LaingBuisson
Healthcare intelligence

ADULT SPECIALIST CARE

Complex care market looking ‘broadly positive’

Headline findings from LaingBuisson’s latest research and analysis

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:

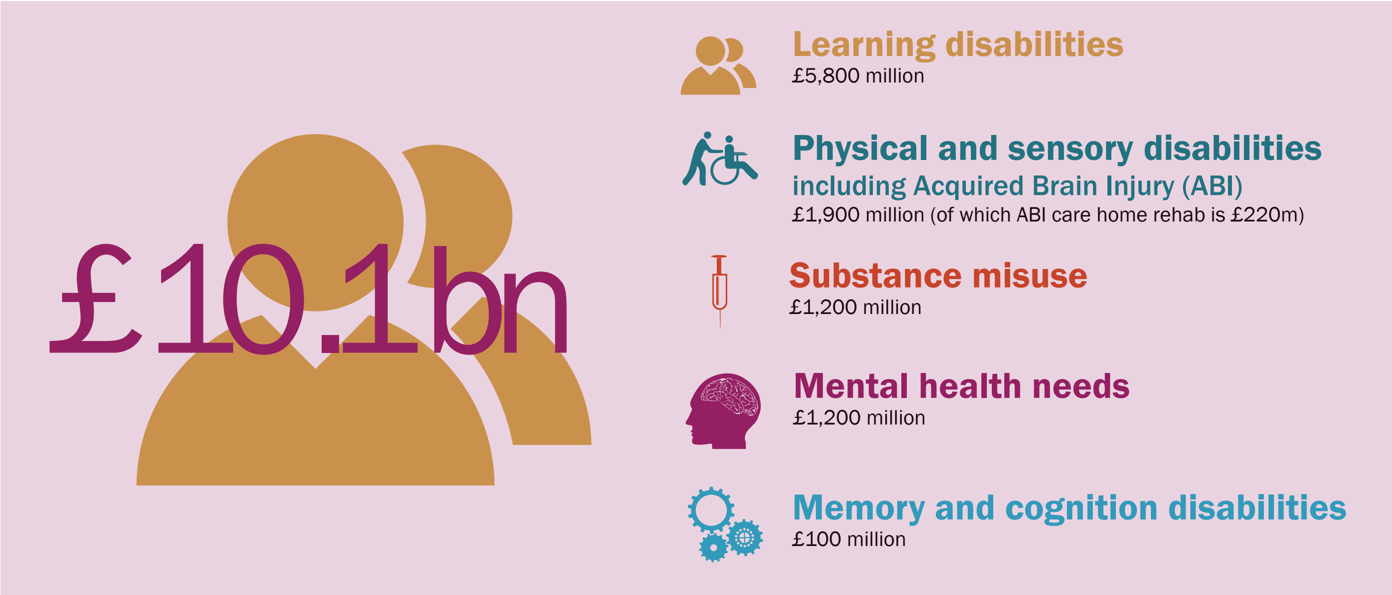
‘Prospects for the future funding envelope will depend on the state of the UK economy, competing calls for public spending and political reactions to them. The new Conservative government under Theresa May has indicated some relaxation of targets for reduction of the public spending deficit. But there 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

Adult Specialist Care
LaingBuisson 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%
Total Market Value	**10.1**		

Source: LaingBuisson’s Adult Specialist Care - second edition.

Adult Specialist Care market value, 2015/2016



Source: LaingBuisson's Adult Specialist Care - second edition.

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 they 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.'

Profitability

Up until early 2016, the larger specialist care home providers have managed to maintain their underlying profitability, despite austerity driven pressure on fees by local authority commissioners.

Aggregate EBITDAR margins for those 'pure play' providers covered stood at a healthy 26% in financial years ending in 2015 and early 2016 with all of the major for-profit groups are clustered fairly tightly around the mean.

Looking forward, care home operators will face headwinds affecting profitability, with National Living Wage cost inflation at a projected 5.7% per year up to 2020 while fee uplifts are struggling to keep pace with ordinary inflation in a challenging financial environment for all publicly paid services.

Major providers have been able to maintain margins in the past four years. It remains to be seen whether they can continue to do so in the future

The profitability of the handful of major WAASC supported living providers which are close to 'pure play', measured in this case as EBITDA as a percentage of turnover (since supported living / homecare is an asset-light business).

While, market leader Lifeways' EBITDA margins have been under pressure in recent years, as would be expected from the challenging financial environment, at just over 15% for the year ending August 2015, they are still healthier than those posted by all large public sector facing homecare operators,

Meanwhile, Lifeways' principal not-for-profit peers in the supported living space have targeted (and achieved) operating surpluses at just above break even.

To find out more visit
www.laingbuisson.com

Meet the analyst

Author **William Laing** is the founder of LaingBuisson. 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.

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ADULT SPECIALIST CARE

UK MARKET REPORT

SECOND EDITION

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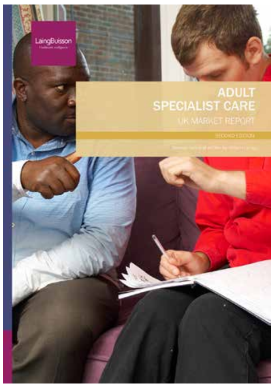
A market awaiting political decisions

Worth over £10.1 billion in 2015/16, the adult specialist care market - or perhaps more correctly 'markets', given the wide range of services and support mechanisms involved - has in recent times been able to sustain profitability much better than, for example, the older care sector, despite austerity driven pressures from their major contractors - local authorities.

The coming years, however, could present new challenges in the form of continued obligations to meet the National Living Wage, and more specifically in the government's proposals to reform Housing Benefit. Handled badly, government plans to contain the Housing Benefit in the special needs space could blight the funding and future development of the accommodation element of housing and support for adults with learning disabilities and other specialist needs.



The most fragmented market in UK healthcare

This report from LaingBuisson presents a picture of a fragmented market where the four leading providers account for only 7% (£700 million) of the £10 billion annual market size. The remainder is provided by a long tail of small to medium as well as micro enterprises which show remarkable resilience despite a challenging financial environment.

With the exception of acquired brain injury and substance misuse, where there is significant private funding, nearly all social care services for other working age adult client groups are paid for through public funds.

Challenges and opportunities within these markets are wide and varied. A public policy approach which favours personalisation and choice, and a move away from inappropriate residential care settings, on the surface drives interest in supported living and homecare solutions. However, as recent events have shown, the homecare market is losing operators at a rate of knots suggesting that an alternative solution may be required for a group of clients who have a range of medium to high intensity long term social care needs and who can ultimately spend a large number of years requiring specialist support.

What the report covers

UK social care and related services for working age adults, including:
- *Learning disabilities*
- *Physical and sensory disabilities*
- *Mental health needs*
- *Memory and cognition disabilities*
- *Acquired brain injury*
- *Substance misuse*

Market Size and Structure
Profiles of major operators
Funding
Market drivers
Operational KPIs
Profitability and enterprise values
Government policy
Regulation
Quality assurance and benchmarking
SWOT analysis
Trends
Future outlook

Financial Appendix

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