

Care home funding shortfall leaves self-funders filling £1.3 billion gap

London, 25 January 2017

Self-funding, or private-pay, care home residents are keeping the sector afloat according to the latest figures from healthcare market intelligence provider LaingBuisson. The latest update to its Care Cost Benchmarks toolkit has found that the average fee per resident paid to care homes falls short of the real costs of service provision by more than £100 a week – a situation which means that those residents who pay from their own finances are filling a funding gap of £1.3 billion a year.

Headline figures from the toolkit show that **residential care homes in England for older people**, which employ average levels of staff at average pay rates, currently need to charge fees of between **£648 and £590 per week** in order to generate a reasonable annual return on capital (set at 11% in the Care Cost Benchmarks model, a level appropriate for a moderately risky business). The higher figure reflects the fee level required for new premises, while the lower is for premises which do no more than pass basic regulatory standards.

Actual fees being paid by councils, however, compare poorly with these levels.

According to LaingBuisson analysis of NHS Digital returns, the costs borne by English councils for residential care of older people in independent sector care homes including council overheads stood at just £534 per week in 2015/16. After stripping out those overheads, and projecting forwards, LaingBuisson estimates that average fee paid by English councils for residential care of older people was just £486 per week in 2016/17 - £104 per week below the 'floor' level of the Care Cost Benchmarks.

Commenting on the figures, LaingBuisson founder and creator of the Care Cost Benchmarks toolkit William Laing said that the adoption of the National Living Wage and requirements to employ more carers to support residents with increasingly complex dependencies has fuelled an 'inexorable rise' in care home costs.

Mr Laing said:

"Most councils responsible for supporting publicly funded residents do not have the budgets to pay a reasonable cost for care and despite councils' freedom to raise further funds from the Social Care Precept, the situation is unlikely to change in 2017/18."

Addressing how care homes can continue trading despite the shortfall, Mr Laing added:

"The entire care home sector for older people is being kept afloat through cross subsidies from the 40% of care home residents who pay privately. We have conservatively estimated the shortfall in council paid care home fees at about £1.3 billion a year in England alone, being the difference between what councils actually pay in care home fees and what they would pay if Care Cost Benchmark rates were applied to the existing mix of homes."

"The £1.3 billion can equally be viewed as a hidden 'care tax' that government and councils are content to see private payers contributing to keep mixed funding homes in business. This 'care tax' equates to about £8,000 a year on average per privately paying care home resident. Moreover, in all probability it will take another step upwards in April 2017 as care home owners seek to recover increased costs."

This latest update to the well-respected care cost toolkit, introduces two new features:

- For the first time, users can view all care cost benchmarks down to County and Unitary Authority level, and in the case of larger counties, even further down to District Council level;
- Also for the first time, users can see projected care cost benchmarks for the next financial year, 2017/18, based on known National Living Wage rates and the application of official inflation indices for other care home costs.

The main benchmarks for different types of care are set out below, together with projections to financial year 2017/18.

LaingBuisson Care Cost Benchmarks				
England average benchmark fees for residential and nursing care of older people, 2016/17 and 2017/18				
	2016/17		2017/18 ³	
	Floor ¹ £ per week	Ceiling ² £ per week	Floor ¹ £ per week	Ceiling ² £ per week
Residential care for frail older care	590	648	609	667
Residential care for older dementia care	631	689	652	710
Nursing care for older people and dementia	801	861	827	887

¹ For new premises

² For premises which do no more than pass basic regulatory standards

³ Projected on the basis of a 4.2% pay increase for low paid staff, in line with National Living Wage, and projections of official indices for other costs

Source: LaingBuisson's Care Cost Benchmarks – eighth edition, January 2017.

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LaingBuisson's *Care Cost Benchmarks – eighth edition* is available now priced at £1,160 for year long access to the interactive Excel spreadsheet toolkit and a digital Explanatory Guide. To find out more visit www.laingbuisson.com

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Notes to Editors

About LaingBuisson's Care Cost Benchmarks

Care Cost Benchmarks (formerly known as 'Fair Price for Care') is a subscription based service widely used by local authorities and associations of local care providers in their fee negotiations. The associated Toolkit Spreadsheet is populated with granular local cost data from LaingBuisson's surveys of care homes. The latest, carried out in October / December 2016 asked care homes about the two major drivers of current costs, staff

input and pay rates for each grade of staff. From the results, reasonable fee rates can be calculated as 'ceiling' to 'floor' ranges, the 'ceiling' allowing for the capital costs of a modern new home and the 'floor' allowing for minimum capital costs for old care home stock. Users can modify parameters to explore different scenarios.

About LaingBuisson

LaingBuisson, the UK's leading healthcare market intelligence provider, has been serving clients for over 30 years, providing insight, data and analysis on health and social care market structures, policy and strategy. The Company's products and services are based on proprietary primary data and it is the only non-government data source cited by the Office of National Statistics (ONS) for the independent healthcare market.

The Company advises healthcare providers, commissioners, payors, investors and regulators, helping them to understand their markets, access their customers, increase profitability and deliver better quality care through market reports, benchmarking, data sets, consulting, newsletters and conferences.

For more information, please visit the website at www.laingbuisson.com

About William Laing

William is the founder of LaingBuisson. His views are often quoted in the media and he is frequently invited to speak at conferences and to participate in think tanks and policy initiatives.

He authors LaingBuisson's market reports focused on independent sector social care delivery, as well as titles on mental health support systems and primary care services delivered outside of hospital settings. He also provides bespoke consultancy to private and public sector clients and was the creator of the Care Costs Benchmarks toolkit and the forthcoming long term care market management system CareSustain.

Before founding LaingBuisson in 1976, William worked for the Association of the British Pharmaceutical Industry and the Office of Health Economics where he was deputy director.