

# Appendix 1:

## Care Home Fees – Inflation Approach

### January 2016

## 1. Introduction

- 1.1** Devon County Council proposes to set fees for 2016/17 by applying sector specific inflation indicators to its Financial Model (“the Model”) which was used last year to set 2015/16 fees, having previously been introduced for 2014/15 fees. A detailed description of the workings of the Model can be found in last year's fee consultation:  
<https://new.devon.gov.uk/providerengagementnetwork/files/2015/03/Financial-Model-appendix-1516-final.pdf>
- 1.2** At the same time as consulting on fee levels for 2015/16, the Council also consulted on a methodology for determining future inflation uplifts to care home fees, which was described in the consultation material:  
<https://new.devon.gov.uk/providerengagementnetwork/files/2015/03/Inflation-proposal-appendix-v1-2.pdf>
- 1.3** This proposal comprised of a detailed methodology for the setting fees for 2016/17 and 2017/18 financial years by way of applying specific price change measures to cost of care components used in the Financial Model for 2015/16. The Council is now proposing to fulfil this commitment.
- 1.4** The introduction of the National Living Wage (NLW) was unforeseeable at the time of the consultation on inflation methodology in March 2015, but is considered in this year's fee proposition as an additional matter.

## 2. Approach to National Living Wage

- 2.1** In the Summer Budget 2015 the Chancellor announced that a compulsory National Living Wage for employees aged over 25 will be introduced on 1<sup>st</sup> April 2016 and will be initially set at £7.20 per hour. This is 70p per hour or 10.77% higher than the National Minimum Wage (NMW) to 30<sup>th</sup> September 2015 of £6.50 per hour, and 50p per hour or 7.46% higher than the National Minimum Wage from 1<sup>st</sup> October 2015.
- 2.2** Council statutory statistical data shows that approximately 86% of the social care workforce in Devon is aged 25 or over. This is consistent with the national position. Therefore from 1<sup>st</sup> April 2016, it is likely that the National Living Wage will apply to 86% of the social care workforce, and will not apply to approximately 14%, who are under the age of 25.
- 2.3** Therefore the Council's proposal is that 86% of the cost heading of the following cost components of the Model will be inflated by 10.77%:
- Composite employee pay rates per hour for care staff
  - £ per bed per week allocations - domestic, cleaning, laundry, and catering staff

**2.4** The NMW increased by 3.00% on 1<sup>st</sup> October 2015 to £6.70 per hour. In accordance with the commitment the Council gave in setting future inflation changes, the Council proposes to apply a 3.0% uplift to the remaining 14% of the cost components listed in 2.3 above.

**2.5** The combination of the NLW and NMW increases which are proposed above, is:

- an aggregate 9.68% increase on the composite pay rate used in the 2015/16 model, increasing the rate used from £6.96 per hour, to £7.63 per hour,
- an aggregate 9.68% increase in the cost heading for '£ per bed per week allocations - domestic, cleaning, laundry, and catering staff' from £54.93 to £60.25, an increase in monetary terms of £5.32 per bed week,
- Agency and training backfill values will be adjusted in line with pay changes proposed above.

### 3. Approach to other costs

**3.1** *The Council will apply the annual percentage change in the Health & Social Care industry of the Average Weekly Earnings Index (not seasonally adjusted) as at September of the year prior to the financial year for which rates are being set, to the following cost component(s) of the Model:*

- £ per bed per week allocations - management, admin and reception staff

**For September 2015 the annual change in this index was at 0.68% therefore the Council proposes to increase the cost figure for the above heading by £0.42 from £61.16 to £61.58 per bed week.**

**3.2** *The Council will apply the annual percentage change in the 04.3 Regular maintenance and repair of the dwelling component of the Consumer Prices Index as at September of the year prior to the financial year for which rates are being set, to the following cost component(s) of the Model:*

- Repairs, replacements & maintenance

**For September 2015 the annual change in this index was at -1.10% therefore the Council proposes to decrease the cost figure for the above heading by £0.34 from £30.79 to £30.45 per bed week.**

**3.3** *The Council will apply the annual percentage change in the 01.1 Food component of the Consumer Prices Index as at September of the year prior to the financial year for which rates are being set, to the following cost component(s) of the Model:*

- Food

**For September 2015 the annual change in this index was at -2.50% therefore the Council proposes to decrease the cost figure for the above heading by £0.73 from £29.01 to £28.28 per bed week.**

**3.4** *The cost heading of 'Utilities (gas, oil, electricity, water, telephone)' crosses over more than one CPI component. In order to fairly reflect price changes affecting this cost heading, the Council proposes to apply the annual percentage changes in the following CPI components as at September of the year prior to the financial year for which rates are being set, weighted by the utilities expenditure profile in DCC's own care homes:*

- 04.4 Water supply and misc. services for the dwelling @ 37%
- 04.5 Electricity, gas and other fuels @ 59%
- 08.2/3 Telephone and telefax equipment and services @ 4%

For September 2015 the annual change in these indices was at:

- 04.4 Water supply and misc. services for the dwelling: -0.7%
- 04.5 Electricity, gas and other fuels: -4.3%
- 08.2/3 Telephone and telefax equipment and services: 1.4%

Therefore the Council proposes to decrease the cost figure for “Utilities (gas, oil, electricity, water, telephone)” by an aggregate of 2.74%, which is £0.72 from £26.36 to £25.64 per bed week.

3.5 The Council will apply the annual percentage change in the Consumer Prices Index (*overall index*) as at September of the year prior to the financial year for which rates are being set, to the following cost components of the Model:

- Other non staff expenses

For September 2015 the annual change in this index was at -0.10% therefore the Council proposes to decrease the cost figure for the above heading by £0.04 from £36.65 to £36.61 per bed week.

## 4. Summary

4.1 The inflation approach described in sections 2 and 3 above proposes overall inflation increases to bands as below:

	Standard	Enhanced	Standard + nursing	Enhanced + nursing
<b>Inflation proposal</b>	<b>4.4%</b>	<b>4.7%</b>	<b>4.6%</b>	<b>5.0%</b>

4.2 4.1 is the inflation proposition only. With an additional 1.5% added, the final fee change proposal is as below:

	Standard	Enhanced	Standard + nursing	Enhanced + nursing
	£ per resident per week			
<b>2015/16 rates (excl. FNC)</b>	£442.00	£471.00	£474.00	£496.00
<b>Change %age</b>	5.9%	6.2%	6.1%	6.5%
<b>Change +/-</b>	£26.00	£29.00	£29.00	£32.00
<b>Excluding Funded Nursing Care</b>	£468.00	£500.00	£503.00	£528.00
<b>Funded Nursing Care</b>	n/a	n/a	£112.00	£112.00
<b>Proposed banded rates for 2016/17 (rounded to nearest whole £) Incl FNC</b>	<b>£468.00</b>	<b>£500.00</b>	<b>£615.00</b>	<b>£640.00</b>