6.00%	8	£ 0.64				
		Notice and Suspension Pay		0.54%	9	£ 0.06			£ 3.27	
	Travel Costs	Additional Holiday Pay payable on "Other wage related oncosts"	Based on minimum statutory requirement	12.07%	6	£ 0.35				
		Disclosure Barring Service	Based on Enhanced at £44.00 every 3 years		10	£ 0.01				
		Registration Fee (Professionalisation of the Workforce)	Based on 2021-22 Rate of £30		10	£ 0.01				
		Mileage Payment	Not Applicable							
		Travel Time	Not Applicable							
Mgt Costs	Gross Pay	Contract / Area / County Manager	Based on Salary of £40k covering region of 3000 hours		11	£ 0.26	£ 1.37	6.66%		
		Management of the Support Provision		10.00%	11	£ 0.97				
	NI & Pension	National Insurance Employers	8% of Gross Pay	8.00%	4	£ 0.10				
		Pension Contribution Employers	3% of Gross Pay	3.00%	4	£ 0.04				
Gross Margin	Other wage related oncosts	Registration Fee (Professionalisation of the Workforce)	Based on 2021-22 Rate of £80		10	£ 0.00	£ 5.15	25.11%		
	Business Costs	Staffing Recruitment & Training		17.25%		£ 2.41				
		Premises & Utilities & Services		5.75%		£ 0.80				
		Consumables		3.45%	12	£ 0.48				
		Professional / Accreditation Costs		4.85%		£ 0.68				
	Reserves	Other business overheads		2.50%		£ 0.35			£ 4.73	
		Investment / Reserves Contribution		3.00%	13	£ 0.42			£ 0.42	
									£ 20.51	

Note this cost excludes any specific requirements relating to service provision; such as Food, Social Activities, Mileage etc.

Care Homes for older people

In 2018 the National Commissioning Board published '[Let's Agree to Agree](#)¹⁰', a toolkit for commissioners and providers to agree the cost of residential and nursing care for older people in Wales.

This approach built on previous work, such as the Laing and Buisson 'fair price for care' model developed for Joseph Rowntree in 2002-8, restructured care cost benchmark model¹¹ by describing a process and set of principles by which commissioners and providers should agree a price for care i.e.:

1. Agree what you need to agree, who needs to agree it, what information do you need and how will you agree
2. Gather the data and intelligence (*Professor Bolton recommended establishing a standing committee*)
3. Make a set of decisions (*e.g. what assumptions should be made for acceptable profit, return on investment, occupancy levels, quality premiums; any exceptions that need to be made for specific care homes and / or high complexity needs*)
4. Ensure that if either a local authority or a health board is not going to pay the recommended rate that their reasons for doing so are understood by all parties.

In 2019, the National Commissioning Board asked local authorities and health boards in Wales to report on whether or how the toolkit had been used at a local and / or regional level to inform commissioning practice. Whilst there is evidence that commissioners have discussed the model with providers and in some areas have worked towards co-producing a local / regional fee methodology, there is some scepticism about whether such efforts can or will result in change and are worth the time and effort due to commissioners having insufficient funds to meet costs calculated.

The work of the Task and Finish Group was particularly benefitted from the openness and transparency of Caron Group and HC-One in sharing the real costs of delivery across the homes in their groups. Other providers also provided information to Care Forum Wales to support their overview analysis of costs for homes in Wales.

However, it was suggested that the best data (evidence) on cost of care across the UK is from Laing & Buisson (L&B) who estimated the cost of care per resident per week in 2019/20 to be:

Residential	£771
Residential OPMH	£790
Nursing	£1036

The above figures correlated with those provided by care home operators in Wales, with costs for 2021/2 anticipated to be in the region of:

Residential	£766
Residential OPMH	£873
Nursing	£963
Nursing OPMH	£1056

It was noted that local figures could be substituted in the Laing & Buisson model for e.g., land costs where these have been surveyed locally.

The group considered inflationary factors which could be applied to existing local toolkits.

However, if toolkits are not based on correct evidence of costs, these would be meaningless.

¹⁰ The toolkit was commissioned from Professor John Bolton at IPC by Welsh Government with a [covering letter from Welsh Government](#) commending its use as good practice.

¹¹ "The market standard toolkit for calculating the cost structure of nursing and residential care homes for older people and people with dementia in England and Wales" – Care Cost Benchmark restructured in 2012 following joint work between major independent sector providers and ADASS (England)

Staffing costs

The largest proportion of costs (60-70%) are related to staff wages. In April 21, the legal minimum wage increases by 2.2% to £8.91 (a far lower increase than in recent years). However, the group recommend that local toolkits do not base their staffing assumptions on the legal minimum wage:

- The pandemic has focussed on the value and importance of social care staff
- 2022 will see the compulsory qualification and registration of care staff in care homes.

It is recommended that where toolkits currently use the legal minimum wage as their staffing metric that the staffing element is inflated by the increase to the Real Living Wage (£9.50 per hour) or 9.3%. For those qualified and eligible to register with Social Care Wales a rate of £10 per hour is recommended. It is also important that fee approaches recognise enhancements for additional training, experience, responsibility to create a career path.

Other costs

Inflationary increases significantly above CPI are anticipated. Inflation in aspects of care home provision is significantly above the 0.5% CPI figure for September 2020 and there is uncertainty as to whether we will see significant further inflation of costs in areas such as food at the end of the transitional period of the Eu-Exit.

Insurance costs have increased for care homes on average by over 10-15% according to a survey by Care Forum Wales.

It is therefore recommended that inflationary factors for individual items such as food, energy etc are incorporated into local toolkits.

An assessment of one Providers' anticipated inflation against each cost centre is described below:

	Expected inflation 21/2
<u>Direct Staffing</u>	3.00%
<u>Ancillary Staffing</u>	3.00%
<u>Property Total</u>	13.50%
<u>Overheads</u>	
Janitorial Supplies	13.50%
Food	4.00%
Household Supplies	13.50%
Residents Expense & Welfare	2.00%
Water Rates	4.50%
Premises Insurance	13.50%
Utilities and Oil	4.50%
Miscellaneous Expenses	2.00%
Telephone	2.00%
Stationery	2.00%
IT cost (incl software, broadband & repairs)	2.00%
Training Costs	18.00%
Plant & Equipment; Repairs Renewals Maintenance	13.50%
Annual Maintenance Contract	13.50%
Domestic & Clinical Waste	2.00%
Recruitment costs	18.00%
General Rates	2.00%
TV Licensing	2.00%
Professional Fees	2.00%
Bank Charges	2.00%
Subscriptions	2.00%
Travelling & Entertainment	2.00%
Printing & Postage	2.00%
Motor Vehicle Expenses	2.00%
Medical Expenses	2.00%

Care homes for adults (age 18 – 64) with learning disabilities and/or mental health support needs

The National Collaborative Framework for Care homes for adults (age 18 – 64) with learning disabilities and/or mental health support needs uses the following tool to undertake core care cost benchmark analysis between providers:

Core Care Package Cost Descriptions	
Hotel Costs	
1	Premises
1.1	Property Maintenance (for the home)
1.2	Council Tax / Rates
1.3	Furniture / Fittings including repairs and renewals
1.4	Heating & Lighting
1.5	Water
1.6	Waste Disposal
1.7	Rent
1.8	Mortgage costs / Loan interest
1.9	Hire and Leasing
1.10	Other - please specify
2	Supplies and Services
2.1	Resident Catering Costs (food and provisions)
2.2	Household provisions
2.3	Laundry
2.4	Uniforms
2.5	Medical Supplies
2.6	Training
2.7	Advertising: Marketing & Recruitment
2.8	IT equipment
2.9	Digital media & TV licences
2.10	Recreational Activities
2.11	Other - please specify
3	Admin. & Central Costs
3.1	Central / Head Office admin. costs
3.2	Inspection / Registration fees
3.3	Professional fees
3.4	Audit / Accountancy fees
3.5	Bank charges
3.6	Insurance
3.7	Stationery, printing, postage, IT, subscriptions & publications
3.8	Telephone
3.9	Sundry Expenses
3.10	Depreciation - fixtures & fittings & equipment
3.11	Profit / loss on disposal of fixed assets
3.12	Other - please specify
4	Transport
4.1	Staff Escort Travel Costs
4.2	Motor Expenses
4.3	Other - please specify
5	Staff Costs: Hotel element (including on-costs, e.g. coverage of Absence; Annual leave; Mandatory Training; Employers' National Insurance contribution and Pension)
5.1	Care Home Management (supernumerary element)
5.2	Administration / Reception Staff
5.3	Kitchen Staff
5.4	Domestic Staff
5.5	Laundry Staff
5.6	Maintenance Staff
5.7	Lifestyle / Activities Co-ordinator
5.8	Other - please specify
Core Care Costs	
6	Care Staff Costs (including on-costs, e.g. coverage of Absence; Annual leave; Mandatory Training; Employers' National Insurance contribution and Pension)
6.1	Qualified Nurses
6.2	Day Care Staff
6.3	Night Care Staff
6.4	Care Staff Travel & Expenses
6.5	Agency costs / premium
6.6	Other - please specify
Margin	
7	Surplus / Profit margin

Inflationary Pressures on Provision.

The last opportunity that Providers had to amend prices upwards under this Framework was April 2018. Prices have remained stable since then, although Providers have had the opportunity to amend their pricing downwards.

Providers had been advised previously that there would be a refresh opportunity in April 2019, so they did not factor in 2019/20 impacts into their costs submitted in April 2018.

The majority of residential care home staff costs, are influenced by the National Minimum Wage and the National Living Wage.

In April 2019 the National Minimum Wage and National Living Wage increased by 4.9%

In April 2019 the minimum pension contribution increased by 1%

Inflation has been c. 3% on average through 2019. It is assumed that this will continue to be the case in 2020/21.

<https://www.gov.uk/national-minimum-wage-rates>

<https://www.gov.uk/workplace-pensions/what-you-your-employer-and-the-government-pay>

<https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/dogf/mm23>

This information has been utilised alongside National Collaborative Commissioning Unit benchmarking data to construct the table below, which identifies the average annual expected inflation of 3.95% in the care homes market over 2019/20 and 2020/21.

Table: Average annual expected inflation: weighted annual equivalent

Cost Category	% split*	Inflation Impact		Total indicative inflationary pressures (2 year Weighted)	Average annual expected inflation (weighted annual equivalent)
		2019/20	2020/21		
Core Care Staff Costs	45%	5.9%	6.2%	5.4%	2.7%
Hotel Costs	45%	3.0%	3.0%	2.7%	1.4%
Margin	10%	0.0%	0.0%	0.0%	0.0%
Total	100%			7.90%	4.07%

Analysis – Considerations of the group:

The rule of 'average'

Recommendations shown in costing / fee models are based on 'typical' services and operating conditions using informed and verified information.

Many of our services may not fit this 'average' scenario, and therefore it is important for all parties to recognise the range of costs in different operating scenarios. A smaller service may not benefit from the economies of scale e.g., bulk purchasing discounts on food, fuel etc and overheads may be higher due to being spread across fewer placements. A fundamental question needs to address the real additional value and impact of small, local and specialist services.

Uplift mechanisms

Uplifts based on percentages, may widen differentials between higher and lower paid Providers - in some cases, these may be appropriate if they reflect real costs, in others they may compound inequity. For example, middle managers can be earning just 50p / hour more than care and support staff.

Percentage uplifts should be based on tangible, transparent, relevant, evidence-based mechanisms such as CPI¹², minimum wage etc.; they are also reliant upon the baseline being correct in the first place. However, not all increases are transparent but relate to costs that occur as a direct result of specific measurable values. For example, increase in minimum wage impacts on travel time, NI, pensions, holiday pay etc.

It is important, in developing costing or uplift methodologies to understand the average percentage of an operator's costs that are workforce related.

For example, under normal circumstance around 75% of a domiciliary support services costs are workforce related; in times when pandemics have a major impact on staffing levels, workforce costs escalate to 80% to 90%. In older adult care homes, 60% relate to workforce, with accommodation related costs relating to around 25% and in younger adult care homes, given the higher property costs ('per bed') the staffing costs equate to 45 – 50% of overall costs.

The cost of regulation

- If fee models are predicted on minimum and not real living wage rates, should it be assumed employers pay the cost of registering workers with Social Care Wales¹³?
- What is additional cost of capital to meet the full RISCA physical standards when registering new care homes? An example was provided from Wales of a cost of £180 per week in excess of local authority fee rate to refurbish a home for registration under RISCA that was previously registered under Care Standards Act.
- The full impact of the cost of the qualification framework is not expected to be quantifiable for quite some time (e.g. additional management time) but needs to be factored into local considerations and future revisions of the calculators.

¹² Although the Consumer Price Index, a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care and is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; is not considered to reflect the range of good and service purchased by social care providers.

¹³ Social care manager - application, renewal and annual fee - 2021/22: £80 & Social care worker - application, renewal and annual fees - 2021/22: £30.

Costs which are exaggerated by business continuity risks:

- i) As early evidence suggests that
 - commissioning policy (to pay domiciliary providers 'on-plan')
 - additional Hardship Funding (to pay additional costs of provision and to offset losses in care homes due to significant under occupancy)
 - resources (free PPE)
 - and statutory sector support

have enable social care providers to remain in operation during the pandemic; what might be the residual long-term costs related to changes in care models and cost of capital investment to support better infection prevention & control and visiting?

Of particular concern for the care home sector, is when the Hardship Fund ceases or is reduced, if income levels cannot cover costs (e.g., due to lower occupancy / reduced fee income) many homes may hit the tipping point in regards financial viability.

- ii) Workforce unavailability due to:
 - EU – exit¹⁴ (impact of recruitment, retention challenges and competition between employers is likely to result in requirement to offer higher wage rates).
 - Increased use of agency staffing and / or higher rates due to demand / competition.
 - Pandemic – i.e., cost of paying staff that are self-isolating or unable to work due to high risk / vulnerability.
 - Increased general absence due to stress, reduced resilience & fatigue.

¹⁴ [Post EU-exit immigration system likely to substantially reduce low-paid and middle paid EU migration to UK](#)

Summary of market risks

The National Commissioning Board has been working on a separate review of the impact of Covid-19 on the social care market and anticipated risks to the future provision of social care are summarised below:

POLITICAL	<ul style="list-style-type: none">• Senedd elections 2021; future social care policy & funding
ECONOMIC	<ul style="list-style-type: none">• Level and frequency of ‘third party payments’ and rate of self-funder charges are evidence of shortfall between fees affordable to HBs & LAs for older persons care homes and pre-pandemic costs of delivery.• Funded nursing care rate does not meet full cost of nursing care and lack of national CHC funding methodology• Increased costs of provision as result of the pandemic (the pandemic has highlighted in-sufficient infection prevention & control practices, additional rates of pay required to attract and retain staff working in high-risk environments, investment in digital infrastructure and capital expenditure on buildings-based services, insurance premium increases for some providers).• Potential unfunded cost liabilities in event of UNISON Supreme Court appeal decision on the Court of Appeal judgment in relation to Royal Mencap Society v Tomlinson-Blake (whether sleep-ins paid at NMW)
SOCIAL	<ul style="list-style-type: none">• <u>Post EU-exit immigration system likely to substantially reduce low-paid and middle paid EU migration to UK:</u>• Lack of availability of workforce, e.g. in high risk groups or in household with high risk person, self-isolating, additional stress and fatigue
TECHNICAL	<ul style="list-style-type: none">• Impact of commissioning / funding / procurement approaches, e.g. strategies aiming to ‘control’ market shape / price costs may impact on competition and sustainability; re-tendering and TUPE liabilities impact on staff retention, Provider costs and sustainability.
LEGAL	<ul style="list-style-type: none">• Increased liabilities and un-insured losses resulting in insolvency (most if not all insurance premiums now have SARS & Covid exclusions). This is of particular concern in regards liabilities to / for visitors & visiting professionals.
ENVIRONMENTAL	<ul style="list-style-type: none">• Ageing older persons care home stock, with high proportion of services not meeting the new build RISCA standards. Coupled with ageing profile of business owners, this also poses a risk of loss of services at point of sale of building due to cost of <i>refurbishment / renovation</i> (evidence of costs of renovation being £180 / person / week more than the LA care fee¹⁵). The costs of new build are likely to exceed this at a build cost of £120k / room.

¹⁵ RISCA standards only apply to extensions, new builds or unoccupied services being re-registered. A transfer of care home which is a going concern (occupied) would not need to make changes to meet the standards. For new registrations, en-suite toilets much have an accessible shower, requiring rooms with larger area footprint which may reduce number of rooms in the home and hence higher costs / room.

Recommendations

The National Commissioning Board Task and Finish Group made the following recommendations:

1. That the National Commissioning Board adopt the fee methodologies herein as National Commissioning Board tools
2. Local Authority and Health Board commissioners and Providers review the [Summary Anticipated Costs of Care in 2021/22](#)¹⁶, and
 - Recognise that it may not be possible for commissioners to meet the gap between existing fees and these national assumptions or local evidence based fair fees, in the short-term and with existing budgets.
 - Form a joint standing committee to produce an evidence base for any local differences to these national level fair fee illustrations (understanding that rates may go up or down)
 - Undertake a full like for like cost benchmark analysis of Local Authority and Health Board provision with that of the independent sector.
 - Agree to share any local variations with the National Commissioning Board
 - Quantify the gap between existing fees and agreed fair fees and share this with the National Commissioning Board and Wales Government policy leads in an effort to inform Social Care Futures and Fair Work developments.
3. Taking account of local, regional & national differences, the National Commissioning Board consider the relative merits / risks of calculating a national minimum care fee for each market segment
4. The National Commissioning Board consider establishing a national standing committee (meeting quarterly) which:
 - Reviews / amends the underlying assumptions of these national calculators.
 - Obtains feedback on use of calculators at a local / regional learning level.
 - Feeds into local & national budget setting (e.g., calculating the gap)
 - Shares learning.

Report authored on behalf of the Task and Finish Group and the National Commissioning Board by Maria Bell maria.bell@wlga.gov.uk (January 2020)

¹⁶ The Task and Finish Group recommends that local standing committees consider (local, regional & national) factors that influence cost:

- Workforce availability / competition in the labour market impacting on rates of pay required to attract and retain workers
- Market forces and control / influence such as supply and demand (“buyers or suppliers’ market”) and competition e.g. from other commissioners, self-funders
- The cost of regulation and / or policy (including unintended consequences)
- Impact of RISCA on care home costs e.g. loss of income from shared rooms and cost of meeting physical standards on new / re-registration
- Cost of capital (e.g. finance & loan interest and availability)
- The full impact (staff and management time) of the qualification framework on providers

Appendix 1: Task & Finish Group contributors and timelines

The Task & Finish Group was facilitated by Maria Bell, Head of Policy – National Commissioning Board.

The National Commissioning Board would particularly like to acknowledge and extend their gratitude to the membership and contributors to the Task and Finish Group:

Name & organisation	Sector represented
Peter Randall & Michelle Dumont, United Kingdom Homecare Association (UKHCA)	Domiciliary support / care
Malcolm Perrett, Care Forum Wales & UKHCA	
Keri Llewelyn, All-Care and National Provider Forum	
Sanjiv Joshi, Caron Group	Care homes for older people
James Oates, HC-One	
Mary Wimbury, Care Forum Wales <i>With acknowledgement of information provided by Caron Group, HC-One and North Wales Care Home Providers</i>	National Provider Forum
Mandy Powell, Cymorth Cymru <i>With acknowledgement of information provided by Learning Disability Supported Living Providers.</i>	Learning Disability Providers (supported living)
Chris Moreton, National Collaborative Commissioning Unit <i>With acknowledgement of information provided by Adult Care Home Framework providers</i>	Commissioners (NHS) – Adult Care Homes
Kirsty Best, Cardiff Council	Commissioners (LA)
Meilys Heulfryn Smith, Gwynedd Council	Commissioners (LA)
Lucy Richardson	National Commissioning Board
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