Use of additional funding for social care

Executive Summary for Welsh Government

LE Wales

December 2020

About LE Wales

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Glossary and definitions

CAGR	Compound annual growth rate
Capital limit in residential care	The assets threshold determining whether care home residents need to fully fund accommodation and care costs or are eligible for local authority support. Currently the capital limit is £50,000 (from April 2020)
CIW	Care Inspectorate Wales
Constant prices	Nominal values adjusted for inflation using actual or expected CPI
Direct payments	Monetary payments made by local authorities directly to adults for the purchase of social services
Domiciliary care	Practical services that assist the person to function as independently as possible and/or continue to live in their home. This definition is used in the 'Adults receiving care and support' data returns completed by Welsh local authorities for Welsh Government on activities of adults' social services. Throughout the report we use the term 'home care' services when referring to expenditure or the provision of services at home, while use the term 'domiciliary care' when discussing workforce options.
Financial assessment	For those with an agreed package of care and support, the process determining weekly charges based the cost of service provision and on their income and assets
Gross expenditure	Total expenditure incurred by the local authority for the relevant social care services incurred in a financial year
Home care	Care services provided at a client's own home, including personal care and other services. This definition is used in the Revenue Outturn Forms completed by Welsh local authorities for Welsh Government, which provide data returns on expenditure and income on social services (RO3).
Income from sales, fees and charges	Income from clients in respect of fees and charges collected during the financial year
Informal care	Care provided by family or friends (not by a care professional)
Local Authority clients	Adults receiving care and support services provided or arranged for by the local authority

Maximum weekly charge in non-residential care	The maximum that adult care recipients may be charged for non-residential care services received (other than those charged at a flat rate), irrespective of cost of provision and financial circumstances. Currently set at £100 per week (from April 2020)
Needs assessment	Process undertaken to assess whether an adult needs a package of care and support arranged for by the local authority
Net current expenditure	Derived as Gross expenditure *minus* Total income *minus* Specific and Special Government Grants
Net present value (NPV)	Constant values discounted using a 3.5% discount rate
NHS Continuing Healthcare	Nursing care funded and arranged for by the NHS and provided at home or in residential settings
Nominal prices	Values expressed in cash terms expressed in each year's prices and not adjusted for inflation
Non-personal care services	For the purposes of this analysis these have been defined as other care services provided at home or in residential settings, covering laundry, shopping, help with housework etc.
Other non-residential care services	All other non-residential care services including day care, equipment and adaptations, supported accommodation etc. Although some of these services may also include a personal care element, only personal care services provided at home or in residential care settings have been considered when assessing the impact of providing fully funded personal care.
Personal care services	Care services covering personal hygiene, mobility problems, support at mealtimes, medication and general wellbeing. A working definition of personal care services used solely for the purposes of this analysis is provided in Annex 1 of the main report. Also, for modelling purposes only personal care services provided at a client's own home, or in residential settings have been considered when assessing the impact of providing fully funded personal care.
Residential care	Placements in local authority residential homes or independent care homes providing accommodation together with personal care
Residential care with nursing	Placements in establishments providing accommodation together with personal and nursing care.
Self-funders	Adults fully funding their own care (at home or in residential settings)

Workforce	Headcount of paid workers in adult residential (including nursing) care and domiciliary care services in Wales. Our analysis of the workforce policy options is based on four job roles: managers, deputy managers, senior care workers, and care workers, as defined in Social Care Wales data.

Executive Summary

Introduction

The Welsh Government Inter-Ministerial Group (IMG) on Paying for Social Care was established in 2018 to consider how Welsh Government responds to the increasing need – and cost – for social care. With the advent of Welsh Government's new Welsh tax raising powers, the group has been exploring the feasibility of introducing a potential levy or alternative, to raise additional funding in the medium to long term to help meet growing demand.

Alongside determining how additional finance for social care might be raised, the IMG is examining what any additional finance raised in this manner could be spent on. Options for spending additional finance look at directing additional finance to tackle specific issues within social care to form a 'promise' to the contributing public. The aim of this research is to provide evidence and research to inform the thinking of Ministers on that social care promise.

The Welsh Government developed a number of policy options for the use of additional funding raised from a potential levy or alternative and contracted LE Wales to assess the potential impacts of some of those options. The proposed options assessed by LE Wales include three options for offsetting the charges for residential and non-residential adult social care services that are paid by recipients of social care services (the 'user charge options') and four options that relate to investment in the adult social care workforce in Wales (the 'workforce options').

The research undertaken by LE Wales to assess the potential impacts of the policy options involves modelling potential future impacts over the period to 2035. There is inevitably a high level of uncertainty about impacts over this time period. This would be the case even if we understood fully what has happened in the past and what is happening now. However, the limitations on the available data means that we do not have a full picture of current provision. This is particularly true in relation to data about the pay of care workers in the independent sector; the characteristics of people in receipt of care services (and associated charges); and about those that may request a care needs assessment and become eligible for publicly funded care if elements of care provision were to be provided free of charge (current self-funders and those receiving informal care). Our analysis tests the sensitivity of our results to some key assumptions, but uncertainty about impacts remains high.

The COVID-19 pandemic has exacerbated these uncertainties.

Nearly all of the data collection and most of the modelling and research outlined in this report was undertaken before the initial COVID-19 lockdown in mid-March 2020. Following a pause between April and August, this report is being finalised during Autumn 2020, when there have been recent increases in the number of cases in the general population.

The current high level of uncertainty about the longer-term impacts, coupled with a lack of data at this stage, means that we have not made specific adjustments to our projections to

reflect the new COVID-19 world. Our projections of the impacts of the chosen policy options are provided as ranges and in interpreting those ranges in the light of COVID-19, our advice would be to consider them in the context of the uncertainties about the potential impacts of the virus outbreak, including on recruitment and retention in the workforce, demand for care services and the wellbeing of care recipients. Further detail on these potential impacts are provided in the Introduction chapter of this report.

User charge options

The impacts of three user charge options were assessed:

- **Option 1: Fully funded personal care**. Personal care services would not be chargeable either for those in residential care or for those in receipt of non-residential care services in their home.
- **Option 2: Fully funded non-residential care**. No user charges for non-residential care services, including both personal and non-personal care. Charging arrangements would remain unchanged for residential care.
- **Option 3: Fixed weekly contribution towards residential care costs for self-funders**. A fixed weekly contribution of around £100 to £150 is made towards overall residential care fees for people who pay for their own residential care ('self-funders'), regardless of the size of their package of care. It is not a contribution towards any particular aspect of a care package and does not interact with the charging regime. Charging arrangements would remain unchanged for non-residential care.

The costs of these options are presented in Table 1 below. In order to provide a direct comparison across the different options we present the estimated cost of each option in 2021 and the Net Present Value costs for the period 2021-2035[1]. Costs for all options are disaggregated by age band and the costs for Option 1 are also disaggregated across non-residential care (Option 1a) and residential care (Option 1b).

The combined Net Present Value (NPV) of option 1 in the period 2021-2035 is around £2,690M in the 'high' cost estimates and around £1,860M in the 'low' cost estimate. For option 2 the combined NPV is around £2,940M in the 'high' cost estimate and £2,280M in the 'low' cost estimate. Finally, for option 3 the NPV ranges between approximately £690M ('high') and £450M ('low').

[1] Although any option will not realistically be implemented from 2021, solely for the purposes of the modelling we used 2021 as the first year of implementation of each policy option.

Table 1 Summary of option costs (£ million)

Option:	1a		1b		1		2		3	
	High	Low	High	Low	High	Low	High	Low	High	Low
18-64										
Cost in 2021	42	24	0.4	0.3	43	24	99	63	0.3	0.2
NPV 2021-2035	530	299	4.9	4.0	535	303	1248	789	3.4	2.2
65+										
Cost in 2021	84	52	65	55	149	107	119	105	47	31
NPV 2021-2035	1,192	741	966	812	2,159	1,553	1,694	1,490	688	453
Total										
Cost in 2021	126	76	66	55	192	131	218	167	47	31
NPV 2021-2035	1,722	1,040	971	816	2,693	1,856	2,942	2,280	691	455

Note: Constant 2020 prices (£ million). NPV calculated over the period 2021-2035 using a 3.5% discount rate;

Option 1a: providing fully funded personal care at home (non-residential care). For existing local authorities' clients the 'High' cost estimate assumes that 80% of total charges from clients (for home care services including direct payments) are no longer collected, while the 'low' cost estimate is constructed using a cell-based model (with 80% of home care services including direct payments assumed to represent the personal care component). 'High' cost estimate also assumes a 70% switch from privately purchased care to public provision and a 10% switch from informal care to public provision. 'Low' cost estimate also assumes a 50% switch from privately purchased care to public provision and a 5% switch from informal care to public provision;

Option 1b: providing funded personal care in residential care homes (fixed weekly contribution of £210 ('high') or £177 ('low'));

Option 1 total: combination of option 1a and 1b;

Option 2: providing fully funded non-residential care services. For home care services (including direct payments) we used the assumptions adopted in option 1a for the 'high' cost estimate. For all 'other' non-residential care services, the 'Low' cost estimate assumes no switch from private or informal care to public provision, while the 'High' cost estimate assumes that 50% of the proportional increase observed for personal care due to private and informal care provision is also observed for 'other' non-residential care services;

Option 3 providing a fixed weekly contribution to self-funders in residential care homes (£150 ('high') or £100 ('low').

Source: LE Wales calculations

Stakeholders recognised the financial benefits to servicers users and their families of these user charge options but expressed concerns about the potential demand effects of fully funded personal care; and about the potential for fully funded non-residential care to affect decisions about whether people receive residential or non-residential care services.

Workforce options

Three key outcomes are modelled to consider the impact of the workforce options: the number of workers, the associated costs and the quality of care. Given these outcomes, the modelling is separated into two main components:

1) Workforce model: An increase in pay and/or conditions is associated with an increase in recruitment/retention of staff and with higher costs. That is, the model assumes a positive relationship between the number of workers and workforce costs.
2) Quality of care model: An increase in pay and/or conditions is assumed to lead to an improvement in the quality of care. That is, based on very limited available evidence, an increase in hourly wages for care workers would reduce the proportion of establishments in need of improvement.

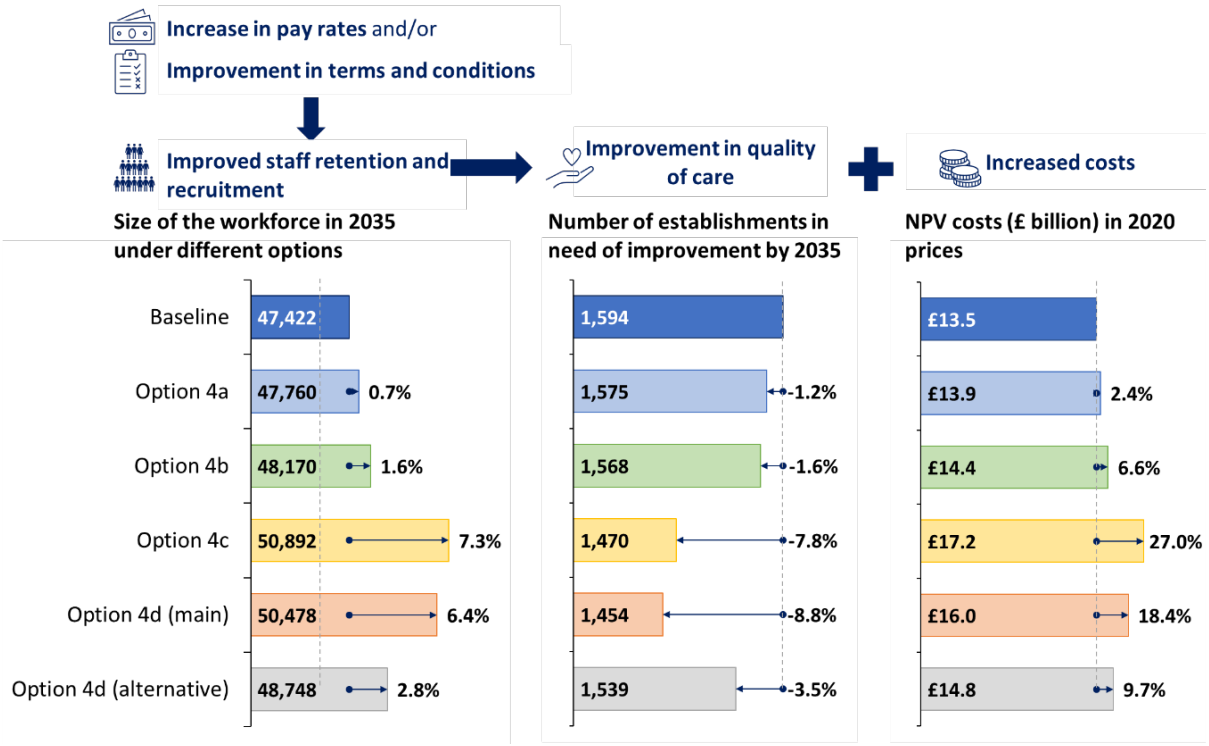
Both models focus exclusively on adult residential and domiciliary care. The workforce options consider changes in basic wages as well as improvements in terms and conditions. The latter in this case enter the model as increases in the on-costs that come on top of wages.

More specifically, the impacts of four workforce options were assessed:

- **Option 4a: Uplift of care worker wages to the real living wage**. This option involves increasing wages to at least at the level of the real living wage. No changes are made to other terms and conditions. This means that the pay of care workers in the lowest pay band in the independent sector would increase.
- **Option 4b: Uplift of care worker wages to NHS Agenda for Change pay rates**. This option involves increasing wages to the level of NHS Agenda for Change pay rates for equivalent staff grades. No changes are made to other terms and conditions.
- **Option 4c: Uplift of care worker wages to Local Authority pay rates**. This option involves increasing wages to the level of local authority pay rates for equivalent staff grades. No changes are made to other terms and conditions. Under this option, the pay of care workers employed directly by the local authorities remains unchanged.
- **Option 4d: Uplift of care worker wages to NHS Agenda for Change pay rates and terms and conditions**. This option involves increasing wages to the level of NHS Agenda for Change pay rates for equivalent staff grades. Other terms and conditions are also assumed to change to NHS Agenda for Change terms. In this case, two sub-options are considered for changes in terms and conditions: (i) Increases in on-costs of five percentage points for managerial roles and 10 percentage points for care workers; and (ii) Increases in on-costs of 2.5 percentage points for all roles modelled.

The figure below shows a summary of the impacts of each workforce option, based on the central estimates. It also shows the totals for the baseline scenario – against which the impact of each option is assessed.

Figure 1 Summary of impacts of workforce options



Note: **Option 4a** = Real living wage; **Option 4b** = NHS Agenda for Change (AfC) pay; **Option 4c** = Local authority pay; **Option 4d (main)** = NHS AfC pay & conditions (on-costs increase between 5 to 10 pp); **Option 4d (alternative)** = NHS AfC pay & conditions (on-costs increase by 2.5 pp).

The size of the workforce in 2021 (the starting period for the modelling) is 44,875. The care quality model does not take outputs from the workforce model as its inputs. We assume that an increase in care workers wage has a positive impact on care quality, based on our own analysis of the NMDS-SC, but we do not model any transmission channels between the two models (because we have not seen any evidence how this channel should work).*CIW do not currently award establishment ratings in this way, but we have used data from England to assume the same percentage of establishments in Wales would be in need of improvement.

Source: LE Wales Workforce Model

The summary shows that stronger interventions (e.g. higher pay rises) are associated with larger impacts and higher costs. Interventions may increase the workforce by as much as 7.3% over the baseline scenario but may also raise costs by more than 25%.

Overall, the modelling results suggest that improving terms and conditions alongside increasing wages may be the most cost-effective way of boosting the workforce. This is illustrated best by comparing the impacts of option 4b and option 4d. These two options see

the same increase in wages for workers but differ in the terms and conditions. The improved terms and conditions in option 4d increase the additional workforce by 309% in the main scenario.[2] At the same time, the costs associated with those improved terms and conditions increase by 177%.[3] The increase in workforce is larger in relative terms than the increase in costs.

Terms and condition improvements may be more cost effective since workers may be more susceptible to changes in working conditions than to changes in wages. This idea is consistent with the views of stakeholders interviewed for this research who emphasised the importance of terms and conditions – several felt that pay rises on their own were not enough.

Given the uncertainty around a number of modelling inputs and assumptions, three estimates are produced for each policy option – referred to as low, central, and high estimates. The net present value (NPV) of the additional cost (in 2020 prices) of each option is provided in the table below.

Table 2 Baseline and additional policy option cost, NPV over 2021-2035 (£ million in 2020 prices)

Option	Low estimates	Central estimates	High estimates
Baseline		13,534	
Option 4a: real living wage	263	325	387
Option 4b: NHS Agenda for Change pay	759	898	1,040
Option 4c: local authority pay	2,865	3,656	4,532
Option 4d (main); NHS Agenda for Change pay & conditions*	2,328	2,485	2,646
Option 4d (alternative); NHS Agenda for Change pay & conditions**	1,162	1,306	1,453

Note: The various estimates are produced by varying the estimate of the elasticity of labour supply. Literature on the wage-labour supply relationship shows that there is a positive, albeit small, relationship between wages and the number of workers in a job. The modelling approach measures the percentage increase in the number of workers associated with a one per cent increase in wage. For example, if labour elasticity is 0.5, for a 1% increase in wage, the number of workers increases by 0.5%. Three estimates are used given the available evidence; low = 0.06,

[2] Percentage change in additional workers in option 4d relative to option 4b: ((50,478 – 47,422) – (48,170 – 47,422))/(48,170 – 47,422).

[3] Percentage change in additional NPV costs in option 4d relative to option 4b: ((16.0 – 13.5) – (14.4 – 13.5))/(14.4 – 13.5).

central = 0.37 and high = 0.68. *Based on an increase in on-costs by 5 to 10 percentage points. **Based on an increase in on-costs of 2.5 percentage points.

Source: LE Wales Workforce Model

For each workforce option, we also show in the report the implications of the option for the ratio of care recipients to direct care workers (i.e. the headcount number of care recipients per direct care worker - also measured in headcount and comprising senior care workers and care workers only). These comparisons show that in the baseline the number of care recipients per direct care worker is projected to increase from 1.25 in 2021 to just under 1.6 by 2035. Each of the workforce options improves on this, though they all imply increases in the number of care recipients per direct care worker by 2035. Option 4c (local authority pay) is the best performing option on this measure, leading to a reduction in the ratio over the first six years and then an increase to 1.48 by 2035. This suggests that if Welsh Government wanted to maintain the current ratio of care recipients to direct care workers through to 2035, then additional measures over and above the modelled policy options would need to be taken.

Overview

Our analysis illustrates the potential cost and other impacts of each of the policy options against a baseline scenario. There is a high degree of uncertainty associated with the size of these impacts. This uncertainty has been exacerbated by the potential impacts of the COVID-19 pandemic.

There was wide agreement amongst the stakeholders[4] that we spoke to that the main challenge facing social care in Wales (immediately prior to the COVID-19 outbreak) is the crisis in recruitment and retention of care workers, particularly in domiciliary care. Providers across Wales are struggling to recruit and retain suitable staff at current rates of pay. The care sector is consistently losing staff to other sectors, such as the retail sector, which offer better pay and conditions. Consequently, improving the pay and conditions of care workers was regarded as crucial to the sustainability of social care provision in Wales. Without this it may not be possible to meet the demand for care packages.

Stakeholders also emphasised the importance of terms and conditions of employment other than pay, with some suggesting that increases in pay on their own would not be enough to address the issues. Improvements to pay and conditions for the care workforce will also benefit care workers and their families and it was also suggested that this would lead to increased resilience for the Welsh foundational economy.

[4] Our consultations with stakeholders were limited to a relatively small number of stakeholders mainly representing employers of social care workers and regulatory bodies for this sector. This means that our work does not directly capture the perspective of care workers or of care recipients or informal carers.

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