



Economics of
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Lay Summary

Explaining the fees gap between funding types in the English care homes market

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It is generally known that those that fund their own stays in care homes (self-funders) pay more than the fees paid by local authorities on behalf of residents who cannot afford to (fully) fund their own care. However, despite this, little is known about how much those self-funders pay, nor has there been a rigorous analysis to assess the reasons for the difference in fees paid by self-funders and by local authorities.

We estimate the average self-funder price paid at a national and local level, compare them to the price paid by local authorities, and then consider four reasons for the gap between these two fees types: 1) local authority power over the market (as the largest purchaser of care); 2) market power of the care home provider (the level of competition); 3) quality of care; and 4) economies of scale (the more units of a good produced the cheaper it costs to produce each unit on average).

Using data on local authority expenditure for residential and nursing home care together with overall care home price data for 2008 and 2010, we create local authority-level estimates of average self-funded prices. Our estimates, based on a number of assumptions, suggest that the average self-funder price for England is in the range of **£609-£663** per week, and that the average self-funder price is **£170-£196** per week greater than the average price paid by local authorities.

Our results show that the reasons for this gap in fees is caused by greater market power of both local authorities and care home providers, and that higher care home quality also accounted for some of the difference in fees. We also find that the effect of the market power of providers and the local authorities depend on one another. This means that in areas where there are lots of care homes (high competition) the local authority has a much greater impact on the difference in fees, whereas in areas with less competition between care homes the impact of the local authority on the fees gap is reduced.

These results are important at a time where the funding of social care is a very important policy area, and where there are concerns over the viability of care homes.

Full paper available at: <http://www.pssru.ac.uk/archive/pdf/4559.pdf>

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