Provider Market Sustainability Planning Support to Councils.

Executive Summary

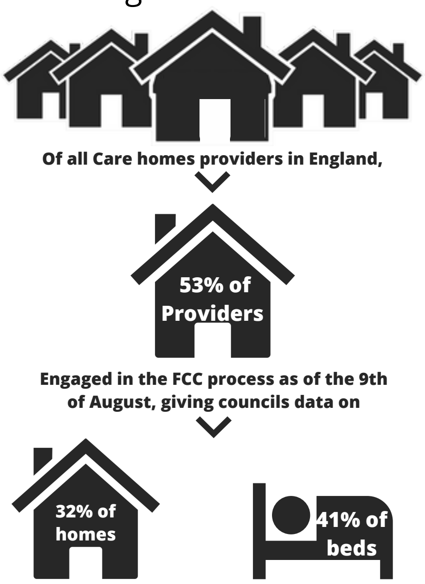
The Fair Cost of Care (FCoC) process has been accepted by some care providers as an essential part of evidencing the true cost of providing adult social care (ASC) and rejected by others as another cost of care exercise which will see councils negotiate rates below the actual cost of provision.

Persuading and gaining the trust of many providers is no small task, given that many are adamant that the FCoC process will achieve nothing over and above the funding already provisioned by DHSC for the proposed reform agenda. There are concerns that much of that funding, which was set prior to rising energy costs and the increased cost of living affecting providers and its workforce, will not reach the frontline.

The primary concern leading to both non-engagement in the FCoC process and the scepticism surrounding its impact has related to the data collected not being representative of the past or the required future state, to sustain the workforce and the sector and to address the impact of rising energy and agency costs, as well as rising inflation. It is the purpose of the FCoC exercise to identify accurately the gap between what is currently paid, and what rate is sustainable for the future.

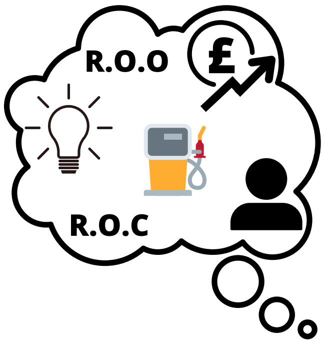
The Care Provider Alliance (CPA) was engaged by the Department of Health and Social Care (DHSC), to support provider engagement in the FCoC process, for both homecare and care homes. Whilst it has not been possible to validate the participation of homecare providers who were generally asked to complete an excel based form, the CPA has been able to report on the participation of care home providers through iESE CareCubed reporting, overlaid on Care Quality Commission (CQC) data.

Participation levels: As at the 1st September 2022, 53% of care homes in England engaged in the FCoC process, attended meetings, registered on the national tool, and discussed the approach taken by their council. 60% of those who signed up to participate, then actively engaged in the exercise by providing data to their council which resulted in around 32% of homes being represented nationally in the exercise (equating to 41% of care homes places) noting that the range differs significantly across individual councils.



A number of these providers were invited to share their thoughts on the FCoC process and lay out their key concerns. The CPA were tasked by provider members to produce this document for councils to consider ahead of finalising their Market Sustainability Plans. The Plans are intended to take a longer-term view of provision and costs into the future, and Cost of Care reporting process **to evidence how the data needs to be reviewed and considered for it to be truly representative for the future**, under the following key headings:

Key concerns:



·Workforce
·Energy/Fuel
·Inflation
·Return on Operations and Return on Capital
·The Built Environment

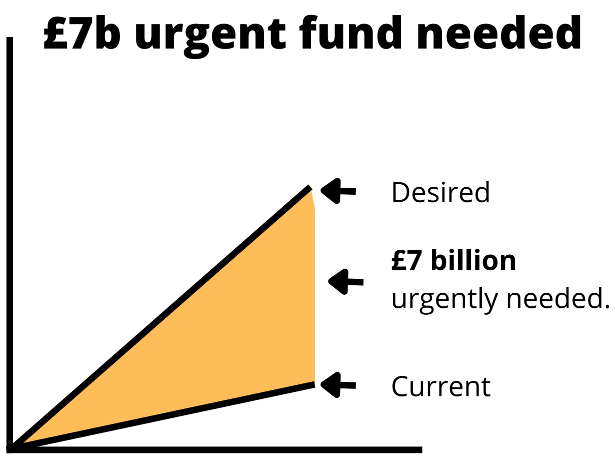
A significant number of providers agreed to engage in the FCoC process on the understanding that their views with respect to the above would be provided to councils for consideration in their reporting to the DHSC.

Councils must consider findings of the House of Commons Levelling Up, Housing and Communities Committee report titled *Long-terms funding of adult social care*, published on the 18th July 2022, which states:

"Government urgently needs to allocate more funding to adult social care in the order of several billions each year, at least £7 billion"

...."It estimated a gap of £7 billion to cover demographic changes, uplift staff pay in line with the National Minimum Wage..."

...."£7 billion was just a starting point and would not address the growing problem of unmet need nor improve access to care, with the full cost of adequate funding likely to run to tens of billions of pounds.".



It is also essential that councils offer solutions in their responses to the DHSC that address local issues around workforce pay and benefits. The intended outcome should bring greater parity with the NHS and council-run care home pay levels. Responses should also address the provision of funding for providers to permit enhancements to benefits and pensions offered. It will allow those working in adult social care to continue in a career that gives them financial security into the future while addressing the points below around how inflation needs to be considered for the sector now and in the future.

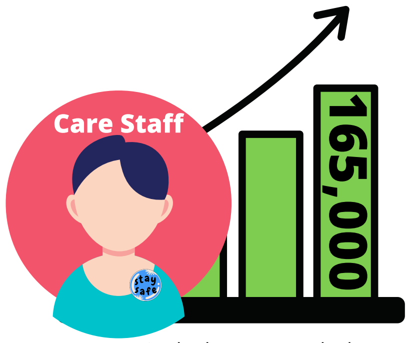
Councils must recognise that these costs increase annually and that there needs to be a clear and thought through process to agree collaboratively with providers how inflation and pay are to be addressed both now and annually.

Findings and Recommendations

Workforce

The workforce is by far the most valuable resource in social care. According to Skills for Care's Adult Social Care workforce dataset there are 1.5m people estimated to be working in ASC, with 1.62m posts filled, compared to 1.4m posts filled in the NHS. The data shows that social care vacancies have increased by 52% (55,000) over the last 12 months, now totalling 165,000, highlighting the severity of recruitment and retention issues in the sector. Staff are being lost faster than they can be recruited leading to increased reliance on costly agency workers.

Staff Vacancy



vacancy rates in the last 12 months have increased by **52%** in social care to 165,000.

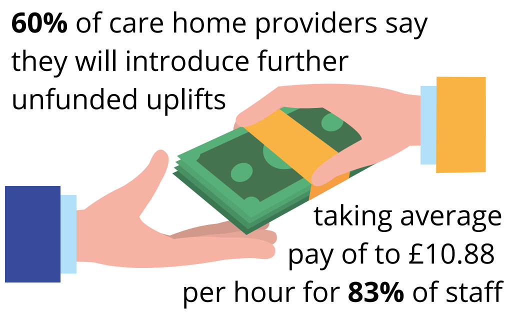
Providers stated during the workshops that the National Living Wage (NLW) annual uplift applied by most councils to carer pay is not an accurate indicator of pay inflation incurred by providers, and that most councils paid uplifts below the cost incurred by providers to meet NLW uplift obligations.

Providers incur an increase at circa 130% to account for holidays, sickness, training etc., and other on-costs.

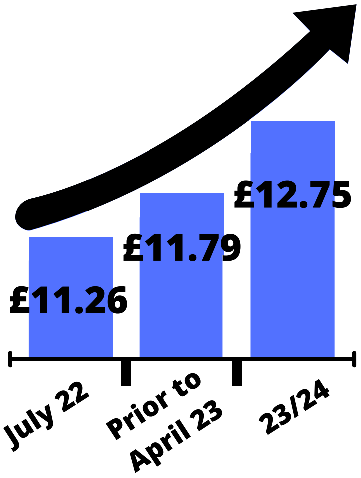
These costs must be reflected in the Fair Cost of Care and will be evidenced in the local FCoC exercises by way of provider responses. These costs are in addition to other incentives offered to staff such as; loyalty bonuses, golden hellos, vouchers, enhanced sick pay and pensions, and other benefits aimed at increasing retention.

Providers felt that inflation at NLW percentages each year significantly understates the costs incurred by providers when uplifting pay for their employees and that 71% of providers reported 2022 uplifts of below 5% and 18% of providers reporting their council offered 0%

Based on a sample of 21,000 care home beds, a relatively small sample compared to the 450k beds in England, carer pay was £10.49 per hour in July 2022 for 78% of carers, this includes a mix of National, Real and London living wage rates, largely unfunded by councils, aimed at combatting attrition and out of sector employers attracting staff from adult social care. Within the sample 60% of providers said they would be introducing further unfunded uplifts prior to April 2023, taking average pay to £10.88 per hour for 83% of staff in 2022/23 to help with



recruitment and retention. This increases further to £11.65 per hour projected for 2023/24 for over 75% of carers and is continually under review given then are unfunded by councils and against the rising cost pressures of energy etc. Councils will need to review the data from the FCoC exercise locally to determine how they compare to the survey sample.



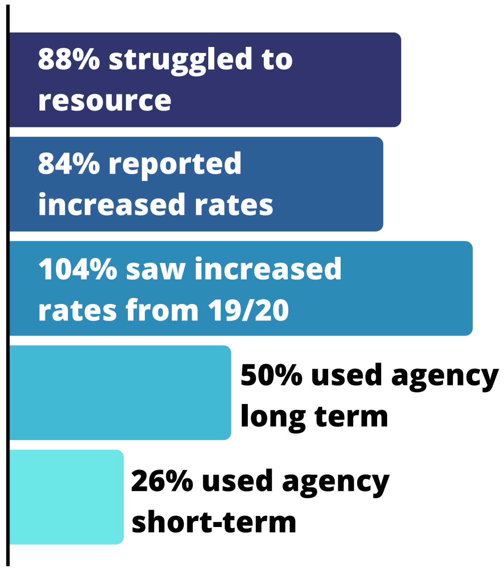
For homecare, hourly rates were £11.26 in July 2022 increasing to £11.79 prior to April 2023 for 89% of carers in the sample with projections for 2023/24 at £12.75 per hour. This is largely considered due to a significant percentage of providers paying travel time and mileage within the hourly pay rate artificially appearing to inflate carer pay. Again, councils will need to review the data from the FCoC exercise locally to determine how they compare to the survey sample.

Based on the sample, carer pay is already significantly higher than the NLW of £9.50 per hour for 2022/23, partly due to the introduction at councils request to meet the Real Living Wage (RLW) and London Living Wage (LLW), and due to **providers forced to increase pay in parts of the country due to local competition outside of the sector**, which is unfunded by councils.

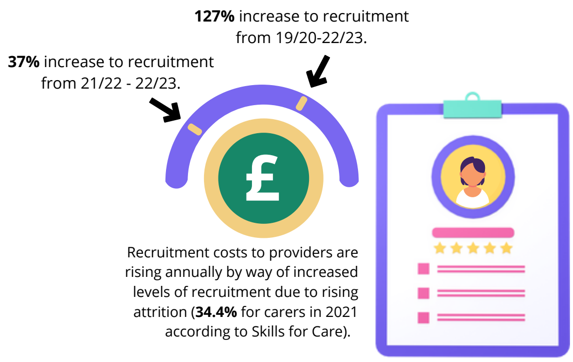
Councils stated clearly that it is providers who are responsible for setting pay rates for their staff; however, the fees paid by councils do not allow providers to set pay at the rates they wish to do so, to alleviate the pressure on recruitment and increase retention and that council initiatives to implement the RLW and LLW are not fully funded, often ignoring on-cost and the number of self-funders in a care home.

In addition to the above, among both care homes and homecare, 75% of providers explained that they are offering further incentives to aid retention, such as bonuses to staff of between £100 and £500, uplifts in pay of over £1 per hour, pay for breaks and downtime, food when on duty, flexible working hours, birthday and Christmas gifts, hampers, vaccine incentives, refer a friend and long service awards, pension enhancements of up to 6%, life and health cover, retention and performance bonuses of up to £500, RLW, enhanced sick-pay, profit share, and increased holiday entitlements, which are not reflected in hourly pay-rates.

In a recent Care England survey related to agency costs, covering circa 70,000 beds in England, over 88% of providers reported difficulty securing agency resources, with 84% reporting increased rates in the last 12 months rising by 104% since 2019/20. Over 50% of agency use is to cover long-term vacancies, and 26% for short-term roles in addition to staff pay as back-fill costs. In the survey, the key reasons raised for leaving the sector were pay and a negative culture.



The CQC's insight report on workforce highlighted similar findings and themes to the Care England survey. Their findings mirror the themes identified; for example, increased reliance on agency staff and the pressures from ongoing challenges with recruitment and retention and acknowledged a serious and pressing issue within the sector which they will continue to shine a light on in the next State of Care report, due to be published in October.



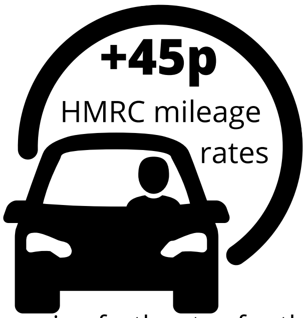
Recruitment costs to providers are rising annually by way of increased levels of recruitment due to rising attrition (34.4% for carers in 2021 according to Skills for Care). The median increase in recruitment costs to providers between 2019/20 and 2022/23 was 127%, and 37% between 2021/22 and 2022/23, the median cost being £5.77 per week for 2022/23 and set to increase further until attrition and vacancy levels reduce.

In December 2021, the government added care workers to the Home Office's Shortage Occupation List with a minimum pay rate of £10.10 per hour, 60p per hour more than the NLW. In April 2022 the WHO projected a 10m global shortage of health workers by 2030.

Smaller providers have raised concerns about their inability to recruit from overseas given the investment necessary to obtain a license, sponsor the individuals, accommodate them, provide pastoral support, and act as a guarantor for 2 to 5 years. Providers who have secured resources from overseas have incurred costs of over £3,000, ranging up to £5,000 per individual per annum (excluding accommodation costs), much of which is paid upfront, prior to any benefit for the provider being received. In certain parts of the country, the cost of HMO accommodation is financially prohibitive, or simply not available.

In conclusion, when setting fee rates, councils must pay uplifts sufficient to pay carers which should meet and exceed the NLW, and note that for every £1 offered to staff, a further circa 30% is incurred by providers due to on-costs in addition to the cost of incentives offered employers to recruit and retain staff.

Councils are encouraged to engage with their providers to understand the true cost of carer pay rates, and how these will change within the year to retain staff. Councils must accurately report the current pay of carers to aid their future fee uplift decisions, and decisions in respect of implementing the RLW and LLW given the substantial on-cost incurred by providers to implement pay initiatives.



Without incurring further tax for the first **10,000** miles.

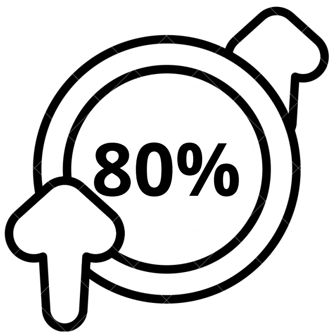
For homecare, (also see fuel section below) councils are encouraged to fund the HMRC mileage rates to enable providers to pay their staff 45p per mile without incurring further tax and national insurance liabilities, to ensure those on part-time contracts are not paid less favourably than those who are able to benefit from personal income tax relief.

Councils should consider what role they can play in accommodation for overseas workers, and what support they can offer providers without the financial investment capability to recruit from overseas. In addition to being required to consider paying providers fees which permit them to pay domestic staff at least the equivalent to overseas workers of £10.10 per hour.

Lastly, councils must consider that, given rising vacancies of which we have seen a 52% increase in the last 12 months, and current levels of unmet demand for care, carer pay needs to align with pay to carers in care homes, and to align with the NHS. Only when we have parity on pay within the sector can we truly invest in our workforce and start to fill vacancies, and reduce reliance on agency expenditure, and costly domestic and overseas recruitment. We urge councils to allow for increased carer pay aligned to their own care workers and those within the NHS in their projections for pay over the next 3 years to positively impact recruitment and retention across the sector. Without the necessary levels of funding, care providers who provide services to some of society's most vulnerable, will continue to operate against an increasingly challenging financial backdrop, threatening the quality and continuity of care.

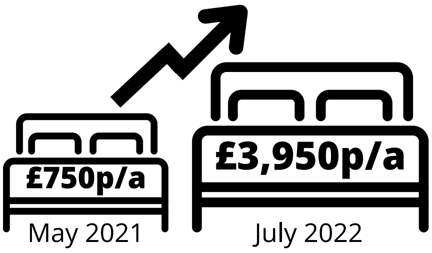
Energy (Gas/Oil/LPG/Electricity)

Energy is a very significant cost to providers. The domestic price cap will increase in October 2022 by 80% to £3,549. Whilst this does not reflect the market price for business energy consumption, it is indicative of the expected increase in energy costs from October 2022.



Increase in **domestic** price cap in October 22, to **£3,359**.

Cost per **commercial** care home bed per annum rose **433%** in July 2022.



Going from **£14.42** to **£75.96** per week.

In an [article](#) dated Feb 2022, energy broker Box Power reported that energy per care home bed across 55,000 beds cost around £750 per bed per annum on May 2021. A later [July 2022 publication](#) reported an increase to £3,950 per bed per annum, a 433% increase in cost to providers. This report directly correlates with the market price for energy as seen in the article for Care Home Professional. In August 2022, energy increased per bed to [over £5,166](#) per annum per bed and is set to rise further. This latest increase equates to over a £2bn increase per annum for the sector, far above the [level of profit](#) made by the sector in 2019.

Providers with 1,000 beds or less are most likely to be guided to a fixed price for energy as their volume is not conducive to hedging policies and the day ahead market options of energy procurement which are open to larger providers. Providers are being offered fixed price contracts of up to and over 700% increases to protect their energy supplies for longer periods whereas, those who hedge at the right time in Q1 of 2022 benefited from energy at the same rate or as low as domestic supplies in certain instances although with those deals renewing this year, energy costs to providers are set to significantly increase significantly.

The bottom line is that predicting the future of the energy market is impossible. The future uncertainties of energy procurement mean that the only option for councils is to look retrospectively at energy increases and to 'make right' providers based on expenditure over a reasonable level of inflation a provider can be expected to absorb. Energy is seasonal and thus a quarterly review in arrears is sensible, until a more appropriate solution is supported by the Government for the sector.

The rate secured by providers is dependent on when they locked into their energy contracts, which is subject to providers' attitudes to risk. £750 per bed per year equates to £14.42 per week in May 2021 with the July 2022 rate of £3,950 equating to £75.96 per bed per week. Providers lock in at different times, with some continuing to benefit from longer-term deals which soon come to an end. Most providers who have not re-contracted already inform us that their deals expire prior to or shortly after October 2022 meaning they will expect a very significant increase later this year.

Providers covering 21,000 beds pay **49%** above rates from In July 2022 from May 2021.

In July 22, a sample of providers with negotiated locked-in contracted rates covering 21,000 beds have an average 2021/22 combined rate of £21.48 per week, paying 49% above May 2021 rates of £14.42 with their 2022/23 locked-in rates of £24.54 per week. This is considerably lower than the £5,166 or £99 per bed per week available currently (24th Aug) and will be closer to the rates paid upon renewal later this year from October 22.

In conclusion, councils need to consider that providers with energy contracts ending in October 22 are going to see fixed-term contracts or hedging arrangements much closer and higher than the current market rate (24 Aug 22) of up to and over £5,166 per bed per annum or £99 per bed per week, over 500% up from May 21. Councils should consider policies aimed at a retrospective review of energy expenditure to reimburse energy cost incurred by providers until the volatility in Ukraine with Russia becomes resolved and the Nord Stream pipeline is fully operational, which are the key factors driving up EU energy costs on top of rising demand from Asia, until a more appropriate solution is supported by the Government for the sector.

Councils need to consider and review future increases in energy in their annual fee uplifts given future energy rates for October 23 currently stand at £4,123 per annum or £79 per bed per week, up from £557 per annum in August 21.

Fuel

Increases in fuel prices have resulted in significant costs for those providing homecare services as well as care home workers on their commute. HMRC-approved mileage rates have not changed in many years, being 45p for the first 10k miles and 25p per mile thereafter.

Employees with earnings above the Income Tax threshold can reclaim the tax paid on the difference between the rate per mile paid by their employer and the HMRC prevailing rate via their annual P87 reclaim process, and in the same way are able to reclaim tax paid on items such as uniform cleaning. This is a complex and difficult process for most carers and as such claims are rarely successfully made. Any reclaim is paid at the end of the prior financial year, significantly later than the cost of fuel has been incurred and only offset against income tax paid, meaning those on part-time contracts may not be entitled to make a reclaim.

Mileage rates paid to carers differ significantly from 25p to 45p per mile. There is no clear consistent rate paid, as providers have increased rates over the last 2 years to offset the rising cost of fuel where they can. What is clear is that most providers have increased their mileage rates for employees.

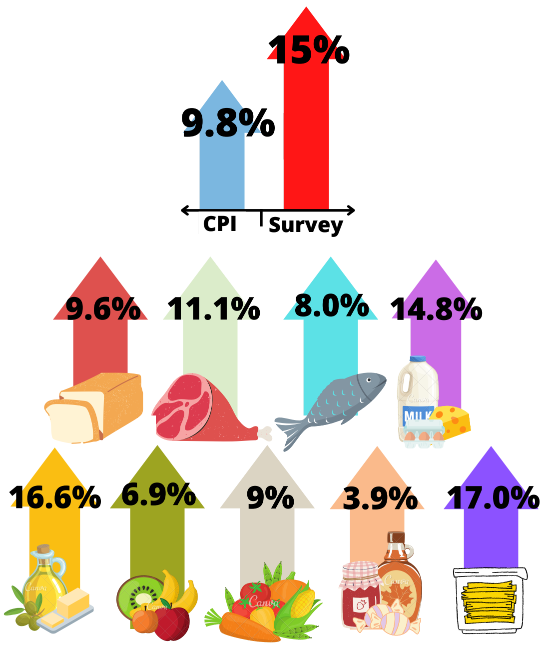
Fuel accounts for between **1%** and **5%** of the total cost to homecare providers.

The average cost equates to around a 50% uplift over the last 24 months. Fuel accounts for between 1% and 5% of the total cost to providers (median 1.9%) and varies due to the urban or rural nature of the provider profile.It is less of a cost to providers, but a very significant cost to their employees.

In conclusion, councils must review their provider profiles to validate the average cost of mileage in their localities and consider funding the difference between the current mileage rates paid and the 45p per mile HMRC rates also paid by most councils to their own staff who use their own vehicles for work, which can be paid to carers without a tax or national insurance liability to the provider.

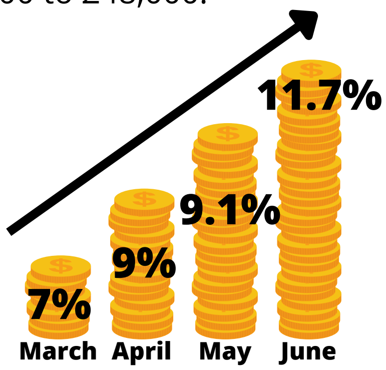
Food

Food inflation has been significantly impacted by the war in Ukraine, rising energy prices and most recently the dry weather resulting in reduced harvest and crop yields which is yet to be evidenced in CPI data below. This has seen the [CPI reporting]() food inflation in June 2022 as 9.8% overall, when in fact the food groups most likely to be impacted in care homes such as bread, meat, dairy, oils & fats and general food products are seeing inflation of between 9.6% and 17%. The median increase evidenced in a recent survey covering 21,000 beds was a 15% increase overall to food-related costs, given the higher usage of more inflation-impacted food sub-groups used in care facilities to maintain nutrition and wellbeing. In conclusion, councils should assess future food inflation according to the CPI subcategories and not a lone understated CPI inflationary uplift for food:



Insurance

CPI puts insurance inflation at 11.7% for June based on domestic insurance policies. [The Financial Times]reported that care providers are seeing renewal premiums increase by up to 400% depending on the cover required evidenced by a policy increase in one home from £12,000 to £48,000.

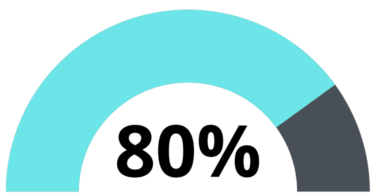


In conclusion, councils are urged to ask providers for evidence of insurance renewals which could increase from around £5.50 per week to over £20 per week per resident.

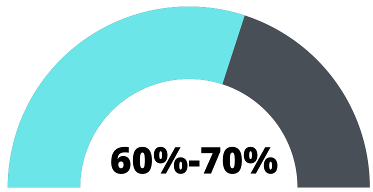
General Inflation

Councils generally take a position to increase circa 60-70% of the cost for care homes by the impact of the NLW and the reminder by CPI. For homecare, it is closer to 80% NLW.

[CPI on June 2022] was running at 9.4%. Costs collected in the period 2021/22 not accurately inflated by CPI are Built Environment, Insurance, Energy, and Food, which should be inflated as stated above. The remaining costs are capable and more closely incur inflation going forward according to the CPI basket of goods (June 22 9.4%)



Councils increase circa 80% of the cost of homecare for NLW



60% - 70% for care homes.

In conclusion, where a council is not paying inflation at the level of CPI as a minimum, councils need to consider splitting the above high inflationary cost lines such as the Built Environment, Insurance, Energy, and Food from CPI, to apply more appropriate inflation suited to the care sector as outlined above, and only applying CPI to the remainder of costs.

Return on Operations (ROO) and Return on Capital (ROC)

Possibly the most contentious area of the FCoC process is that discretion is given to councils over what levels are considered reflective of ROO and ROC in their local area.

The distinction between ROO and ROC must be made clear and understood by councils, who should not assume that a blanket approach to all providers for both care homes and homecare, will be appropriate for all organisations:

Return on Operations (ROO)

This is a gross profit or surplus number before tax. Return on operations can be calculated as a percentage markup on operations and head office costs. These are operating costs excluding Interest, Tax, Depreciation, Amortisation and Rent (ITDAR) which are captured separately as part of the Return on Capital. Return on operations will consider operational risks such as drops in occupancy, inflationary pressures, a provision for future investments (where not capitalised) and dividend payments. For Not-for-Profit organisations, this should consider a surplus in line with their reserves policy.

Councils need to acknowledge that all private businesses and third sector providers must return a profit or surplus to remain viable, and that the ROO level it sets, is a gross number from which all dividends, bad debts, future investment provisions and tax must be deducted prior to leaving a residual element which is deemed a net profit or surplus, which is capable of being removed from the business or reinvested, once taxes are paid. If businesses do not have sufficient levels of profit after all deductions and taxes are paid, then there is little value to remaining in business.The adage “no margin, no future” holds as true for providers of social care as it does for any other business.

In terms of a percentage, it is likely that both homecare and care homes may have similar levels of ROO applied. However, it is important councils are aware that smaller providers may pay themselves by way of dividend payments which may see a distortion compared with peer organisations between levels of pay and ROO.

Return on Capital (ROC)

Investment, by nature, involves risk. The cost of capital is the return that investors require to invest in a business. Return on capital is a judgement rather than a hard science. However, return on capital is an important consideration, as it is one of the main fixed costs in a care home and should include borrowing, interest, depreciation, cashflow funding, capex, etc. It should also include mortgage and rental payments where required. In the example where a provider has repaid all its loans or mortgages, the value should be assumed as what 100% borrowing would be to assure a return on the capital invested in the business.

Councils must consider in the returns by providers that all costs associated with ROC have been factored into the rates the council adopts for its providers. ROC is a legitimate business expense to a provider, and not a revenue or profit source. It is aimed at covering or offsetting the costs of leaving the funds invested in the business, or the capital cost of running the business. If ROC is not set at a sufficient level; providers are far less likely to leave their funds invested in the business and move to more lucrative investment opportunities.

Homecare may well have a lower level of ROC than care homes, given they are less likely to have the same degree of physical assets. However, capital is still a cost to their organisations and must be considered in the cost of care exercise.

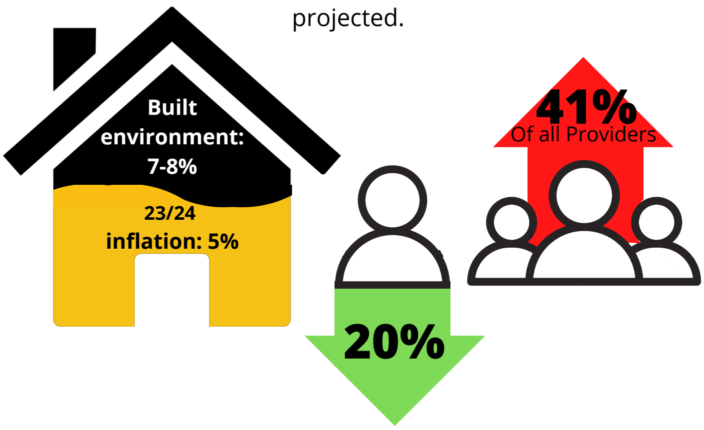
The Built Environment

The built environment represents circa 7% to 8% of total costs with a median increase of 5% or £3.91 per week between 2021/22 and 2023/24 projected.

The key concerns providers shared in the workshops around the built environment were related to the data period not representing the level of work completed prior to the pandemic and an increased 'catch-up' post-pandemic for routine maintenance and capital expenditure work including planned, reactive, and preventative maintenance along with refurbishment etc. In the sample of 21,000 beds, the cost per week ranges from between £25 to £56 per week depending on the facility age profile and the organisation's approach to Capex management and the Return on Capital.

20% of providers evidenced reduced expenditure in 2021/22 vs 2019/20, whilst all providers saw an overall increase between 2019/20 and their 2023/24 projections, with a median increase of 41%.

The built environment represents c.**7%** to **8%** of total costs with a median increase of **5%** or £3.91 per week between 21/22 and 23/24 projected.



20% of providers evidenced reduced expenditure in 21/22 vs. 19/20, whilst all providers saw an overall increase between 19/20 and their 23/24 projections, with a median increase of **41%**.

In conclusion, the Fair Cost of Care exercise is unlikely to evidence the true increase in costs for the built environment. Much of what is reported at a line-item level is non-capital expenditure and provisioned within the ROC recovery, reflecting the true cost of capitalised expenditure which councils have discretion over. Councils must consider the median value uplift for 2023/24 of at least £3.91 per resident per week in their DHSC return for the built environment and consider ROC as the legitimate route to recover capitalised project-related costs.

Councils wishing to discuss this report, or to set up a virtual meeting to review any of the detail contained or require further support with the interpretation or creation of their FCoC and Market Sustainability Plans, should contact rayres@careengland.org.uk.

END OF PAPER