

COUNTY CARE MARKETS MARKET SUSTAINABILITY & THE CARE ACT

FIRST EDITION



COVERING:

KEY CHALLENGES FOR COUNCILS
MARKET POLARISATION
BUDGET PRESSURES
UNDERLYING REALITIES
CROSS-SUBSIDIES
FUTURE SECTOR PROJECTIONS

The healthcare experts

COUNTY CARE MARKETS MARKET SUSTAINABILITY & THE CARE ACT



Underlying sustainability of the social care market for older people remains the key issue facing the sector, and is the cornerstone of the analysis conducted within an exciting new study from LaingBuisson.

The social care funding crisis has for a long time been widely debated. However, through **ground-breaking profitability analysis** and the **innovative use of market dynamics modelling** it is now possible in this study to predict the severe consequences for sustainability of the care home sector for older people, of current, accelerating adverse market trends. It is hoped that provision of this more robust evidence will pave the way for a full debate, between all interested parties.

LaingBuisson's *County Care Markets: Care Market Sustainability* presents key findings the evaluation of the main financial implications of the Care Act 2014, for local authorities, providers of residential care and nursing homes, older people needing care, as well as for sustainability of the market.

Analysis has been divided into two distinct but inter-related parts. First, the existing, underlying care home market has been assessed, in terms of levels of **fees, existence, levels and implications of cross-subsidies, profitability, care home capacity, issues and risks relating to sustainability.**

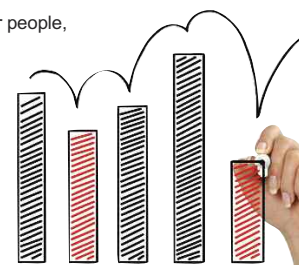
Trends have been explored, changes in demand estimated and the **implications of all the key issues** fed into LaingBuisson's **Dynamic Market Models**, which reflect the inter-relationships between demand, supply, prices, returns, closures, new build and other key variables. Secondly, the implications of the specific Care Act 2014 provisions have been analysed and assessed in terms of their impact. This analysis also brings in LaingBuisson's unique Wealth Model to consider the implications of the (now delayed) extension to the asset threshold, on gross and net funding requirements for councils, as well as to super-impose the results on the underlying market realities, risks and trends, in the market models. It is strongly contended that the impact of the Care Act cannot be viewed in isolation, but rather, only in the context of existing and emerging market conditions and trends - particularly the severe funding shortages facing councils and the financial implications these are already having for care home operators and older people with care needs.

The implications of the Care Act 2014 have then been overlaid on these changing market conditions, to examine the additional, potential adverse impact and risks arising from key provisions in the Act. This has focused, in particular, on the implications of what has become referred to as 'market equalisation', resulting from the possible erosion of the differential between the high fees self-funders pay for care and the insufficiently low fees councils are paying for equivalent care.

This unique, first of its kind, report is essential reading for councils, providers, policy makers and all professionals involved in elder care.

Exclusive Tables & Figures include...

- Local authority gross current expenditure on social care services for older and physically disabled adults, England
- Occupancy rates in independent sector care homes for older people
- Volume of demand by funding source, 2014 - UK independent sector care homes for older / YPD
- The impact of NHS-supported residents on the mix of funding can be more clearly seen on individual pie charts for residential and nursing care
- New registrations and closures- care homes for older & physically disabled people
- EBITDAR as % of revenue - older people's care home groups
- Occupancy rates – independent sector care homes for older people
- Nursing care & residential care old age & dementia total hourly paid staff hours, per resident, per week
- Economies of scale – nursing homes & residential care
- 'Pure' local authority funding profiles across England (2010-2014) – nursing & residential care
- Provider, Council and NHS CHC Fee Analysis
- Results of 'like for like' comparisons between self-funder and council fee levels, based on provider fee submissions – Nursing care/Residential care
- Cross-subsidies within residential and nursing home elderly care
- Council financials & mix of funding – Nursing care; Residential care
- Demographic driven demand index, (expected number of residents if constant age specific demand is applied to population in other years, (England 2014 = 100), England 2005 – 2025
- Projected demographics – longer term growth in numbers of older people
- Demand for places in older peoples' care homes, 1981-2014
- Nursing homes for old age and dementia – hourly paid staff per resident, per week
- Residential homes for old age and dementia – hourly paid staff per resident, per week
- Nursing homes operating costs per resident per year, national provider portfolio 2011/12
- Residential homes operating costs per resident per year, national provider portfolio 2011/12
- Nursing care old age & dementia – total hourly paid staff hours per resident, per week
- National provider – nursing homes for older people, operating costs per occupied bed
- Nursing home closures, variability of risk of closure, range of operating costs
- Residential home closures, variability of risk of closure, range of operating costs
- EBITDAR as % of revenue – older peoples' care home groups



The approach adopted by LaingBuisson has been first to gain an incredibly detailed understanding of the care home market in each of 12 sample study areas.

This work made full use of the LaingBuisson care home database of all facilities registered through the Care Quality Commission (CQC) - detailing all openings, closures and significant changes going back to 2005. On top of this, results from LaingBuisson's proprietary care sector surveys, covering fee levels; mix of funding; occupancy levels and other financial metrics.

Occupancy data has been used to derive historic 'expressed' demand figures, while cost and profitability data and detailed profitability models were used to derive care cost benchmarks for the provision of quality care home services, at economic and efficient levels.

In addition to this, independent providers have given detailed analyses of the fees paid from all sources of funding within their care homes, enabling comparison between council fee levels and self-funder fees on a 'like for like' basis. This exclusive data was then used to calculate the differentials between existing cross-subsidies brought about as a result of the shortfall in council fees being paid relative to the full cost of care, and the surplus which average self-funder fees represent over the full cost of care.

Coupled with historic data, a range of estimates and assumptions have been made about future demand and changes in financial parameters, such as fee levels and cost inflation, so as to provide the basis for developing projections for market trends.

Future demand for care home places has been estimated based on movement in the demographics, using Office of National Statistics data, combined with a unique understanding of the relationship between the number of older people in various age cohorts within

each county and the number of care home places required.

This information was then fed into a unique Dynamic Market Model, based upon unique LaingBuisson algorithms capable of reflecting the impact of changes in demand and the key financial parameters for the future.

The expected relationships between demand, supply and price have been incorporated in the models, together with assumptions about when homes might close and what returns are needed to justify opening new homes.

Market data has been supplemented by surveys undertaken to ascertain the views of relatives of residents in care homes, independent financial advisors (IFAs) and providers, concerning their attitudes to the Care Act proposals and implications, as well as their possible responses. These views have been used to inform consideration of the implications from the Care Act provisions, assumptions formulated and the models then re-run, to predict the financial impact over time.

Models have then been used to explore various scenarios about fee levels, and responses which might be made by councils and others to the impact of the Care Act provisions, as well as to the underlying sustainability issues within the market.

A specially designed Wealth Model has also been used to consider levels of property and other wealth around the country to estimate the different impacts on the number of people likely to fall beneath the extended asset thresholds, as well as the impact this could have on both gross and net funding costs (after re-computation of the contribution people will make to the cost of their own care, through means tested financial assessments, through tariff income charges).

Key issues & challenges for County & Unitary councils

- + The extra burden of supporting those falling within the higher £118,000 assets threshold and, later, those whose 'usual care costs' for support exceed the care cap, of £72,000
- + Self-funders whom councils are arranging care for demanding lower fees, at 'usual cost' levels
- + The impact of lower fees on profitability and sustainability of care homes, if cross subsidies are eliminated
- + Continuing and increasing council social care budget pressures, as demand for care home places increases Council responsibility to ensure quality of provision and sustainability of the social care market
- + The need to consider whether 'usual cost' fee levels need to increase, and by how much
- + The implications of the split between support and 'hotel' costs, with only the former being supported by councils beyond the care cap
- + The complication and opportunity afforded by the system of 'top-ups', and particularly the implications for fee levels and sustainability of own resource 'top-ups', if they can be confirmed
- + Likely responses of self-funders to these changes, constraints & opportunities, including the impact of deferred payment agreements and the propensity to choose home-based care rather than care homes
- + Possible responses from providers to all these changes and constraints

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