

Research on proposed changes to charging for social care

Report to the Welsh Government



LE
Wales

September 2016

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London Economics Ltd is a Limited Company registered in England and Wales with registered number 04083204 and registered offices at Somerset House, New Wing, Strand, London WC2R 1LA.

w: www.le-wales.co.uk e: info@le-wales.co.uk
t: +44 (0)2920 660 250 f: +44 (0)2920 660 251

Authors

Siôn Jones, Pietro Patrignani and Viktoriya Peycheva



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Executive Summary

Introduction

The Welsh Government has taken a range of actions over a number of years to move towards reform of the way care recipients, in both residential and non-residential settings, pay for care and support. The main aim has been to make the system fairer and more sustainable for the future.

The Welsh Government has since announced its intention to introduce further reforms. The two main reforms are:

- 1) To **increase the capital limit** used to determine whether a person self-funds the full cost of their residential care, or whether they receive financial support towards this from their local authority, from £24,000 to £50,000. This is one of the Welsh Government's top six "Taking Wales Forward" commitments and the change is to take place during the current Assembly, though no specific commitments on timescales have been given;
- 2) Another "Taking Wales Forward" commitment (not one of the top six) was to introduce from April 2017 a **full disregard of the War Disablement Pension** (WDP) in financial assessments for charging for social care and support. This change will ensure veterans in receipt of a WDP will not be required to use any of their WDP to pay for the cost of their care. Currently there is a minimum disregard of £25 per week in Wales, though some Welsh local authorities already offer a full disregard.

The main aims of this research are to collect and analyse the relevant data in order to assess the impacts of these reforms on public expenditure.

Our estimates of the public expenditure impacts of these options represent the additional costs, net of income, for Welsh local authorities of funding care and support for care recipients affected by the policy changes. The estimates do not include other additional operational costs that might arise from larger numbers of care recipients. They also assume that the care sector has the capacity to take on new care recipients and that local authorities are able to achieve this using published local authority fee rates; and that there are no wider financial implications for the care sector. Other assumptions are described in the report.

Lifting the capital limit for residential care

The current capital limit for residential care and support is £24,000, including both housing and non-housing assets (housing assets are disregarded if a qualifying relative lives there). The Welsh Government has committed to uplift the capital limit applied in residential care charging from £24,000 to £50,000. No commitment has been made on whether the change will be implemented in one step or incrementally (in multiple steps). For the purposes of this analysis we have estimated the effect of the reform under the assumption that changes will be implemented in two alternative ways:

- In three different steps, rising to £30,000 in April 2017, then to £40,000 in April 2018 and £50,000 in April 2019; and
- In one step in April 2017 (rising to £50,000).

We used data from a range of sources and the LE Wales Care Funding Model (Residential Module) in order to estimate the net additional public expenditure arising from these two potential options over three years from April 2017. In Annex 2 we present similar figures under the assumption that changes are introduced from April 2018, rather than April 2017.

Baseline net expenditure on residential care in Wales and the additional net costs of the two options for introducing the increased capital limit:

- Option 1 – Phased increase to £50k over 3 years from April 2017;
- Option 2 – introduction of full increase to £50k in April 2017

are shown in the table below (net of all income received from clients).

Where the increase in the capital limit is phased in over three years the additional public expenditure in the first year is **£4.5m** rising to **£19.4m** by the third year.

When the increase in the capital limit to £50k is introduced in the first year, the additional public expenditure in that year is **£18.4m**, rising to **£19.4m** by the third year.

In both cases, this additional public expenditure is locked in to future years spending whilst the new policy remains in place (compared to the situation where the policy is not introduced). Actual expenditure in those future years will also be influenced by demographic and other changes, such as cost inflation etc.

Table 1 Baseline and additional net expenditure under the proposed options

Year	Baseline Scenario Total net expenditure (£thousand)	Option 1: Phased Increase Additional net expenditure (£thousand)	Option 2: One step increase Additional net expenditure (£thousand)
2017/18	£400,105	£4,528	£18,356
2018/19	£412,024	£11,503	£18,865*
2019/20	£424,574	£19,398	£19,398*

Note: Option 1 is based on a phased increase of the capital limit, rising to £30,000 in 2017/18, £40,000 in 2018/19 and £50,000 in 2019/20. Option 2 is based on a one-step increase of the capital limit rising to £50,000 in 2017/18. The latest available figure published on StatsWales for total net expenditure is £368,946 in 2014/15. Expenditure figures presented in the table are in nominal terms – for example, expenditure in 2018/19 is presented in 2018/19 prices and expenditure in 2019/20 is presented in 2019/20 prices. *Additional increases in cost after the first year are driven by demographic and other changes, such as cost inflation etc.

Source: LE Wales' estimates

Clearly all projections are associated with uncertainty on future trends on care needs, number of care recipients, income and expenditure (care costs) etc. In addition, limitations in the data available, mean that in this case there are also uncertainties about the current state of play, and this also affects the robustness of the expenditure projections.

Full disregard of the war disablement pension

The Welsh Government currently sets a partial disregard for the War Disablement Pension at the national level for both residential and non-residential care and support. The minimum disregard set by the Welsh Government stood at £10 per week before April 2016 and then increased to £25 per week from April 2016. However some local authorities go further than this and already apply a full disregard for War Disablement Pension at least for non-residential care and support (7 LAs already apply a full disregard of WDP for non-residential care and support).

The Welsh Government has committed to introduce a full disregard of this pension in the financial assessment for all forms of social care and support charging from April 2017.

Data on the number of War Disablement Pension (WDP) recipients in Wales is published by the Ministry of Defence (MoD). These data show **6,525 veterans** in receipt of the War Disablement Pension in Wales as at 31st March 2015. They do not indicate, however, which recipients are also in

receipt of social care and support. To fill in this data gap, we sought to collect the necessary information directly from the Welsh local authorities (LAs) via a rapid targeted survey disseminated by the Welsh Government.

The table below shows the number of WDP recipients also in receipt of social care and support from the responses provided by LAs and, based on this data, our estimate of the total number of WDP recipients also in receipt of care and support currently. This figure is 134 (across residential and non-residential care), representing around 2% of total WDP recipients in Wales.

Table 2 Number of WDP recipients receiving social care and support in Wales, 2016

	Non-residential care	Residential care	Total
No. of recipients (LA response total)*	46	47	93
Projected no. of recipients across Wales	66	68	134

*From 14 LA responses to questionnaire providing information on care and support recipients with WDP

LA responses to our survey, together with other available data, were used to estimate the additional costs across Wales of introducing a compulsory full disregard for WDP in 2017/18. Our estimates of the additional costs, for each of the next three years – under a low cost and a high cost scenario - are set out in the table below. We estimate that total additional costs in 2017/18 will be between £300,000 and £380,000 and that the additional annual cost will be between £265,000 and £401,000 by 2019/20.

Table 3 Additional cost of a full disregard for War Disablement Pension

Year	Low cost scenario	High cost scenario
2017/18	£299,994	£379,810
2018/19	£282,188	£390,065
2019/20	£265,439	£400,597

It is important to note that the data we have relied on to make these estimates is limited and we have needed to make a number of assumptions to make these estimates. The assumptions are set out in the report. There is scope for the actual outturn costs to vary about these estimates quite considerably, though the low estimated number of individuals likely to be in receipt of both WDP and LA care and support limits the likely extent of additional cost.

Reflections

The assessments in this report have been undertaken over a very short space of time. A longer time period for the analysis would have allowed for improvements in the data used as a basis for the analysis, by enabling access to Wales-specific data from the Wealth and Assets Survey and by allowing more time for local authorities to respond to the survey questions and for interactions with the local authorities in order to check and validate their responses.

These additional data would have improved the quality of our projections of the expenditure impacts of the proposed changes. Nevertheless, since this exercise is about anticipating the future, a large number of uncertainties would remain, even with this higher quality baseline data. The description of our analysis refers to these uncertainties and to the assumptions that we have made in the analysis.

The uncertainties suggest that it could be useful to undertake future regular monitoring of the numbers of users who are affected by the policy changes. This could take the form of a short annual questionnaire for completion by local authorities. This should be agreed with them in advance in order to allow them time to plan to collect and collate the information necessary to complete the questionnaire.

1 Introduction

The Welsh Government has taken a range of actions over a number of years to move towards reform of the way care and support recipients, in both residential and non-residential settings, pay for care received. The main aim has been to make the system fairer and more sustainable for the future. These actions have included:

- A consultation paper on paying for care;
- Establishment of a paying for care stakeholder advisory group;
- The introduction in April 2011 of a weekly maximum local authority charge for non-residential care and support. This maximum charge was initially £50/week and has since increased to £55/week and is currently £60/week (since April 2015);
- Commissioning of previous research from LE Wales on the impacts of potential options for reform.

The Welsh Government has since announced its intention to introduce further reforms. The two main reforms are:

- 1) To increase the capital limit used to determine whether a person self-funds the full cost of their residential care, or whether they receive financial support towards this from their local authority, from £24,000 to £50,000. This is one of the Welsh Government's top six "Taking Wales Forward" commitments and the change is to take place during the current Assembly, though no specific commitments on timescales have been given;
- 2) Another "Taking Wales Forward" commitment (not one of the top six) was to introduce from April 2017 a full disregard of the War Disablement Pension (WDP) in financial assessments for charging for social care and support. This change will ensure veterans in receipt of a WDP will not be required to use any of their WDP to pay for the cost of their care. Currently there is a minimum disregard of £25 per week in Wales, though some Welsh local authorities already offer a full disregard.

The main aims of this research are to collect and analyse the relevant data in order to assess the impacts of these reforms on public expenditure. The objectives of the research, as set out in the tender specification, are as follows:

- to produce the evidence, analysis, options, costings and assessment of these necessary to enable the Client to make informed judgements about how to implement the changes it plans.

To do this the researchers will need to:

- establish a robust evidence base of key data which impact on the aspects of paying for social care affected by the changes planned. While we recognise the difficulties involved in forecasting, the evidence base should include some commentary on future trends as these affect these aspects. The evidence base would include, for example, data on population, levels of disability and future care needs (including those for carers), property values and ownership, savings levels, pension and benefit levels, and other relevant factors;

- undertake a detailed analysis of this evidence to enable the Client to understand the relationship between these factors and the changes planned, including identifying the issues which could lead to unintended consequences and the effect of these;
- devise costed options for implementation (with a clear method for estimating costs) that would achieve the Client's planned changes that are sustainable, straightforward and which would build on the current maximum charge introduced in relation to charging for non-residential care. These options should be able to be implemented independently of each other, or implemented in a package of actions. Where it is the latter, the net effect of implementing a combined package of actions should be provided.

2 Lifting the capital limit for residential care

Box 1: Lifting the capital limit for residential care and support

Current policy

The current capital limit for residential care and support is £24,000, including both housing and non-housing assets (housing assets are disregarded if a qualifying relative lives there).

Proposed reform

The Welsh Government has committed to uplift the capital limit applied in residential care charging from £24,000 to £50,000. No commitment has been made on whether the change will be implemented in one step or incrementally (in multiple steps). For the purposes of this analysis we plan to estimate the effect of the reform under the assumption that changes will be implemented in two alternative ways:

- In three different steps, rising to £30,000 in April 2017, then to £40,000 in April 2018 and £50,000 in April 2019 or
- In one step in April 2017 (rising to £50,000)

We have also produced comparable estimates under the assumption that changes are implemented from April 2018 (rather than April 2017). Results are shown in Annex 2.

2.1 Methodology

2.1.1 Data

To estimate the impact of the proposed changes we have used information from a combination of data sources:

- Administrative information returned by Welsh local authorities and published on **StatsWales** on the number of adult residential care recipients (latest available information from 2014/15);
- Administrative information returned by Welsh local authorities and published on **StatsWales** on revenue and expenditure on adult social care and support (latest available information from 2014/15);
- Information on residential care fees (collected from local authorities for 2015/16), characteristics of residential care recipients and length of stay in residential care from **local authorities** (detailed data on the characteristics of care recipients was collected in a previous survey);
- Information from the **Census 2011** on individuals in residential care settings (including health and disability status);
- Data on number and type of places and settings for Adult Residential Care Homes in Wales from the **CSSIW** (the Care and Social Services Inspectorate Wales ¹);

¹ The CSSIW is the regulator for social care and support in Wales and regulates care homes for adults, including those providing nursing care.

- Data from national surveys enquiring about income and wealth (**Family Resources Survey** and **Wealth and Assets Survey**);
- Information on occupancy rates in Welsh care homes (using the 2015 Knight and Frank Care Homes Trading Performance Review)²;
- Care home fees for self-funders in Wales (regional averages estimated by Laing and Buisson³)
- Information on trends in residential care home fees from the Centre of Economics and Business Research (Cebr) published by Killik & Co⁴;
- Information on the overall number of individuals in receipt of the nursing contribution from the Wales Audit Office⁵(reporting information from local health boards);
- ONS' population and partnership data and projections;
- Information on prices (HPI and CPI);
- Other relevant data (e.g. ONS' information on the distribution of housing values);

All data has been modelled separately for the four different age groups (18-64, 65-74, 75-84 and 85+), by gender and marital status and by type of residential care received (standard residential care and residential care with a nursing component).

2.1.2 Model logic

Information from the various data sources has been combined and inputted in the LE Wales Care Funding model for residential care. The model projects the number of care recipients living in residential care settings and associated public expenditure.

To determine the characteristics of care recipients by age band, gender, marital status, housing tenure and asset value (before entering residential care) we combined information on the number of publicly funded care recipients and on self-funders with information gathered in the 2011 Census on residents in communal establishments (by type of establishment, age, gender and disability status). The proportion of home owners, the value of housing and non-housing wealth and income levels were gathered through the Family Resources Survey (which also provides information on disability type), while we only had access to a version of the Wealth and Assets Survey (providing more detailed and accurate information on assets and wealth) without any geographical breakdown.

The population receiving residential care was broken down into cells and then the number of care recipients was projected forward using the ONS' population and marital status projections. The additional number of self-funders receiving Local Authority support under the proposed changes

² <http://content.knightfrank.com/research/548/documents/en/2015-3267.pdf>

³ Available at <http://www.payingforcare.org/>

⁴ <https://www.killik.com/services-and-products/secure-life/planning-for-long-term-care>

⁵ https://www.wao.gov.uk/system/files/publications/Continuing_healthcare_Follow_up_report_ENG.pdf

and associated additional expenditure was estimated using information on their wealth, income, marital status, disability status and personal and other characteristics.⁶

In the box below we recap the main simplifying assumptions used in the LE Wales Care Funding model:

Box 2: Main assumptions on future trends used in the LE Wales Care Funding model

- Population by age and gender changes in line with the ONS' 2014 based-population projections for Wales;
- Marital and partnership status changes in line with the ONS' 2008-based marital status projections;
- For single people the ratio of those living alone and those living with others remain constant over time;
- Personal income and wealth grow at 2% per annum over the three years considered in the model⁷;
- Residential care costs grow by 2.7% per annum over the three year period considered. The figure reflects the median growth rate in Local Authority fees for residential care clients observed between 2013/14 and 2015/16 (see Table 4);
- Underlying income from clients increase at a 2% per annum rate, while income from other sources increase at the same pace of care costs (2.7%)⁸;
- Individual lifestyle patterns and the number of healthy years remain similar to current trends and are not affected by future policy changes (e.g. change in the state pension age);
- The cells were broken down by age band, gender, household type, disability status and housing tenure and then projected over the three year period. The proportion of the population receiving care over the three year period was adjusted assuming that recent trends in the proportion of care recipients observed between 2011 and 2015 will continue at the same pace over the next three years (by age band and type of care, see Table 5);
- Home ownership rates and disability prevalence are assumed to remain constant by age band, gender and household type;
- Supply of care and support accommodates demand;
- There are no positive or negative shocks affecting demand and supply of care and support (e.g. change in tastes, technological advances).

⁶ Further details on our approach to estimating the numbers of self-funders are given in **Error! Reference source not found..**

⁷ The trend broadly reflects recent trends in household income and savings, see for example "Gross income of retired households by component, 1977 to 2014/15" at <http://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2015/pdf> and "Main results from the Wealth and Assets Survey: July 2012 to June 2014" http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/dcp171776_428683.pdf, both from the ONS.

⁸ The model also reflects the fact that self-funders will lose their entitlement to Attendance Allowance if they move to local authority funded care and support

In the tables below we present summary figures of Local Authority fees for residential care and support, and the recent trends observed in the number of people receiving residential care and support through their Local Authority.

Table 4 Summary statistics of LA residential care fees

Per week	Residential accommodation Standard	Older People Residential 'Very Dependent Elderly' (VDE)	'Elderly mentally infirm' (EMI) Residential	Nursing	EMI Nursing
Min	£456.84	£456.84	£489.89	£467.40	£483.93
Median	£510.00	£511.00	£547.00	£546.27	£573.58
Max	£571.18	£590.00	£615.00	£669.36	£682.98
Average (unweighted)	£511.35	£515.59	£551.70	£540.64	£577.14
Number of LAs covered in 2016/17	21	21	21	19	19
Median annualised change (2013/14 to 2016/17)	2.9%	2.5%	2.8%	2.8%	2.7%

Note: Based on LA surveys from 2014 and 2016. Statistics are based on latest year available. 'Median % change between 2016/17 and 2013/14' based on a subset of LAs which responded to both surveys. For some Local Authorities the figures were gathered from their websites. Some local authorities do not apply different levels of contribution for standard residential care and VDE (the same rate was reported twice in the table).

Source: LE Wales' summary of LA survey data

Table 5 Trends in residential care recipients supported by their Local Authority

	Aged 18-64	Aged 65-74	Aged 75-84	Aged 85+	Total
Absolute number of residential care recipients in Wales					
2011	1884	1345	3674	7028	13931
2012	1923	1306	3585	7159	13973
2013	1976	1362	3507	6909	13754
2014	1951	1421	3550	6770	13692
2015	1975	1415	3495	6395	13280
Average annual change in recipients	1.2%	1.3%	-1.2%	-2.3%	-1.2%
Number of residential care recipients as a proportion of the Welsh population in each age band					
2011	0.10%	0.44%	1.95%	9.3%	0.6%
2012	0.10%	0.41%	1.88%	9.3%	0.6%
2013	0.11%	0.41%	1.81%	8.9%	0.6%
2014	0.11%	0.42%	1.80%	8.6%	0.6%
2015	0.11%	0.41%	1.75%	8.1%	0.5%
Average annual change in recipients as a % of the relevant age band	1.4%	-2.1%	-2.7%	-3.6%	-1.6%

Source: LE Wales' based on StatsWales and ONS population estimates and projections

2.2 Results

The model has generated the following outputs:

- Baseline projections of the number of LA supported clients and self-funders for the period 2017/18-2019/20;

- Projections on the number of new LA supported clients under the two alternative reform implementations (in three different steps or one step);
- The proportion of self-funders was estimated at 25.5% for residential care and 21.4% for care homes with nursing⁹;
- Estimates of gross expenditure and income from clients for the baseline and two reform scenarios;
- Estimates of the additional net expenditure needed to implement the two reform scenarios compared with the baseline scenario;
- In **Error! Reference source not found.** we show comparable estimates assuming changes are implemented from April 2018 (rather than April 2017);
- In all cases the additional expenditure (and number of individuals affected by changes) is estimated compared to the existing policy (capital limit of £24,000);
- The figures for additional expenditure in Option 1 are always compared to the baseline figure (no policy changes), although individuals covered by the reform in year 1 do not experience any further changes in year 2 and 3 and no additional expenditure is incurred compared to year 1 (other than that driven by common trends in demographics and costs);
- Similarly in option 2 all estimates are presented for 3 years after the policy change compared to the baseline scenario, although there is no further policy implementation in year 2 and 3;

Baseline expenditure on residential care in Wales and the additional net costs of the two options for introducing the increased capital limit (Option 1 – Phased increase to £50k over 3 years from April 2017; Option 2 – introduction of full increase to £50k in April 2017) are shown in the table below.

Where the increase in the capital limit is phased in over three years (£30,000 in 2017/18; £40,000 in 2018/19; and £50,000 in 2019/20) the additional public expenditure in the first year is **£4.5m** rising to **£19.4m** by the third year.

When the increase in the capital limit to £50k is introduced in the first year, the additional public expenditure in that year is **£18.4m**, rising to **£19.4m** by the third year.

In both cases, this additional public expenditure is locked in to future years spending whilst the new policy remains in place (compared to the situation where the policy is not introduced). Actual expenditure in those future years will also be influenced by demographic and other changes, such as cost inflation etc. These trends have a common effect on individuals covered by the existing policy and those affected by the reform.

⁹ Further details on our approach to estimating the numbers of self-funders are given in **Error! Reference source not found.**

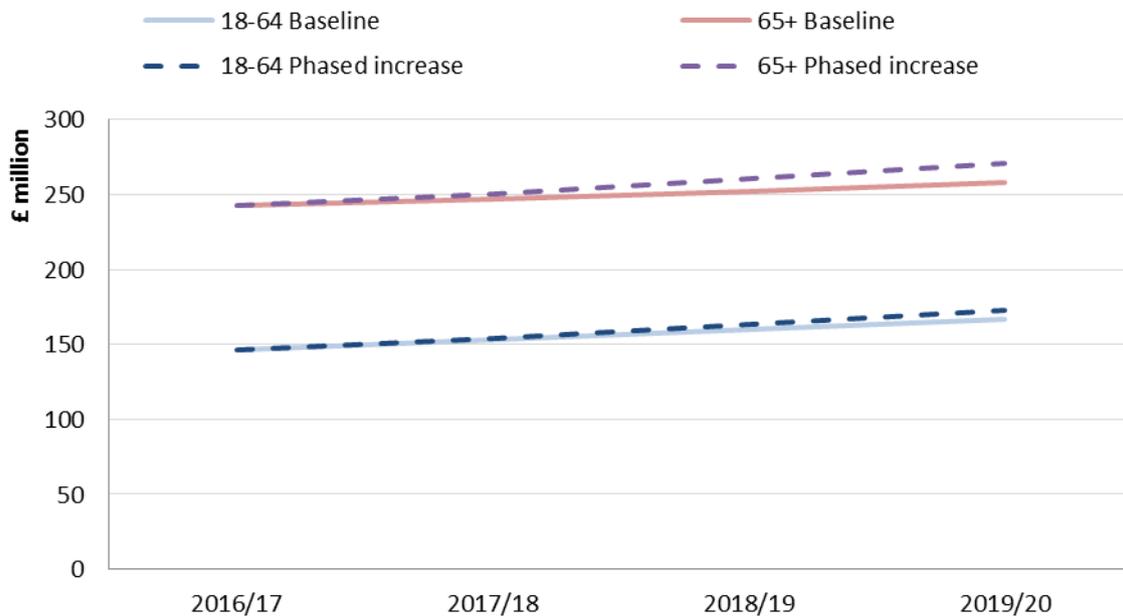
Table 6 Baseline and additional net expenditure under the proposed options

Year	Baseline Scenario Total net expenditure (£thousand)	Option 1: Phased Increase Additional net expenditure (£thousand)	Option 2: One step increase Additional net expenditure (£thousand)
2017/18	£400,105	£4,528	£18,356
2018/19	£412,024	£11,503	£18,865*
2019/20	£424,574	£19,398	£19,398*

Note: Option 1 is based on a phased increase of the capital limit, rising to £30,000 in 2017/18, £40,000 in 2018/19 and £50,000 in 2019/20. Option 2 is based on a one-step increase of the capital limit rising to £50,000 in 2017/18. The latest available figure published on StatsWales for total net expenditure is £368,946 in 2014/15. Expenditure figures presented in the table are in nominal terms – for example, expenditure in 2018/19 is presented in 2018/19 prices and expenditure in 2019/20 is presented in 2019/20 prices. *Additional increases in cost after the first year are driven by demographic and other changes, such as cost inflation etc.

Source: LE Wales' estimates

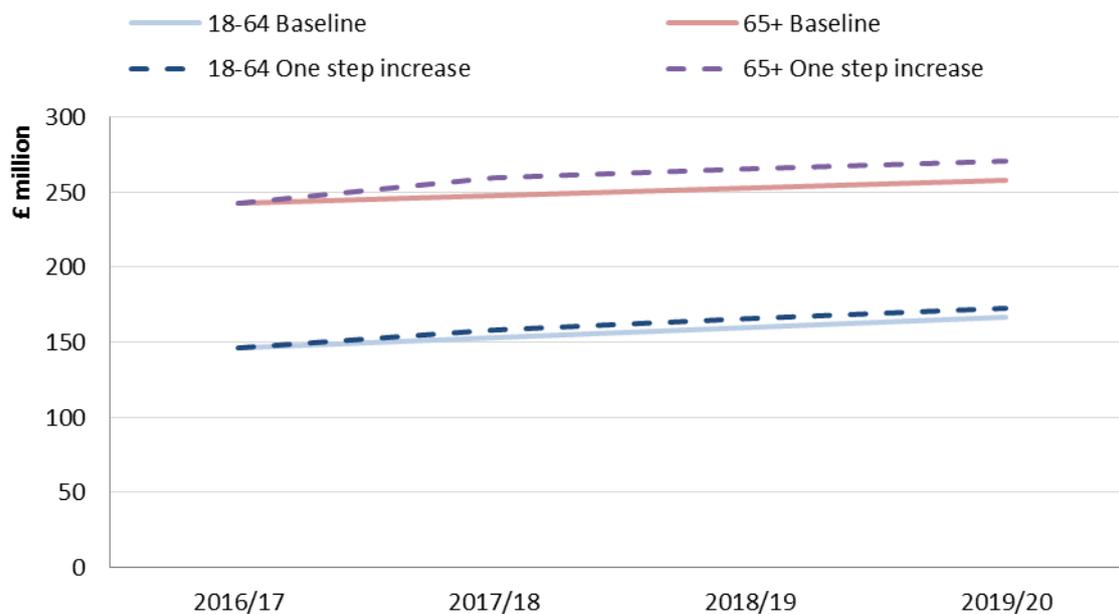
The increases in public expenditure for Option 1 (phased increase) disaggregated by age band are shown in the Figure below

Figure 1: Annual increase in net public expenditure on residential care and support – Option 1

Note: Option 1 is based on a phased increase of the capital limit, rising to £30,000 in 2017/18, £40,000 in 2018/19 and £50,000 in 2019/20

Source: LE Wales' estimates

The increases in public expenditure for Option 2 (one step increase) disaggregated by age band are presented in the figure below

Figure 2: Annual increase in net public expenditure on residential care and support – Option 2

Note: Option 2 is based on a one-step increase of the capital limit rising to £50,000 in 2017/18.

Source: LE Wales' estimates

2.3 Caveats

- Clearly all projections are associated with uncertainty on future trends on care needs, number of care recipients, income and expenditure (care costs) etc.
- While the number of local authority supported clients is known through data collected from local authorities, the number of self-funders and their characteristics is derived indirectly from a variety of data sources.
- There is very little information about residential care recipients aged between 18 and 64. The data used in the model mainly refers to the older age group and have been extended to the younger age group. However the two groups are likely to be significantly different as the younger age group is mostly made of recipients with learning disability (slightly more than 50%), while the older age group is mainly made of individuals with physical and sensory disability / frailty (67%). The main information available specifically related to care recipients in the younger age group is the number of individuals receiving residential care and support (from StatsWales, 1975 at 31st March 2015) and the number of places regulated by the CSSIW (around 3,500).
- We did not have access to the version of the Wealth and Assets Survey (WAS) with geographical breakdown¹⁰. Also the WAS does not enquire about disability conditions (but only health conditions).

¹⁰ Although we have applied for access to the Special License version of the WAS providing information on region of residence we have not been able to access the dataset as the process normally takes from 4 to 6 weeks. Access to this version of the WAS would have given us data about ownership of financial and non-

- The Family Resources Survey (FRS) was used in the analysis. The FRS contains detailed information on disability, but has a series of limitations on data on assets and savings:
 - There is a screening question on savings to allocate respondents into bands, then detailed question are only asked to those with savings between £1,500 and £20,000;
 - Questions on housing assets are only asked when the respondent is buying the accommodation with the help of a mortgage. For those owning the accommodation outright only information on the property characteristics are available (e.g. accommodation type, number of bedrooms, council tax band);
 - In the FRS there is no information on properties other than the main residence;
 - In order to produce the statistics used in the model, imputation techniques were used to fill in the gaps in the data. The resulting distribution were cross-checked against (aggregate) data available in the WAS when possible;
 - Given the small cell sizes available when disaggregating, we used figures for Wales and selected English regions not too dissimilar from Wales in terms of income and wealth distribution¹¹;

financial assets in Wales. The Family Resources Survey provides relatively poor information on assets and so access to this data may have improved our expenditure estimates.

¹¹ The North East, the North West, Yorkshire and the Humber, East Midlands and West Midlands

3 Full disregard of the War Disablement Pension

Box 3: Full disregard of War Disablement Pension

Current policy

There is currently a partial disregard for the War Disablement Pension for both residential and non-residential care and support. The disregard set by the Welsh Government stood at £10 per week before April 2016 and then increased to £25 per week from April 2016. However some local authorities already apply a full disregard for War Disablement Pension at least for non-residential care and support (7 LAs reported that they applied a full disregard). The War Disablement Pension is closed to new recipients.

Proposed reform

The Welsh Government has committed to introduce a full disregard of this pension in the financial assessment for all forms of social care and support charging from April 2017.

3.1 Non-residential care

3.1.1 Methodology

Data

Survey of Local Authorities

The War Disablement Pension can be paid at different rates according to factors such as rank, age and disability assessment. According to Ministry of Defence data¹², **6,525 veterans** in receipt of the War Disablement Pension were located in one of the 22 Welsh Local Authorities as at 31st March 2015. Although data on the total number of people receiving War Disablement Pension in Wales is available from the Ministry of Defence, no official information on the number of individuals in receipt of both War Disablement Pension and local authority care and support in Wales is currently published.

To fill in this data gap, we attempted to collect the necessary information directly from the Welsh local authorities via a rapid targeted survey disseminated by the Welsh Government. The 14 local authorities providing the numbers of WDP recipients reported a total of **46** individuals with WDP currently in receipt of non-residential care and support. The figure was grossed up to the national level (using the number of WDP recipients living in each local authority published by the Ministry of Defence) resulting in an estimated **66** WDP recipients currently receiving care and support in Wales.

The **information gathered** from Local Authorities on WDP-receiving non-residential care recipients covered:

- information on the weekly amount of the WDP disregarded by the Local Authority (either £25, i.e. the current minimum weekly disregard, or 100% of the WDP).

¹² Available at: <https://www.gov.uk/government/statistics/location-of-armed-forces-pension-and-compensation-recipients>

- number of care recipients also receiving War Disablement Pension, broken down by age group (age 18-64 and age 65+);
- average weekly non-residential care charge for care recipients in receipt of WDP;
- average weekly cost of care and support to the Local Authority for care recipients in receipt of WDP (before charges are recovered from the care recipient); and
- average weekly level of WDP for existing care recipients (as reported in the financial assessment before any disregard is applied).

Of the 16 LAs that **returned responses**, 14 were able to provide details on the number of recipients they have in non-residential care, for the respective age group (18-64 and 65+), while two provided information on the amount of WDP currently disregarded in their financial assessment for non-residential care recipients, but were unable to provide the number of WDP recipients receiving care and support..

Other data

Other data used to model the impact of the War Disablement Pension disregard in the financial assessment for non-residential care recipients included:

- Ministry of Defence data on number of War Disablement Pension recipients in Wales in 2015, broken down by Local Authority;
- Ministry of Defence data on number of War Disablement Pension recipients in Wales over time (2010-2016); and
- Ministry of Defence data on the inflow and outflow of War Disablement Pension recipients in the UK (2011-2016).

Model logic

We have made use of the variation across local authorities in the income disregards applied: some local authorities (7 in total) already apply a full disregard for War Disablement Pension¹³, while the remaining local authorities apply a £25 weekly disregard.

The initially proposed model logic was to apply the average expenditure and income from care recipients who also receive War Disablement Pension in the LAs currently applying a full disregard, to produce a national estimate for the full disregard scenario in 2016/17. However, the low number of fully disregarding authorities which answered the survey and the fact that survey responses exhibited a very large variation in individual levels of WDP, care costs and total income recovered, made this approach not sufficiently reliable.

Instead, we produced two estimates for the baseline year 2016/17 – a “high cost scenario” and a “low cost scenario”.

¹³ Of the 7 LAs which are known to currently apply a 100% WDP disregard in their non-residential care assessment, 4 answered the survey and 3 provided detailed data on costs, charges and WDP levels.

High cost scenario

The high cost scenario estimation of the additional cost of applying a full WDP disregard in the baseline year made use of the following intermediate estimations and assumptions:

- 1) We estimated the **number of WDP recipients using non-residential care and support** in Local Authorities where we did not receive information through the survey. We did so by assuming that the ratio of number of non-residential care recipients with WDP in all WDP recipients in these LAs was the same as the respective ratio in LAs where we received detailed data. Based on the 46 non-residential care recipients with WDP for whom we received information through the LA survey, we estimated that in all of Wales there were a total of **66 non-residential care recipients with WDP**.
- 2) **Loss of income:** This scenario assumes that LAs which responded to the survey and which apply a £25/week disregard will lose all income which they currently recover from recipients of non-residential care and support with WDP. This is therefore the additional cost of disregarding the War Disablement Pension in the financial assessment of non-residential care recipients in these LAs.
This is a strong assumption which does not necessarily reflect what would happen when the WDP is fully disregarded, but does reflect the worst case of all income currently recovered coming from the WDP. For those LAs which already apply a 100% WDP disregard, there will be no additional income loss due to the option implementation.
- 3) For LAs which currently apply a £25/week disregard to WDP income but for which we did not receive care cost and recovered income data, we assumed the “loss per non-residential care recipient” to be the same as the average for LAs currently applying a £25 WDP disregard for which we have data, i.e. **£24.30** per week.
- 4) The total additional net weekly public cost of the WDP disregard was estimated as the sum of all LA’s additional net weekly costs, and the annual additional cost was estimated by multiplying the average weekly additional cost by 52.
- 5) **Future projections:** The “high cost scenario” assumes that over the next 5 years, the additional cost of the option will grow at a constant 2.7%¹⁴, to reflect a potentially growing cost of care for war veterans. This is a strong assumption given the fact that the WDP is no longer available to new applicants and the number of WDP recipients has been following a declining trend. Nevertheless, there are a large number of individuals in Wales who received WDP but do not use local authority care and support services (only around 2% of WDP recipients in Wales are currently receiving care and support) and so it reflects the possibility that some of those individuals might start experiencing increasing non-residential care needs as they grow older.

Low cost scenario

- 1) We estimated the number of non-residential care recipients also receiving WDP in Local Authorities where we did not receive information through the survey in the same way as in the “high cost scenario”.

¹⁴ This is the same as our assumption for the general annual increase in care and support costs in the LE Wales Care Funding Model. It is an illustrative assumption, not directly linked to the potential increase in numbers of people who both receive WDP and local authority care and support services.

- 2) **Additional cost:** This scenario assumes that LAs which responded to the survey and which apply a £25/week disregard will start having the **same recovery rate** (i.e. income recovered as % of cost of care) as the fully disregarding LAs for which we currently have information. The additional cost from fully disregarding the War Disablement Pension from the financial assessment is therefore the difference between the recovery rate under the “full disregard” scenario and the current recovery rate for these LAs.
- 3) The above approach results in an additional cost per care recipient at the level of **£4.30**. For LAs which currently apply a £25/week disregard to WDP income but for which we did not receive care cost and recovered income data, we assumed the additional cost per care recipient to be the same, i.e. £4.30.
- 4) The total additional net weekly public cost of the WDP disregard was estimated as the sum of all LA’s additional net weekly costs, and the annual additional cost was estimated by multiplying the average weekly additional cost by 52.
- 5) **Future projections:** The “low cost scenario” assumes that over the next 3 years, the additional cost of the option will decline at a 5.9% rate¹⁵. This decline rate takes into account the fact that there will be no new WDP recipients, and therefore there will only be an outflow of WPD recipients. Unlike the high cost scenario, this approach assumes that the care recipients who also receive War Disablement Pension will decline over time with the same rate.

3.1.2 Results

The estimates of the additional costs that local authorities are likely to incur as a consequence of the proposed changes, taking into account that some local authorities already provide a full disregard for War Disablement Pension, are presented for both of the scenarios considered in Table 7 below:

Table 7 Additional cost to the public purse compared to baseline – non-residential care, all Wales

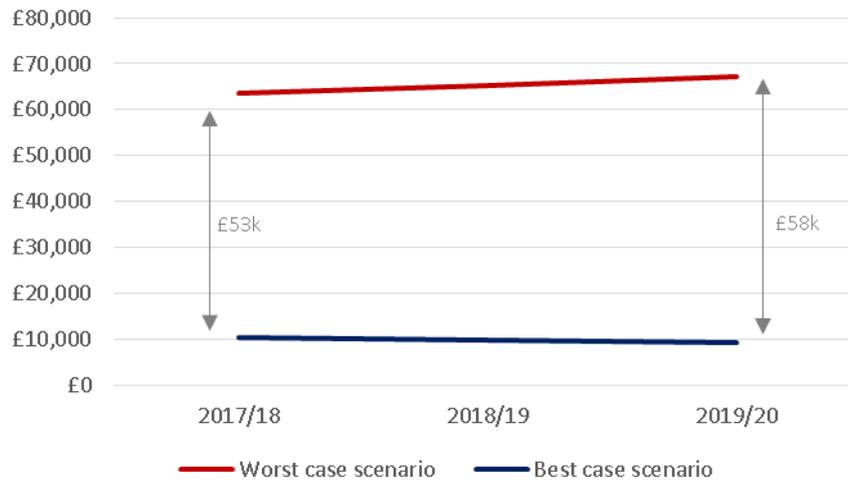
Year	Low cost scenario	High cost scenario
2017/18	£10,379	£63,608
2018/19	£9,763	£65,325
2019/20	£9,183	£67,089

Source: LE Wales’ calculations based on a survey of local authorities and MoD data

Figure 3: draws a comparison of the estimates under the two scenarios and the deviation of costs under these over time. In the first year, the difference in the estimated additional cost is c. £53,000, whereas by the financial year of 2019/20, this difference grows to £58,000. Despite the fact that these differences are large in percentage terms, they are relatively small in absolute numbers.

¹⁵ Based on the proportion of average ‘outflow during financial year’ as a percentage of WDP recipients stock for the UK (2011-2016). Available from the Ministry of Defence at: <https://www.gov.uk/government/collections/war-pension-recipients-index>

Figure 3: Additional cost to the public purse compared to baseline: Comparison of non-residential care projections



Source: LE Wales' calculations based on a survey of local authorities and MoD data

3.1.3 Caveats and remarks

In addition to the scenario-specific assumptions outline earlier in this chapter, the estimation implicitly assumes no significant differences in the charging structure, the average level of other income and type of non-residential care and support provided to veterans in receipt of the War Disablement Pension. Therefore, given the very small numbers of non-residential recipients with WDP, the large variation in their care costs and income, and the uncertainty of how the care needs of the particular segment of the population which are the War Disablement Pension recipients will evolve over time, there is a level of uncertainty in the provided estimates in terms of percentage deviation from the real data.

However, it has to be emphasised that the number of residential care recipients currently affected by this option of whom we are aware is very small, and the absolute cost of this option as well as the absolute level of deviations from the forecasts are therefore also likely to be relatively small. Currently, there are 10 care recipients in LAs which apply a full WDP disregard and for which we have detailed data. We have estimated that there are c. further 7 care recipients in LAs with full disregard. Therefore, for these 17 individuals, LAs will not experience any additional cost of the option. In LAs which currently apply only a partial £25 disregard and which would therefore be affected by the reform, we have estimated that 13 currently do not pay towards their care and support and therefore will not contribute any less; another 15 currently pay between £0-£60; and 8 pay the maximum weekly charge of £60/week.

Nevertheless, as noted in our high cost scenario above, there are a large number of individuals in Wales who receive WDP but do not use local authority care and support services (only around 2% of WDP recipients in Wales are currently receiving care and support) and so there is a possibility that some of those individuals might start experiencing increasing non-residential care needs as they grow older.

In order to be able to produce more accurate estimates, one would need detailed individual-level information on care costs, income structure and level of WDP received.

3.2 Residential care

3.2.1 Methodology

Data

Survey of Local Authorities

The information gathered from Local Authorities on WDP-granted residential care recipients covered:

- information on the weekly amount of the WDP disregarded by the Local Authority (£25/week in all cases);
- Number of residential care recipients with WDP (by type of care facility – residential care homes and nursing care homes, and age band – 18-64 or 65+);
- Average weekly level of WDP by the care recipients (by type of care facility – residential care homes and nursing care homes, and age band – 18-64 or 65+); and
- Average weekly level of other non-disregarded income of the care recipients (by type of care facility – residential care homes and nursing care homes, and age band – 18-64 or 65+).

All of the 16 Local Authorities responding to the survey provided information on the amount of WDP currently disregarded in their financial assessment for residential care recipients, (£25/week in all cases), and 14 were able to provide information on the number of care recipients they have in residential care, broken down by the type of residential care (in residential care or in nursing care homes, ages 18-64 and 65+).

Model logic

For residential care and support, we used the gathered information on the number of care recipients with War Disablement Pension and their average income (from War Disablement Pension and other sources) as well as cost of care and to estimate the impact of applying a full disregard of the WDP.

In doing so, a number of estimates and assumptions were necessary:

- 1) We estimated the number of residential care recipients with WDP (for each age group) in Local Authorities where we did not receive information through the survey, following the same logic as for non-residential care. Based on the 47 residential care recipients with WDP for which we received information through the LA survey, we estimated that in all of Wales, there were a total of 68 residential care recipients who also receive WDP.
- 2) We then estimated the average weekly level of WDP per residential care recipient in each LA based on the LAs which had provided such information¹⁶, and assumed the average additional cost of disregarding the WDP per care recipient to be the estimated average

¹⁶ 1 LA provided average weekly level of WDP information for care recipients aged 18-64 in residential care homes; 8 LAs provided this information for care recipients aged 65+ in residential care homes; and 7 LAs provided this information for care recipients aged 65+ in nursing care homes. There were no incidents of care recipients aged 18-64 in nursing care homes, therefore the additional cost in this case is estimated to be £0.

weekly level of WDP minus the currently disregarded £25/week (or £0, if this difference is negative).

- 3) The final estimates of the additional weekly cost were derived by uplifting the estimated average weekly cost per care recipient by the estimated number of care recipients, and the annual additional cost was estimated by multiplying the average weekly additional cost by 52.
- 4) As for non-residential care, the projections of additional costs stemming from the introduction of WDP disregard in residential care assessment over a 3-year horizon were calculated under two scenarios:
 - a. high cost scenario: assumes that over the next 3 years, the additional cost of the option will grow at a constant 2.7%, to reflect a potentially growing cost of care for war veterans; and
 - b. low cost scenario: which assumes that over the next 3 years, the additional cost of the option will decline at a 5.9% rate¹⁷.

3.2.2 Results

The additional costs that local authorities are likely to incur as a consequence of the proposed changes:

Table 8 Additional cost to the public purse compared to baseline – residential care, all Wales

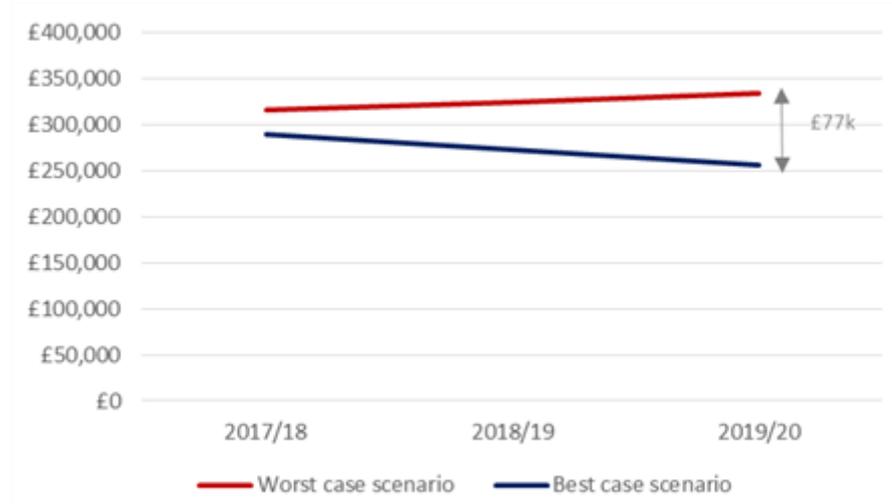
Year	Low cost scenario	High cost scenario
2017/18	£289,615	£316,202
2018/19	£272,425	£324,740
2019/20	£256,256	£333,508

Source: LE Wales' calculations based on a survey of Welsh local authorities and MoD data

Figure 4: compares the estimates under the two scenarios and illustrates the difference in costs of these over time. In the first year, the estimated additional cost is £27,000, whereas by the financial year of 2019/20, this difference grows to c. £77,000.

¹⁷ Based on the proportion of average 'outflow during financial year' as a percentage of WDP recipients stock for the UK (2011-2016). Available from the Ministry of Defence at: <https://www.gov.uk/government/collections/war-pension-recipients-index>

Figure 4: Total additional cost to the public purse compared to baseline: Comparison of residential care projections



Source: LE Wales' calculations based on a survey of local authorities and MoD data

3.2.3 Caveats

This approach implicitly assumes no significant differences in the charging structure, the average level of other income and type of care and support received by care recipients with War Disablement Pension. Moreover, it assumes that the residential care and nursing care recipients will follow common trends in care needs. Last but not least, we have assumed that the WDP disregard will directly impact on the amount of income which can be recovered from residential care customers, and will have no spill-over effects on the charges for self-funding residential care customers.

4 Reflections

The assessments in this report - of the public expenditure impacts of increasing the capital allowance from £24,000 to £50,000 and of applying a full disregard for the War Disablement Pension - have been undertaken over a very short space of time. A longer time period for the analysis would have allowed for improvements in the data used as a basis for the analysis, in two principal respects:

- Enabling access to Wales-specific data from the Wealth and Assets Survey. For the assessment of the impact of increasing the capital limit we made use of the Family Resources Survey as a key data source, though this has relatively limited information on assets. With more time, it would have been possible to supplement this with Welsh data on financial and non-financial assets from the Wealth and Assets Survey.
- Allowing more time for local authorities to respond to the survey questions and for interactions with the local authorities in order to check and validate their responses and to understand their perspective on the financial implications of the proposed policy changes. In particular this might have improved the quality of the data used for the analysis of the War Disablement Pension changes.

These additional data would have improved the quality of our projections of the expenditure impacts of the proposed changes. Nevertheless, since this exercise is about anticipating the future, a large number of uncertainties would remain, even with this higher quality baseline data. The description of our analysis refers to these uncertainties and to the assumptions that we have made in the analysis.

The uncertainties suggest that it could be useful to undertake future regular monitoring of the numbers of users who are affected by the policy changes. This could take the form of a short annual questionnaire for completion by local authorities. This should be agreed with them in advance in order to allow them time to plan to collect and collate the information necessary to complete the questionnaire.

The paying for care calculations that we have made on this occasion, and previously, rely on data from UK national statistical sources (such as the Family Resources Survey), combined with Welsh administrative data on care and care recipients, for information about the characteristics of care recipients in Wales. A large number of assumptions need to be made about the relationships between care recipients' finances and their care needs. Each local authority, however, has much more accurate and detailed data about care recipients and their financial and other characteristics, which is largely unused in these exercises. In order for this type of detailed data to be useful for an all Wales care funding model it would need to be collected and collated electronically in a consistent way across all Welsh local authorities. Making this happen would be a very significant exercise.

Annex 1 Estimating the number of self-funders

There is no official information available on the number of self-funders in residential care homes. The number of self-funders was estimated using information from a variety of data sources and the methodology used differs for residents in receipt of the nursing care component.

Residents in care homes not receiving the nursing component

To estimate the number of self-funders in residential care homes not receiving the nursing component we used the following information:

- Number of LA supported care recipients in independent sector care homes under contract at 31st March 2015 (available from StatsWales)
- Overall number of adult residential places in March 2015 (from CSSIW and published by StatsWales);
- Number of adult residential places in care homes with no nursing component (information received in August 2016 from the CSSIW Business Support System);
- All figures were adjusted to match the total number of adult residential places in March 2015;
- The number of occupied beds in independent sector care homes was determined as the overall number of beds available in the independent sector adjusted by the occupancy rate for Wales (published by Knight and Frank, 2015).
- Information from StatsWales on LA supported care recipients in independent sector care homes under contract was used to determine the number of beds occupied by LA supported clients.
- The remaining number of places represent the estimate of self-funding residents (25.1% of the total - 3,160 out of an estimated 12,596 residents in total in 2015);

Residents in care homes receiving the nursing component

For individuals living in care homes and in receipt of the nursing component we had access to numbers published by the Wales Audit Office and collected from the Welsh Health Boards in 2014:

- The figures are reported separately for Funded Nursing Care recipients and individuals in receipt of Continuing Healthcare (CHC). The latter group are fully funded by the National Health Service and not included in the analysis.
- The total number of FNC clients in March 2014 was 5,229;
- The total number of LA supported care recipients receiving nursing care stood at 4,109 at 31st March 2014 (data from StatsWales), implying that 1,120 were self-funders (21.4% of the total);
- The estimated proportion of self-funders was then applied to determine the number of self-funders in 2015 (1,044);

Estimated number of self-funders benefitting from the proposed changes

The next step was to estimate the number of self-funders affected by the proposed changes under the two alternative options (phased increase and one-step increase). The estimates were based on data from the Family Resources Survey on income and assets, combined with information on length

of stay in care homes provided by local authorities (to correct for survival probabilities at different points in time) and were broken down by age, gender, marital status, disability status and type of care received. Estimates of the number of self-funders affected by the changes (and associated expenditure) capture the difference with the existing policy (capital limit set at £24,000). The additional number of residential care recipients is compared to the baseline (no policy change) in each year, although in option 2 the implementation of the policy is completed in year 1. Similarly in option 1, individuals are affected by changes at different stages, but the figures presented are always compared to the baseline (no policy changes), although some individuals benefit from the reform in year 1 and experience no further changes in year 2. Numbers under the two different options are presented in the table below.

Table 9 Baseline and additional number of recipients receiving residential care and support under the proposed options – from April 2017

Year	Baseline Scenario Total number of residential care recipients	Option 1: Phased Increase Additional number of residential care recipients	Option 2: One step increase Additional number of residential care recipients
2017/18	12,936	252	1,016
2018/19	12,868	616	1,012
2019/20	12,811	1,008	1,008

Note: Total aged 18+. Option 1 is based on a phased increase of the capital limit, rising to £30,000 in 2017/18, £40,000 in 2018/19 and £50,000 in 2019/20. Option 2 is based on a one-step increase of the capital limit rising to £50,000 in 2017/18. The latest available figure published on StatsWales for total number of residential care clients is 13,280 in 2014/15 (1,975 aged 18-64 and 11,305 aged 65+).

Source: LE Wales' estimates

Annex 2 Lifting the capital limit from April 2018

In this section we present the model projections under the assumption that the options are introduced from April 2018 (rather than April 2017). The two options modelled and the assumptions used remain unchanged.

Table 10 Baseline and additional net expenditure under the proposed options – from April 2018

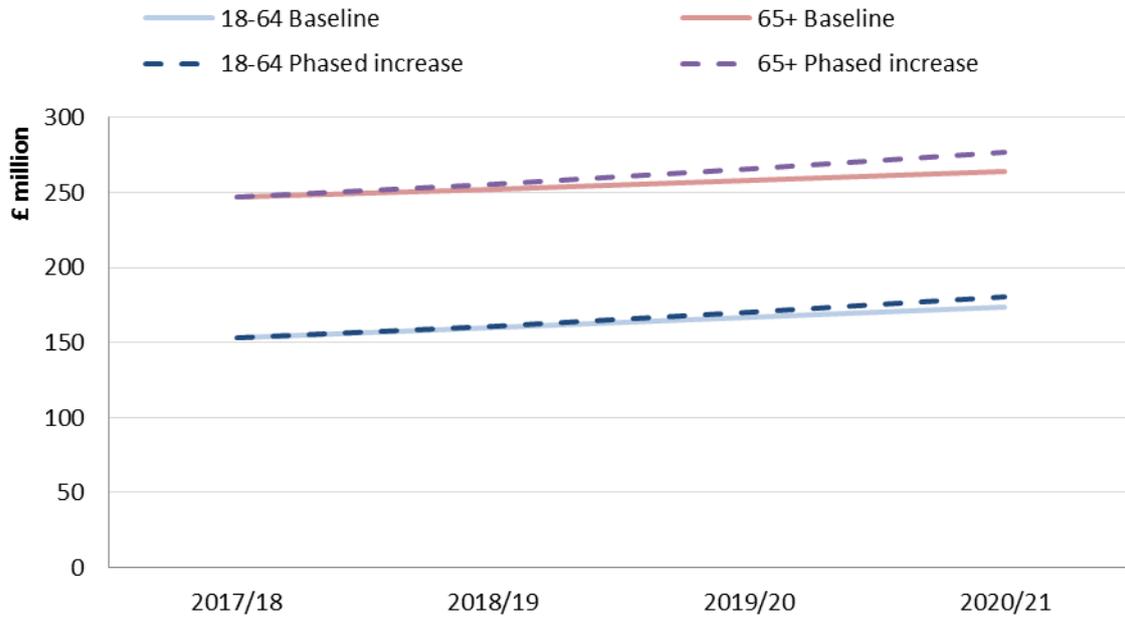
Year	Baseline Scenario Total net expenditure (£thousand)	Option 1: Phased Increase Additional net expenditure (£thousand)	Option 2: One step increase Additional net expenditure (£thousand)
2018/19	£412,024	£4,654	£18,865
2019/20	£424,574	£11,829	£19,398*
2020/21	£437,658	£19,956	£19,956*

Note: Option 1 is based on a phased increase of the capital limit, rising to £30,000 in 2018/19, £40,000 in 2019/20 and £50,000 in 2020/21. Option 2 is based on a one-step increase of the capital limit rising to £50,000 in 2018/19. The latest available figure published on StatsWales for total net expenditure is £368,946 in 2014/15. Expenditure figures presented in the table are in nominal terms – for example, expenditure in 2018/19 is presented in 2018/19 prices and expenditure in 2019/20 is presented in 2019/20 prices. *Additional increases in cost after the first year are driven by demographic and other changes, such as cost inflation etc.

Source: LE Wales' estimates

The increases in public expenditure for Option 1 (phase increase) disaggregated by age band are shown in the Figure below.

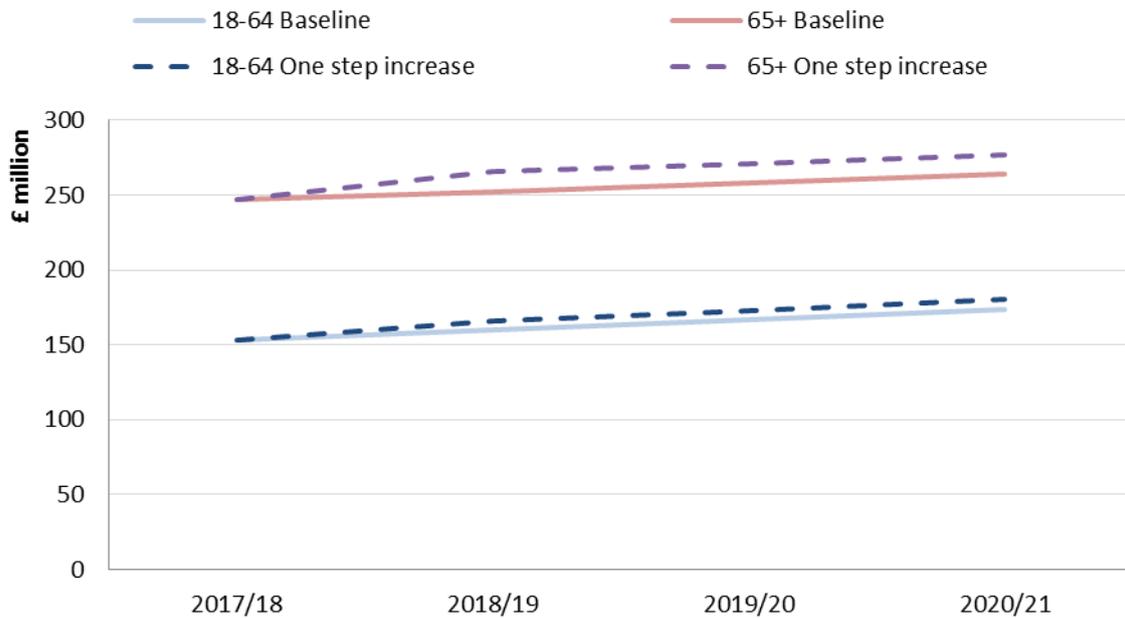
Figure 5: Annual increase in net public expenditure on residential care and support – Option 1



Note: Option 1 is based on a phased increase of the capital limit, rising to £30,000 in 2018/19, £40,000 in 2019/20 and £50,000 in 2020/21.

Source: LE Wales' estimates

Figure 6: Annual increase in net public expenditure on residential care and support – Option 2



Option 2 is based on a one-step increase of the capital limit rising to £50,000 in 2018/19.

Source: LE Wales' estimates



info@le-wales.cymru

le-wales.cymru

[@LE_Wales](https://twitter.com/LE_Wales)

+44 (0)29 2066 0250