

## Complex care market looking 'broadly positive'

London, 9 January 2017

**Prospects for adult specialist care operators - at least those positioned at the complex end of the spectrum - remain broadly positive, according to LaingBuisson's latest report, *Adult Specialist Care - second edition*. This is despite the austerity-driven real terms decline in adult specialist care spending over the last five years and the expectation of a constrained financial environment for the foreseeable future.**

Operators at the lower needs, generic end of the adult specialist healthcare spectrum, on the other hand, face a more uncertain future, threatened by a slow but inexorable substitution of residential care with supported living.

In both cases, though, supported living is an opportunity as well as a threat, the report concludes, because of strong synergies between care home operation and the delivery of staff to unregistered congregate settings (which is what supported living amounts to in operational terms).

### Consolidation?

The other major opportunity in adult specialist care, which has hardly been grasped at all yet, is growth through acquisition and consolidation. With only 7% of market value in the hands of the four leading providers, this is the most highly fragmented segment of the broad health and care service market.

Worth £10.1bn in 2015/16 in the UK (England: £8.5bn), and with approaching 90% of services outsourced to the independent (mainly for-profit) sector, adult specialist care is the second largest health and care market, after older care, covering working age adults with learning disabilities, mental health conditions, physical and sensory disabilities, acquired brain injury, cognitive and memory disabilities (including early onset dementia) and substance misuse.

The largest segment is Learning Disability services, worth £5.8bn across the UK.

After experiencing real terms growth of 6% from 2007/08 to 2010/11, spending has been roughly flat in nominal terms and declining in real terms. From 2011/12 to 2014/15 spending grew just 1.7% per year, and about 2% for 2015/16 and 2016/17 though out-turns are as yet unknown.

### Future prospects

Report author, and LaingBuisson founder, William Laing said:

*'Prospects for the future funding envelope will depend on the state of the UK economy, competing calls for public spending and political reactions to them. The new Conservative government under Theresa May has indicated some relaxation of targets for reduction of the public spending deficit. But there can be no realistic prospect of a return to anything like the "golden" years of a rapidly expanding spending envelope for working age adults social care services in the years leading up to the austerity crunch for public services in 2011/12.'*

Meanwhile, demand is projected to increase in the future, for learning disabilities at least.

There is a broad consensus that demographic drivers (population ageing and survival of children with birth defects into adulthood / old age) will lead to increased underlying demand for services for people with learning disabilities over the next 20 years and beyond.

A conservative projection is that underlying demand will grow at a CAGR (Compound Annual Growth Rate) of at least 1.2% a year. On the other hand, there are no strong demographic drivers of demand for the mental health and physical disabilities segments adult specialist care.

Residential settings absorbed 48% of expenditure in 2015/16, with care home capacity slowly declining in recent years as local authority and NHS commissioners attempt to place people in supported living or use 'outreach' services in people's homes.

This residential capacity loss has mainly impacted not-for-profit providers, which have traditionally catered for the lower acuity needs which are more susceptible to migration to supported living, for-profit providers, which tend to provide services at the high acuity complex needs, specialist care and challenging behaviour end of the spectrum, have experienced a slower decline in capacity.

They are less exposed to the monopsony purchasing power of local authorities as they draw on a regional or even national catchment area.

This means they receive funding from a large number of local authorities, none of which is important enough to exercise strong individual leverage over prices, unlike operators at the lower end of the acuity spectrum.

### Defensible activities

With few practicable alternatives for commissioners, high needs, complex care is a highly defensible business activity, according to the report, all the more so because of the ‘stickiness’ of the client base.

Despite the growth of Direct Payments and the adoption of personalisation policies which offer service users the chance to switch providers if they wish, learning disabled and other adult specialist client groups tend, once settled, tend to ‘stick’ to one operator, sometimes for decades. This helps to explain the confidence with which operators at the higher needs, more specialised end of the spectrum view the future.

Other than supported living (which can be an opportunity as well) the main future threat to operators is the expected increase in National Living Wage, by 4.2% in 2017/18 and a further 6% a year until 2020 if the target of £9.00 per hour is to be met. To date, operators’ margins and profitability have not been adversely affected by austerity, but with fee uplifts being kept well below that figure, maintaining profitability will be challenging in the future.

### Housing Benefit - friend or foe?

The report concludes that the greatest specific threat and opportunity to providers and investors is the government’s plan to reform Housing Benefit funding of supported accommodation. The proposals include:

- Housing costs will be paid through Housing Benefit up to the LHA level, with a top-up paid by the local authority (to replace the existing ‘exempt status’ top-up paid through Housing Benefit).
- To pay for this replacement top-up, there will be a transfer of funds from the Department of Work and Pensions (DWP) to the Department for Communities and Local Government (DCLG). DCLG will then allocate funds to local authorities by a mechanism yet to be determined
- There will be a ring-fence around the transferred top-up fund and it will only be available to pay for supported housing costs
- There will be no Shared Accommodation Rate in the calculation of the LHA rate for tenants in the new system. The one-bedroom LHA rate will be used for people under 35 living in supported housing.

Mr Laing argued:

*‘If the government handles this situation badly, it could blight the future development of affordable housing for special needs and it could halt or seriously impede the shift from registered care home provision to supported living. Handled well, on the other hand, it can create new opportunities for supported living service providers and property investors.’*

Adult Specialist Care market breakdown			
	UK Market Value £bn	Independent Sector Share of Provision	Share Absorbed by Residential Care
Learning disabilities	5.8	85%	52%
Physical and sensory disabilities, including acquired brain injury (ABI)	1.9	93%	46%
of which, ABI care home rehab	0.22		
Mental health needs	1.0	93%	63%
Memory and cognition disabilities	0.1	94%	70%
Substance misuse	1.2	N/A	11%
<b>Total Market Value</b>	<b>10.1</b>		

Source: LaingBuisson’s Adult Specialist Care – second edition, January 2017.

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LaingBuisson's *Adult Specialist Care – second edition* is available now priced at £1,180 for Single-user Printed Hard Copy and £2,950 (+vat) for Multi-user Digital PDF + Printed Hard Copy. Visit [www.laingbuisson.com](http://www.laingbuisson.com) to find out more.

An Executive Summary & Report Highlights document is available to the press upon request.  
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#### **Notes to Editors**

##### **About LaingBuisson**

LaingBuisson, the UK's leading healthcare market intelligence provider, has been serving clients for over 30 years, providing insight, data and analysis on health and social care market structures, policy and strategy. The Company's products and services are based on proprietary primary data and it is the only non-government data source cited by the Office of National Statistics (ONS) for the independent healthcare market.

The Company advises healthcare providers, commissioners, payors, investors and regulators, helping them to understand their markets, access their customers, increase profitability and deliver better quality care through market reports, benchmarking, data sets, consulting, newsletters and conferences.

For more information, please visit the website at [www.laingbuisson.com](http://www.laingbuisson.com).

##### **About William Laing**

William is the founder of LaingBuisson. His views are often quoted in the media and he is frequently invited to speak at conferences and to participate in think tanks and policy initiatives.

He authors LaingBuisson's market reports focused on independent sector social care delivery, as well as titles on mental health support systems and primary care services delivered outside of hospital settings. He also provides bespoke consultancy to private and public sector clients and was the creator of the Care Costs Benchmarks toolkit and the forthcoming long term care market management system CareSustain.

Before founding LaingBuisson in 1976, William worked for the Association of the British Pharmaceutical Industry and the Office of Health Economics where he was deputy director.