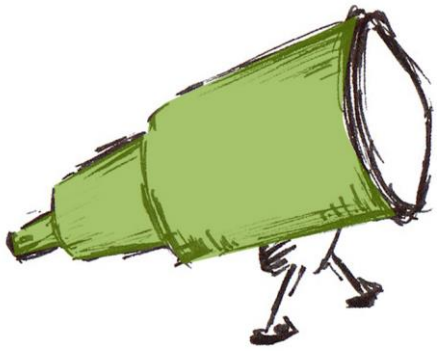
Quality of Care

Helping Care Homes Succeed

6 Steps To Make Your Care Business Financially Secure

Make Sure Your Care Business is ready for the Year Ahead and Beyond.

Christopher Briggs



Quality of Care

Helping Care Homes Succeed

6 Steps to Make Your Care Business Financially Secure

Dear Care Provider

Your costs are increasing beyond anything anyone, including the Bank of England, has predicted.

Inflation has increased by 5.5% in the year to January 2022 primarily because the world started opening up again after two years of lockdown. Domestic gas prices increased by 28% and electricity by 19%

Update: In the year to February, inflation rose by 6.2%. That's how quickly prices are rising and yesterday Rishi Sunak in his Spring Statement stated that it would average 7.4% this year.

In February Ofgem announced the domestic energy price gap increase of 54% that will take place in April.

At the time the Bank of England forecasted that inflation would increase to around 7.5% before a slow decline from the 2nd half of 2022 through to 2024 just to get back to 2021 levels.

And then Russia invaded Ukraine and those predictions have been blown out of the water. And no-one can predict what is going to happen.

All we can say now is that costs are going to continue to rise and already the rise in fuel has reached record levels having increased by around 40% in the last 12 months.

As a care provider you need to stay on top of your costs so that you make sure that you generate enough income to sustain your business and deliver the care your clients need.

So, how do you predict what your cost rises will be in the coming year? A blanket, finger-in-the-air guess of say 10% isn't good enough. If you need to increase your prices then you need to be ready to have a solid, detailed justification for your cost rises and not a weak overall guess at what you think it will be.

You need to show that you've thought this through.

For the sake of your care business, you need to know, as far as you can in these uncertain times, that you have set an increase that will cover you if possible for the year ahead. And you should establish a way of doing this more regularly in case you find that reviewing your costs once a year is no longer viable.

You need to get this right for the financial health of your care business and you need to be able to present a strong argument to those who want to pay you less than you need.

Of course, your referrers - your local authorities and CCGs - know that costs have risen but it hasn't stopped them announcing uplifts below 5%. As I write this, one council has given a 2-week consultation period for care providers to *prove* that they need more than the 4.7% uplift the council has announced. And that's for care homes, home care is more like 2.4%.

The bottom line is that you need to know your costs - this guide will help you do just that. Follow the steps I set out here and you will know how to make sure your care business is financially strong enough to ride this storm we're in.

In this short guide I will take you through the steps needed to forecast your cost rises as accurately as you can.

I will also show you free tools you can download to help you do this, which are the same tools we've been using to do this in our sister company's nursing homes.

Step 1 – Know Your Numbers

Do you know your numbers? By that I mean, do you know your **fixed costs** for the different areas of your care business like utilities, food, consumables, maintenance and training?

And do you know your **staff costs** broken down with your care and nurse (if you have nurses) teams shown separately from other members of staff? **This breakdown is vital for being able to set accurate fees.**

The reason for breaking your costs down like this is because costs are increasing at different rates - utilities = 54% from April, food = 7%, fuel = 40% and so on.

Adding a single percentage increase estimate like 10% really is just a finger-in-the-air guessing and you can't afford to do that and risk underestimating your costs. Worse still, you can't hope that your local authority and CCG will give you an adequate uplift.

These uplifts are coming in at around 5% for care homes and lower for home care and we know this is simply not enough to cover cost rises.

One council is offering 4.7% uplift. After discussions with the regional care association, the council agreed to a short consultation period in March. Basically, get us some provider cost increases to look at and we'll review our uplift if they show it is not enough.

The care association asked me to run an impromptu workshop for care providers who received clients from this council.

The association managed to get enough providers into a room for the consultation and we used tools I'm going to refer to in this report to establish their cost rises. They came with their most recent costs and hourly rates and we went from there.

Every cost rise forecast was more than double the uplift being offered.

Update: it is the 31st March 2022 and the council are reviewing the figures submitted and have asked for time to go through the numbers and respond.

Even if they don't increase their uplift, this exercise will cement the thought in the minds of the commissioners of what the real costs rises are and that providers will be coming back to them needing client review meetings.

If you are a member of a care association and they haven't spoken with your local councils on your behalf then I recommend you speak to them and push that they do talk about the uplift being offered not being enough.

Your council may well agree to a consultation or, if they don't, your care association may agree to collate all of your costs and submit them to the council. If not then just do it yourself and send an email to your head of commissioning.

At the very least, if enough care providers do this then local councils will receive a very strong message that fees are too low and are going to need reviewing. And if enough do this then it will strengthen the negotiating position of all care providers.

More importantly, than letting their council know, these providers now have a real idea of their costs this coming year and know that they need to review their current fees.

They have visibility they didn't have before and one provider came back to me and told me that this couldn't have come at a better time.

So, my very strong message is, don't leave this to chance and hope your LA and CCG will give you the uplift you need – they won't.

Work out your costs as I'm going to show you here and use the tools I refer to if needed.

My other strong message is that it is never too late to do this. Carrying this exercise out as we approach April and the new fiscal year is of course ideal. But if you're reading this in April then you should still carry out this exercise because your big costs like staff costs won't hit until the end of the month.

But even if it's later in the year, this exercise is still valid. It's never too late to review your costs against your income and increase that income (your fees) if you are not making the money your care business needs to be sustainable.

Ideally you record your costs on a monthly basis and therefore have accurate annual figures. As well as making this exercise easier and more accurate, the visibility recording your numbers monthly gives you will give you far more control over your business and help you to reduce and better manage your costs.

And managing your costs has never been more important.

Read more: 5 Reasons Why You Must Know Your Costs

If you don't record your costs monthly then please from April onwards do so. Again, even if you're reading this and it's August, start now, it's never too late.

A day or two a week per care home is what it takes a person in our finance department to record each home's spend and it is worth every penny.

She uses a tool called the Running Cost Calculator, which you can check out by clicking the link.

Right now, you need to know your costs for the coming financial year - FY2023 or FY2022-23 – that is the financial year from April 2022 to March 2023.

If you haven't kept on top of your monthly costs through the year then it is of course a bit late now and so you need to take what figures you have and extrapolate them to get an overall estimate for the year. If you have 6 months' worth of figures then double the numbers, if you have 3 quarters' worth then multiply by 4/3.

If worst-case you only have last year's annual accounts then I would add at least 10% (or more because of Covid) to those costs to bring them up to an estimate of what they would be now.

Step 2 – Forecast Your Fixed Costs

Now that you have your costs for the year to the end of March, how much could they increase by after April?

Breakdown your costs as I described earlier so you can add an estimated percentage increase for each type of fixed cost spend as shown in this image.

Fixed Costs	FY2021-22 Costs	% Increase from April '22	FY2022-23 Forecast	Fixed Cost £ Increase	Fixed Cost % Increase
Utilities	£ 30,000	50%	£ 45,000	£ 15,000	
Consumables	£ 50,000	7%	£ 53,500	£ 3,500	
Kitchen	£ 62,000	10%	£ 68,200	£ 6,200	
Maintenance	£ 27,400	5%	£ 28,770	£ 1,370	
Training	£ 25,000	3%	£ 25,750	£ 750	
Activities	£ 11,600	3%	£ 11,948	£ 348	
Office	£ 23,400	5%	£ 24,570	£ 1,170	
INSERT NEW ROWS HERE IF REQUIRED			£ -	£ -	
Other	£ 26,200	20%	£ 31,440	£ 5,240	
Fixed Total	£ 255,600		£ 289,178	£ 33,578	13.14%

Having done that you can reach an overall percentage increase for your fixed costs. As you see in this example, the overall fixed cost increase for the coming year will be 13.14%.

This image is taken from the ***Cost Forecast Tool*** (not a very imaginative name) that comes as part of a ***Care Provider's Cost Forecast Pack***.

Check it out by clicking this link.

Care Provider's Cost Forecast Pack

Step 3 – Forecast Your Staff Costs

Estimating an increase in your staff costs is a little more complicated because you will have staff on different hourly rates and some who are salaried. Those on different hourly rates will not necessarily have the rates increase by the same percentage. Not everyone should receive the 6.6% increase that you will have to pay those on the NLW.

You may actually feel pressure to increase your care staff by a higher percentage because competitive businesses, might be offering more. People are leaving to join supermarkets and warehouses not because they want to but because they can't afford not to.

Those more senior staff on higher rates will then need to see the gap difference maintained.

If you employ nurses you will want their rates to stay above carers and so their rates will likely increase more than usual.

Because your staff cost is such a large part of your overall costs you want to get this right and so should set a rise for each position.

In order to set the right overall staff cost increase for each type of position, as you did for different types of spend in your fixed costs, and hence establish your overall staff percentage increase, let's start with those you pay hourly rates like your care and nurse teams.

Start by working out what the new hourly rate for each position will be and what that is as a percentage increase. Once you have these various rate increases you can calculate the overall average increase.

If this sounds daunting, I've created an ***Average Hourly Rate Calculator*** that is also included in the ***Care Provider's Cost Forecast Pack***.

Care Provider's Cost Forecast Pack

Nurses — Enter an Annual % Increase Estimate: 8.00%

Staff Positions	No. Staff	Hourly Rate	Hourly Rate With On-cost	New Hourly Rate	Increase in £	Percentage Increase	New Hourly Rate With On-cost
Nurse Level 1	4	£19.00	£23.75	£20.52	£1.52	8.00%	£25.65
Nurse Level 2	2	£18.50	£23.13	£19.98	£1.48	8.00%	£24.98
Nurse Level 3	2	£17.50	£21.88	£18.90	£1.40	8.00%	£23.63
Nurse Level 4	1	£18.00	£22.50	£19.44	£1.44	8.00%	£24.30
Nurse Level 5	0	£0.00	£0.00	£0.00	£0.00	0.00%	£0.00
Nurse Assistant 1	3	£11.50	£14.38	£13.60	£2.10	18.26%	£17.00
Nurse Assistant 2	2	£12.40	£15.50	£14.50	£2.10	16.94%	£18.13
Nurse Assistant 3	1	£12.65	£15.81	£14.75	£2.10	16.60%	£18.44
Nurse Assistant 4	1	£13.10	£16.38	£15.00	£1.90	14.50%	£18.75
	0	£0.00	£0.00		£0.00	0.00%	£0.00
	INSERT MORE ROWS ABOVE THIS ONE IF NECESSARY						
Number of Nurses	16	Ave Hrly Rate	£19.62	Average Results		12.0%	£21.79

Carers — Enter an Annual % Increase Estimate: 12.00%

Staff Positions	No. Staff	Hourly Rate	Hourly Rate With On-cost	New Hourly Rate	Increase in £	Percentage Increase	New Hourly Rate With On-cost
Senior Care Rate 1	6	£10.65	£13.31	£11.93	£1.28	12.00%	£14.91
Senior Care Rate 2	6	£10.75	£13.44	£12.04	£1.29	12.00%	£15.05
Lead Carer Rate 1	6	£9.95	£12.44	£11.14	£1.19	12.00%	£13.93
Lead Carer Rate 2	3	£10.20	£12.75	£11.42	£1.22	12.00%	£14.28
Carer Rate 1	25	£9.23	£11.54	£10.34	£1.11	12.00%	£12.92
Carer Rate 2	10	£9.35	£11.69	£10.47	£1.12	12.00%	£13.09
Carer Rate 3	35	£9.45	£11.81	£10.58	£1.13	12.00%	£13.23
Care Support	6	£8.91	£11.14	£9.50	£0.59	6.62%	£11.88
Care Apprentice Yr 1	4	£4.30	£5.38	£4.81	£0.51	11.86%	£6.01
Care Apprentice Yr 2	4	£5.50	£6.88	£6.00	£0.50	9.09%	£7.50
	INSERT MORE ROWS ABOVE THIS ONE.						
Number of Carers	105	Ave Hrly Rate	£11.50	Average Results		11.6%	£12.84

Other — Annual % increase: 9.00%

Staff Positions	No. Staff	Hourly Rate	Hourly Rate With On-cost	New Hourly Rate	Increase in £	Percentage Increase	New Hourly Rate With On-cost
Kitchen Chef 1	1	£11.00	£13.75	£11.99	£0.99	9.00%	£14.99
Kitchen Chef 3	1	£11.22	£14.03	£12.23	£1.01	9.00%	£15.29
Kitchen Assistant	2	£8.91	£11.14	£9.50	£0.59	6.62%	£11.88
Living Well Basic	3	£9.18	£11.48	£10.01	£0.83	9.00%	£12.51
Living Well Basic 2	2	£9.35	£11.69	£10.19	£0.84	9.00%	£12.74
Living Well Practitioner	2	£9.50	£11.88	£10.36	£0.86	9.00%	£12.94
Domestic Basic	3	£8.91	£11.14	£9.50	£0.59	6.62%	£11.88
Assistant Housekeeper	1	£8.91	£11.14	£9.50	£0.59	6.62%	£11.88

SUMMARY

	New Average Hourly Rates	Average Percentage Increase
Nurse Team	£21.79	12.0%
Care Team	£12.84	11.6%
Other Team	£12.70	8.0%

I've shown how this calculator works using an example care provider who runs a 50-bed nursing home and has a number of levels for both nurses and carers and other staff positions.

Define your levels and how many people there are at each level. Then add their current hourly rate.

Next you need to decide how much you need to increase these hourly rates by.

In this case the provider felt the pressure to increase the lowest full-time carer rate, *Carer Rate 1* - to £10.34 (highlighted by the red ring) in order to reduce the chance of losing them to other local businesses paying a similar rate.

This is a good place to start because this position has a knock-on effect with regards to rises needed for more senior carers and nurses.

This increase to £10.34 is a 12% rise and so using that percentage the provider established the hourly rate rises for the other more senior positions. (If any didn't seem right she could overwrite individual new hourly rates.)

Care Support on the NLW received a 6.6% rise and apprentices different rate rises.

All nurses, including assistant nurses should be paid a higher rate than the most senior carer. In this case, the highest carer rate – *Senior Carer Rate 2* at £12.04 - is less than the lowest *Nurse Assistant 1* rate of £13.60.

Once you have the percentage increases for each type of position and the number of people in each position, the tool will then work out the overall percentage increase for each team.

In this case, the provider's nurse team cost is an increase of 12%, care team a rise of 11% (blue circle) and 'other' team a rise of 8%.

The *Average Hourly Rate Calculator* also works out the new hourly rates and the new hourly rates with employer on-cost. Finally, it shows the **average hourly rate with on-cost.**

This average hourly rate with on-cost is the rate you should use to calculate how much care delivery costs because this is the real cost to you.

In this case the provider entered a 25% on-cost to reach and average hourly cost for carers of £12.84 and for nurses of £21.79.

Now, you have these percentage rises, you can estimate an overall rise for your office and management staff and reach an overall staff cost percentage rise as shown in this image below taken from the *Cost Forecast Tool.*

Staff Costs	FY2021-22 Costs	% Increase from April	FY2022-23 Forecast	Staff Cost £ Increase	Staff Cost % Increase
Care	£ 600,000	11.6%	£ 669,600	£ 69,600	
Nurse	£ 350,000	12.0%	£ 392,000	£ 42,000	
Other Hourly	£ 150,000	8.0%	£ 162,000	£ 12,000	
Other Salaried	£ 32,000	5.0%	£ 33,600	£ 1,600	
INSERT NEW ROWS HERE IF YOU REQUIRED			£ -	£ -	
Employer On-cost	£ 283,000		£ 314,300	£ 31,300	
Agency	£ 230,000	30.0%	£ 299,000	£ 69,000	
Staff Total	£ 1,645,000		£ 1,870,500	£ 225,500	13.71%

Including the huge rise in agency cost, this provider is estimating an overall staff cost increase of 13.71%.

Step 4 – Establish your overall Cost Increase

Bringing the fixed and staff costs together, you see in the next image this provider's overall percentage increase is 13.63%, which is an overall cost increase of£259,078.

This increase is far higher than any uplift your local councils and CCGs are going to offer.

Fixed Costs	FY2021-22 Costs	% Increase from April '22	FY2022-23 Forecast	Fixed Cost £ Increase	Fixed Cost % Increase
Utilities	£ 30,000	50%	£ 45,000	£ 15,000	
Consumables	£ 50,000	7%	£ 53,500	£ 3,500	
Kitchen	£ 62,000	10%	£ 68,200	£ 6,200	
Maintenance	£ 27,400	5%	£ 28,770	£ 1,370	
Training	£ 25,000	3%	£ 25,750	£ 750	
Activities	£ 11,600	3%	£ 11,948	£ 348	
Office	£ 23,400	5%	£ 24,570	£ 1,170	
INSERT NEW ROWS HERE IF REQUIRED			£ -	£ -	
Other	£ 26,200	20%	£ 31,440	£ 5,240	
Fixed Total	£ 255,600		£ 289,178	£ 33,578	13.14%

Staff Costs	FY2021-22 Costs	% Increase from April	FY2022-23 Forecast	Staff Cost £ Increase	Staff Cost % Increase
Care	£ 600,000	11.6%	£ 669,600	£ 69,600	
Nurse	£ 350,000	12.0%	£ 392,000	£ 42,000	
Other Hourly	£ 150,000	8.0%	£ 162,000	£ 12,000	
Other Salaried	£ 32,000	5.0%	£ 33,600	£ 1,600	
INSERT NEW ROWS HERE IF YOU REQUIRED			£ -	£ -	
Employer On-cost	£ 283,000		£ 314,300	£ 31,300	
Agency	£ 230,000	30.0%	£ 299,000	£ 69,000	
Staff Total	£ 1,645,000		£1,870,500	£ 225,500	13.71%

Running Costs	FY2021-22 Costs		FY2022-23 Forecast	Running Cost £	Running Cost % Increase
Total	£ 1,900,600		£2,159,678	£ 259,078	13.63%

By forecasting your cost rise in this way, you are basing it on real number and percentage increases, which will be vital when it comes to setting the right fees and negotiating for those fees with referrers who think a 5% uplift is enough.

And there is a key point here…

Your fees need to be your fees, not theirs. All this talk of how much uplift you're going to get is actually irrelevant.

We need to switch the control from LAs and CCGs to you who runs a private business that provides the service they need you to provide.

The mindset with the commissioners is that they'll set the price guidelines and tiers and decide what they will pay you. And likewise, from too many care providers the mindset is to hope that their commissioners will pay them enough.

This has to stop. You have to set your fees. And to set the right fees you need to know your numbers.

When you know your numbers you will:

- Know what fee you need because you will have accurately calculated your costs and added a business-healthy profit.
- Know that the fee they want to pay isn't enough and no longer hope it is.
- Be in a stronger position to negotiate for the right fee because it is based on solid numbers and hence justifiable.

I wrote about this need to change the narrative and for you to decide what your fees need to be in this post which you can check out here.

Read more: When is Enough, Enough?

Step 5 – Know the Impact of Your Cost Rises

Once you have carried out the first four steps and you know how much your costs are going to increase to, what should you do next?

You need to gauge if the income you generate is enough to cover these extra costs and if it isn't you need to act quickly.

Let's take the above example provider. This person runs a 50-bed nursing home. This current year, the home has an overall cost of £1,617,600, as shown in the previous image.

This cost needs to be covered by the income it generates which means by its bed fees.

Assuming an average occupation level of 48 beds, each bed needs to cover an annual cost of (£1,617,600 / 48) £33,700. That equates to a weekly cost of (£33,700 / 52) £648.08.

That's the minimum breakeven cost for each bed.

Within that cost there is of course some care provision, maybe 3 to 4 hours of care and an hour of nursing a day. For those who care needs are very basic, their care could well be covered in this minimum cost.

You need to work this out though because that is the only way you can know when care provision trips over into extra care that isn't covered by this minimum breakeven cost.

From the table above you see that care staff cost was £600,000 for the current year. That works out to be £34.25 a day per bed. Let's say that for the year just gone, the average hourly rate for carers was £9.20. Add 25% on-cost and you have £11.50 hourly cost.

Divide that £11.50 hourly care cost into £34.25worth of daily care and you have pretty much 3 hours of care a resident can receive as part of your minimum cost per bed.

Do the same calculation for the care staff forecast of £699,600 for the financial year starting April 2022 and a resident can have £38.32 worth of daily care. However, the average hourly rate has risen to £12.84 which results in the amount of basic care allocation time to the same 3 hours.

Be careful when you work out how much care that means you can provide as part of this care staff cost. That 3 hours of 'basic' care must cover all the work a carer does, including

paperwork, and non-care related tasks such as coronavirus testing, escorting visitors, and other general duties.

You'll find that this 'basic' care provision soon runs out and care that your LA thinks should be included actually can't be or you would end up paying for that care.

You should define what duties fall under this 'basic' care provision and see how much is left for any extra individual care.

For example, if you take a person who needs personal care, help at mealtimes and is a 'falls risk' and so needs to be escorted on average 6 times a day for 10 minutes a time, how much would that cost and how much of that cost would you be able to allocate to the 3 hours 'basic' care.

Add Save

Individual Needs	Care Minutes	Care Frequency	Care Staff	Care Daily	Care Weekly
Personal Care	20	2	2	80	560
Nutrition & Hydration	30	3	1	90	630
Assistance to Mobilise	0	0	0	0	0
Medication	0	0	0	0	0
Falls Risk	10	6	1	60	420
Tissue Viability	0	0	0	0	0
Total Hours				**3:50**	**26:50**

As you can see from this image from our Quality Care Calculator tool, seemingly basic care tasks that a commissioner would expect to be included as basic care can add up to many hours of care a week. In this case, 26 hours and 50 minutes a week, or 3 hours and 50 minutes a day.

This is why you need to identify all of the 'basic' tasks that your carers do daily, work out how long they take to do and then see if any time is left out of your 'basic' care allocation.

If there is time to spare then some 'extra' care tasks could be allocated to 'basic' care.

For example, if the 'basic' care tasks for this example provider take on average 2 hrs 30 mins to carry out, then the spare 30 minutes could be assigned to one of the 'help at mealtimes' tasks. (Shown as nutrition & hydration in the purple table.)

If all of these tasks in the purple table need to be classed as 'extra care', then at £11.50 an hour, this care provision adds up to an extra £308.58 a week.

After April and the new average hourly rate increasing to £12.84, these 'extra' care tasks will cost this provider £344.54 a week. That's a weekly increase of £35.96 or an annual *increase* of £1,869.92. (The full cost of this 'extra' care will be £17,916 a year for this one client.)

Imagine, this care provider doesn't know their numbers and half of their clients have similar needs to this example but the provider accepts the argument that these tasks fall under basic care needs and doesn't negotiate for extra money.

That £17,916 a year for one client becomes almost £430,000 of care that this provider will be subsidising.

If you don't know your numbers or how to work out the cost of care provision, then you may well be paying for care you are delivering and making a loss on many of your clients.

Back to the example…

For residents who didn't need any care beyond what can be provided within those allocated 3 hours of basic daily care, then the provider simply needs to add a profit margin to reach a fee that is financially healthy for a business.

This profit margin should be 25%+ to be healthy and ideally around 30%.

25% profit margin on £648.08 is £864.10.

This provider needs a minimum bed fee of £864.10 per resident in order to cover their costs and return a healthy profit.

Remember though that any **extra care** provision requires a higher fee.

For example, if that care shown in the purple table above was all extra care then the minimum breakeven cost for this provider would need to increase by that £308.58 at their current costs. That would bring the **breakeven cost** up from £648.08 to £956.66.

That's higher than the *fee* for basic care provision.

To make 25% profit, the fee would then need to increase to £1,275.55.

I've summarised these *current year* calculations in this next image – left-hand table, left column.

	FY2021-22 Costs	FY2022-23 Forecast	Difference
	£ 1,617,600	£ 1,845,378	£ 227,778
Weekly Minimum Cost Per Resident	£648.08	£739.33	£91.26
Weekly Minimum Cost With Extra Care	£956.66	£1,083.87	£127.21
Fee at Shown Profit Margin - No Extra Care	£864.10	£985.78	£121.68
Fee at Shown Profit Margin - Extra Care	£1,275.55	£1,445.17	£169.62

	FY2021-22	FY2022-23
Average Occupancy level	48	48
Average Hourly Rate (Incl On-cost)	£11.50	£12.84
Profit Margin	25%	25%
Extra Care in Minutes	1610.00	1610.00
Extra Care in Hours	26:50	26:50
Extra Care in Cost	£308.58	£344.54

The top half of the right-hand table shows the same occupancy level and target profit margin and new hourly rate of £12.84 for the care team for the new financial year. (As shown in the image in step 3.)

The bottom half shows the same extra care in time and cost as I described previously. But because of the increased hourly rate, the cost of this care provision has also increased as I descried earlier.

As you see from the table in step 4 and repeated in this image, the care home forecasts an annual increase to £1,845,378. (Left table, blue cell in middle column.)

Working down that middle column…

That increases the weekly minimum breakeven cost per resident from £648.08 to £739.33 – an increase of £91.26 a week.

Take a second to think about that - this care home's **minimum breakeven cost** for each resident is going to increase by £91.26 a week. On an average occupancy of 48 residents, that's £4,380.48 a week!

If that extra care shown in the purple table was required, the breakeven cost would increase to £1083.87.

At 25% profit margin the fees would be £985.78 (no extra care) and £1,445.17 with that extra care.

The fee for the person needing that extra care has increased by £169.62 a week pretty much overnight because of the cost rises. That's an extra £8,820 a year needed to maintain 25% profit.

I hope by working through my examples you see why it is so important that you work out the financial impact these cost rises will have on your care business.

So, what would happen to this provider's profit margin for this client if they didn't increase their fees but left them at the current pre-April level?

In this case. The profit margin would fall from 25% to an unhealthy 14.4%. A drop of 10.6%.

In case you were thinking that an increase in cost of 14.1% as shown in the table in step 4 therefore equals a loss of profit by 14.1% it doesn't. Profit is a percentage of a sale price (fee) not buy price (cost), hence it's a smaller percentage of a larger number.

This drop in profit would make the care home financially vulnerable, especially as costs will probably continue to increase.

Even when you add an uplift of say 5% this provider's profit will still be less than what I would consider a minimum profit margin of 20%. (Only acceptable if you need to fill a bed that has been empty for a while.)

Step 6 – Review Your Current Fees

Clearly, swallowing this extra cost is a recipe for financial disaster, especially for providers who aren't returning healthy profit margins.

Once you have carried out these steps and you know your cost rises, you need to review your current fees based on your new costs and average hourly rates (with on-cost).

If any fees take you below 20% after any uplift has been added then you need to calculate what fee you do need that returns a healthy profit margin of 25%+.

Next you need to arrange a client review and negotiate for that fee.

Your local authority or CCG is going to be very reluctant to increase your fees beyond an uplift and unless you have accurately calculated the fee you need, your argument for an increase will be pretty weak.

And so, please do yourself a favour and know these numbers and know how much care you can deliver as part of your minimum cost and how much any extra care will cost.

And calculate your profit correctly. As I said, profit is based on sales price not cost so you can't simply take your cost and add 25% to get 25% profit margin. If this is how you calculate your profit margins please see this post.

Read more: How to Calculate Profit

If all of this sounds a little daunting, you do have access to the tools that come with this guide, to work out what your cost rises will be.

When it comes to reviewing your client fees (a 'must do' exercise for all the reasons I've highlighted), the only way to know if the current fee is enough or if you need to increase it and by how, much is to calculate it.

You need to calculate how much your minimum breakeven cost is per client, how much basic care each can receive and the cost of any extra care an individual needs.

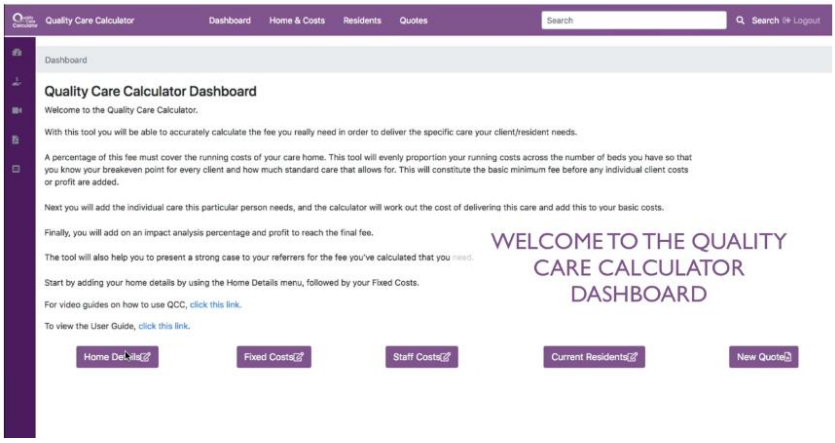
Again, if this sounds daunting then I have another tool to help you.

The Quality Care Calculator is the only tool that will help you accurately calculate bed fees.

Once you have entered your fixed, staff and average hourly rates you can calculate the cost of care an individual needs.

You can use the tool to review current residents as well as create quotes for new potential residents.

Here's a short video showing how it works. Click the image to watch the video.



The tool is priced according to how many beds you have and costs the equivalent of a few pence a week per bed. Better yet, I've given you 14 days to try it out for free.

That means you can review all of your fees and calculate what they should be for your current clients at post April costs and then cancel your subscription before the 14 days is over if you don't wish to use it further.

Last Word

Whether you the Care Provider's Cost Forecast Pack, your own spreadsheets, pen and paper or an abacus. Please follow these steps and know what these cost rises will mean to the financial stability and security of your care business.

Regarding the pack, one provider, Mary, said, *"The spreadsheets we were given were so great and really helpful in determining costs and percentages. The spreadsheet did all the work once I had put my figures in. Extremely useful."*

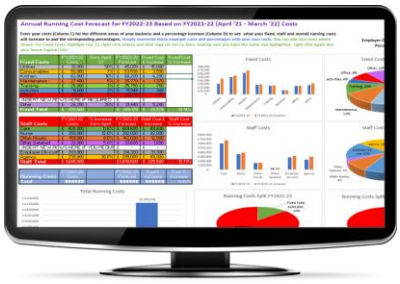
Know your costs and review your current fees and if the cost rises are large enough to have a major impact on your profit, which all indications point to, then have review meetings with your commissioners.

And don't be afraid to serve notice if some fees are so low that caring for the client is detrimental to your business.

An empty bed isn't the end of the world, it's an opportunity to fill it for the right fee and is manageable when empty. Again, provided you know your numbers you can manage empty beds.

Read more: How Long Can Your Care Home Manage With Empty Beds?

Remember your top priority must be to have a financially healthy care business. Nothing you do will matter if your care business isn't financially strong enough to stay open and provide the care your clients need.



To make this happen, you need to start with knowing your costs for the coming year.

And if you have any concerns about doing this, please check out the Care Providers Cost Pack, which is reduced in price by 71% during the month of April.

If you have concerns or questions then do get in touch with me at chris@qualityofcare.co.uk

To Your Success

Chris Briggs

CEO, Quality of Care