

Care homes for Older People market analysis and projections

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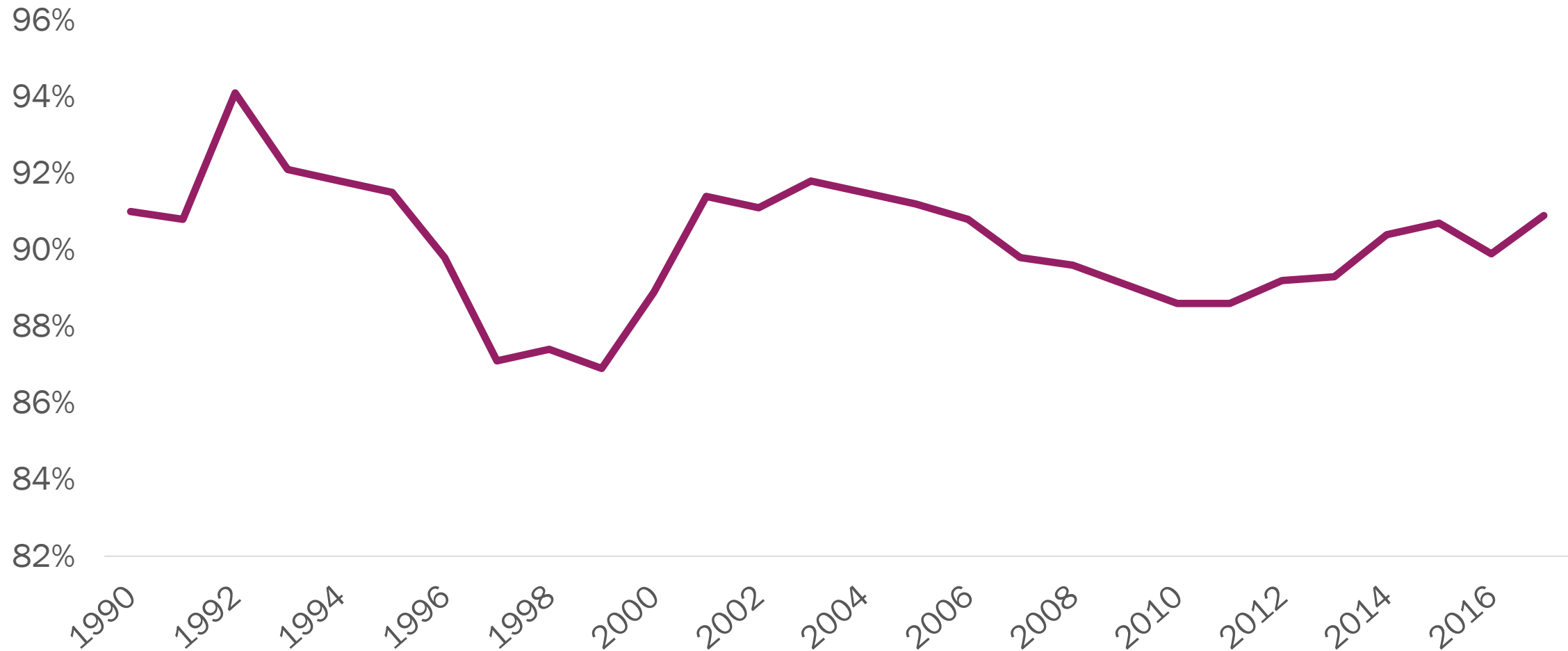
The older people's care home market in numbers (2016/17)

- **£15.7 billion market value (£8.8bn public pay; £6.9bn private pay) approximately 1% of GDP**
- **421,000 residents (249,000 public pay and 172,000 private pay)**
- **91% average occupancy rate**
- **National average fees (approximate)**
 - **Local authority paid residential** **£500pw**
 - **Private paid residential** **£700pw**
 - **Local authority paid nursing** **£675pw**
 - **Private paid nursing** **£1,000+ pw**

Otherwise, a real crisis looms in less affluent areas where public pay predominates .

And with the CMA now looking at the care home sector, maybe it's time for a complete rethink of how public sector procurement of long term care works.

Occupancy rates – care homes for older people UK



Two contrasting markets (older people's care homes)

State funded

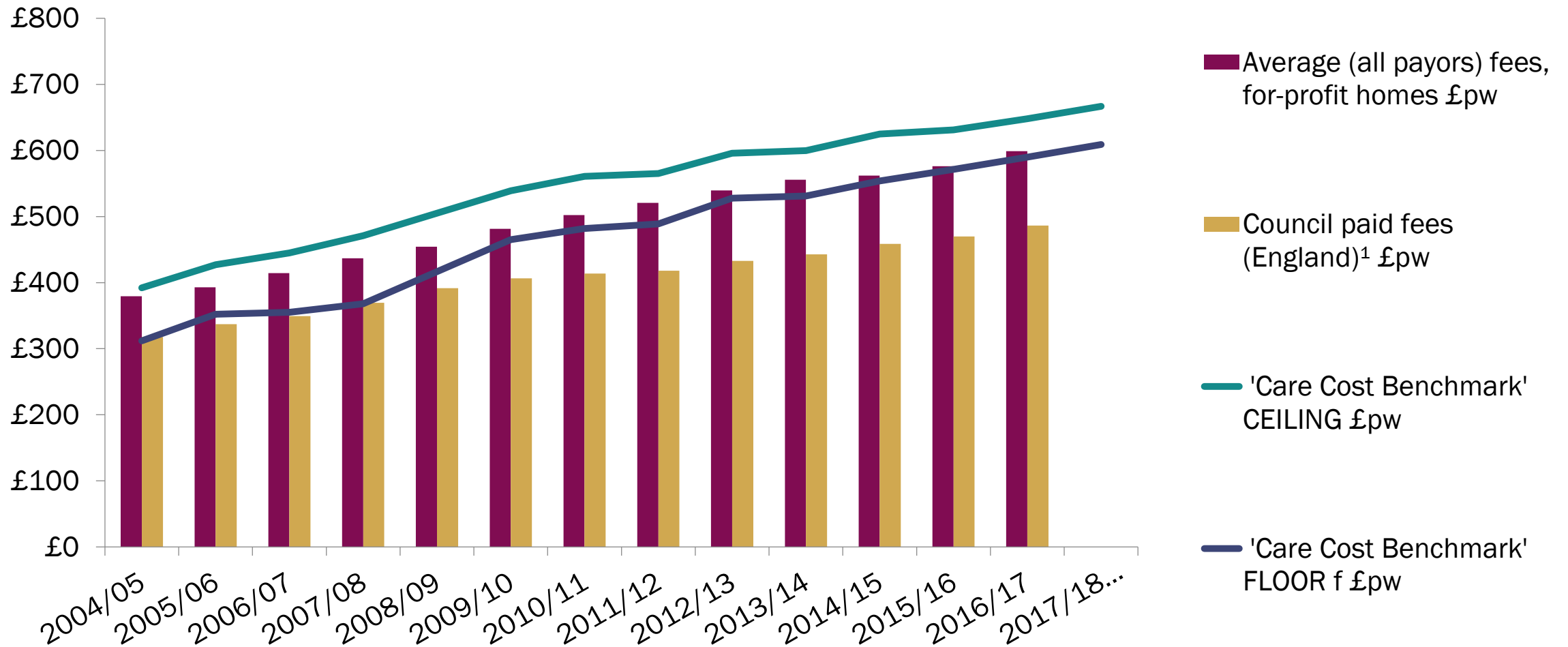
Uncertainty and risk as cash-strapped councils and CCGs continue to put pressure on providers' prices and margins.

Negative impact for care service operators is strongest in the north and other less affluent areas of the country with high exposure to public pay.

Privately funded

In contrast, the privately funded sector is in robust good health with a sustainable funding model based on housing wealth

Council paid fees for residential care have fallen below the fair price 'floor' (England Average)



Early indications of slightly better news for 2017/18

- Early results from LaingBuisson's annual baseline fee rate survey indicate that councils across the UK have put through an average fee uplift of about 3.5% for 2017/18.
- This is roughly in line with inflationary increases in total care home costs
- If 3.5% is the final out-turn, this in turn means that there will on average be no further margin erosion for operators of accommodating council funded residents

Private pay premium – data from the 2015 CCN study

	Analysis of fee variances in 'unique room sets' (i.e. groups of rooms of similar or identical specification, where it was possible to compare private and council paid fee rates on a like-for-like basis)			
	Number of Unique Room Sets	Number of private payers in unique room Sets	Weighted average ratio of private to council paid fees within unique room sets	Percentage of cases in which privately paid fees were higher than council paid fees for like-for-like services
Nursing homes	147	776	1.41	94.6%
Residential homes	304	2,663	1.46	96.7
All homes in sample	451	3,439	1.43	96.0%

Does the private pay premium signify cross subsidies?

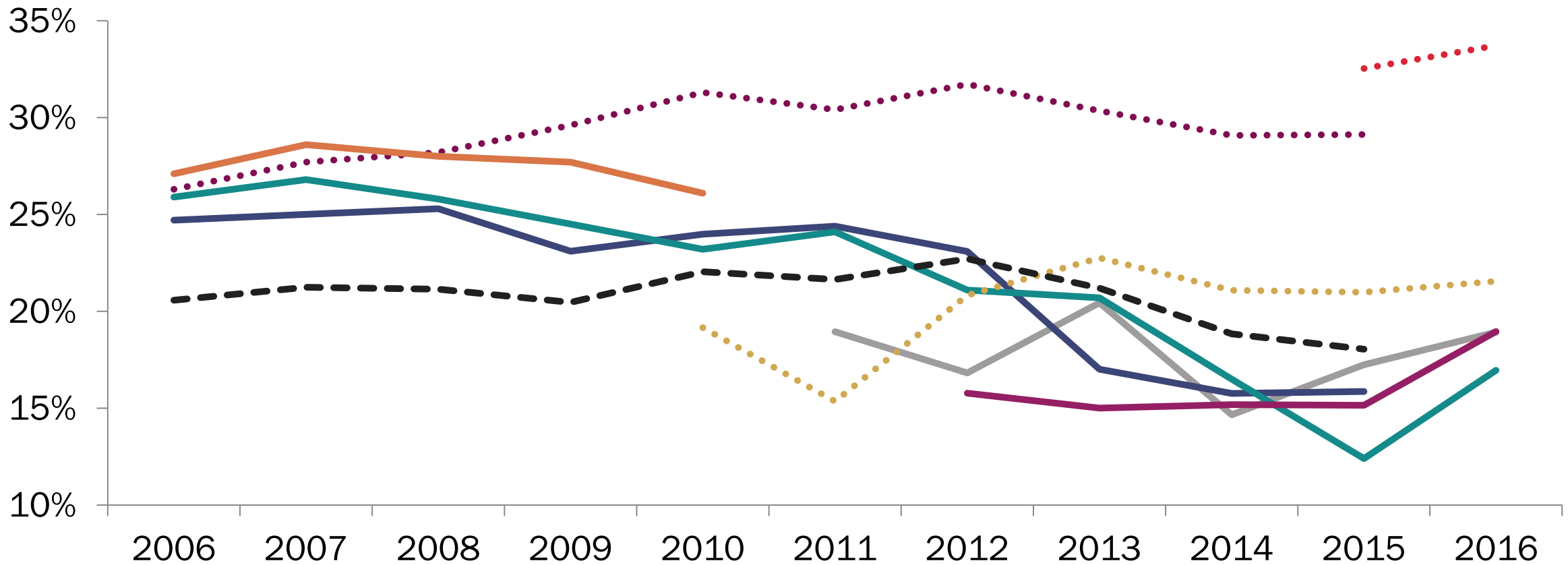
Best characterised as a mixture of:

- Operators subsidising councils with prices below adequate return
- Cross subsidisation of public payers by private payers

How has profitability been affected?

Profitability – EBITDAR as % revenue

- Barchester (y/e Dec)
- Bupa (y/e Dec)
- HC-One (y/e Sept)
- Avery Healthcare (y/e March)
- Care UK (Residential Care Division)
- Four Seasons Care Homes Division (y/e Dec)*
- Caring Homes (y/e March)
- Southern X (y/e Sept)



Profitability - conclusions

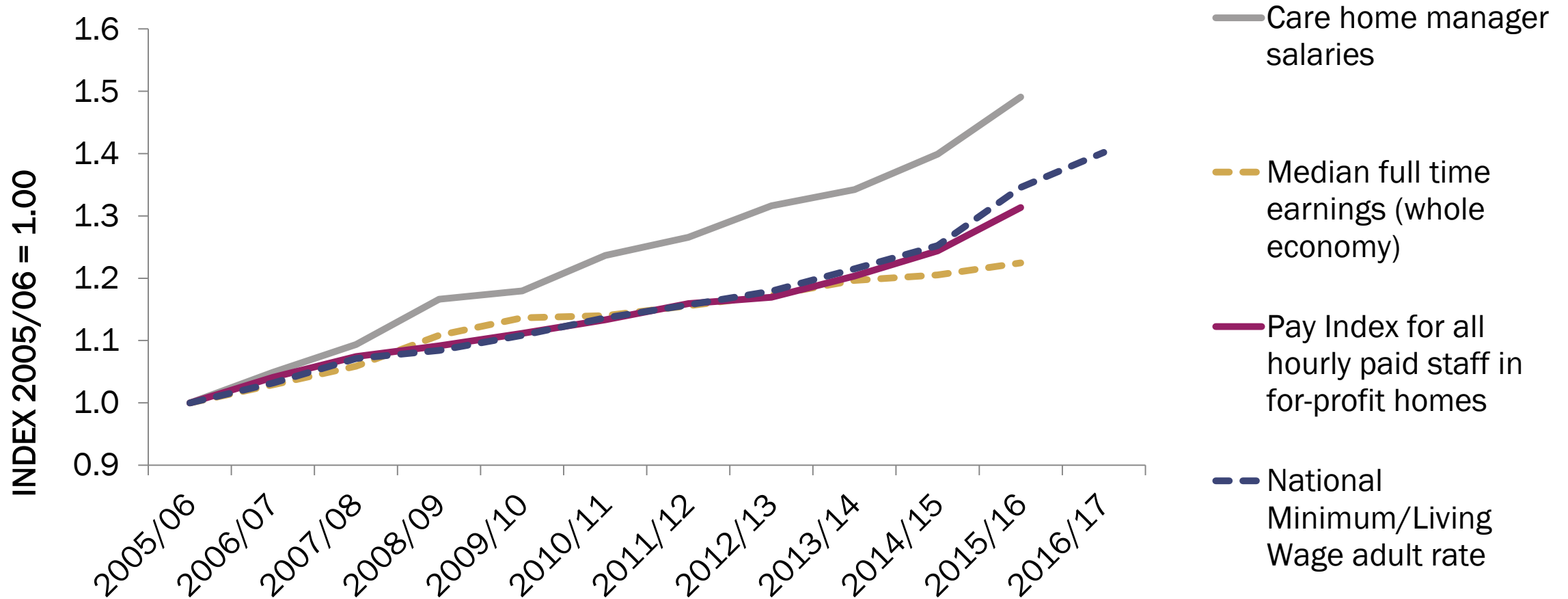
- **Private pay portfolios more profitable than public pay**
- **Portfolios with high exposure to public pay have been hit hard by austerity policies**
- **Public pay profitability bounced back in 2016 because of:**
 - **hike in NHS Funded Nursing Contribution (NHS FNC)**
 - **occupancy rate improvements**
- **But the welcome upturn in profitability could be eliminated by National Living Wage increases in two or three years if councils maintain pressure on prices**

Staffing headwinds

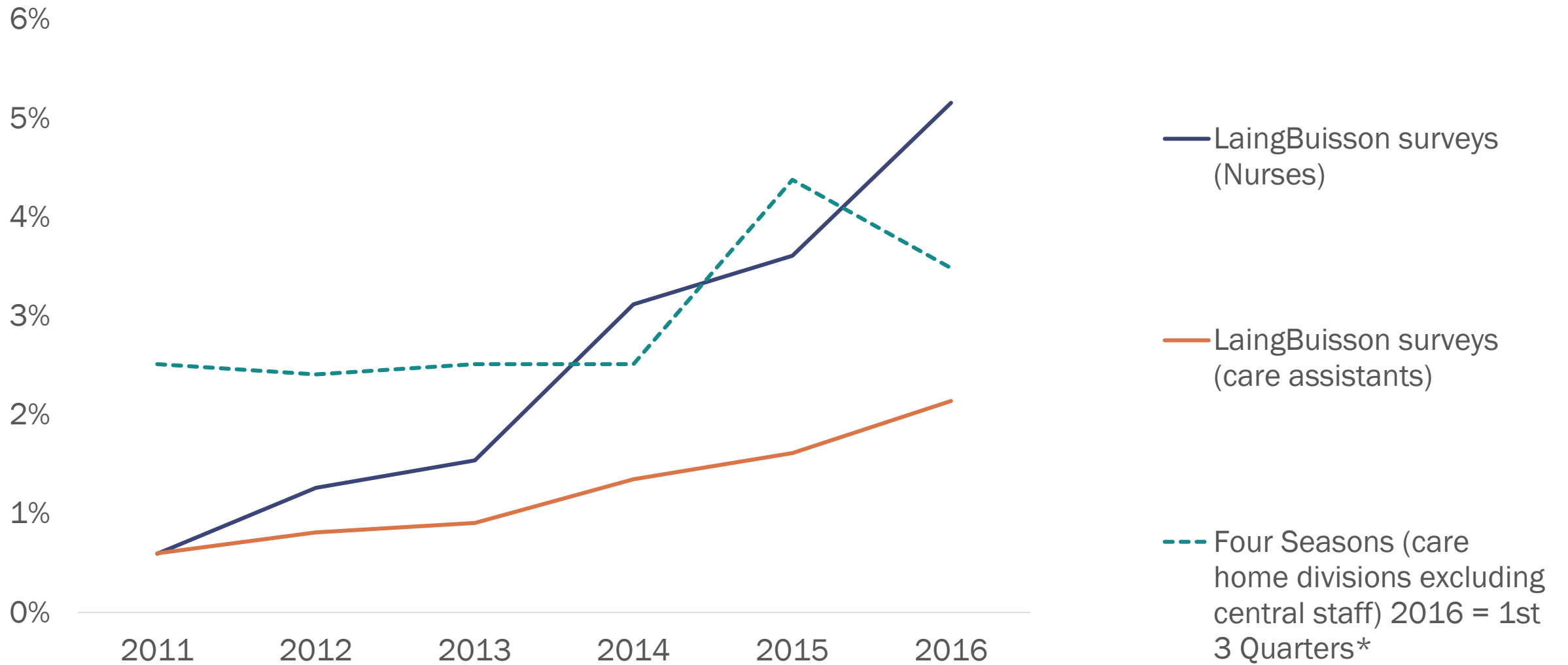
- High staff turnover (must impact on quality)
- Nurse shortages
- National Living Wage

NOTE: THE CHARTS WHICH FOLLOW RELATE TO CARE HOMES FOR OLDER PEOPLE (65+), BUT CAN BE USED AS A PROXY FOR YOUNGER ADULT (18-64) CARE HOMES

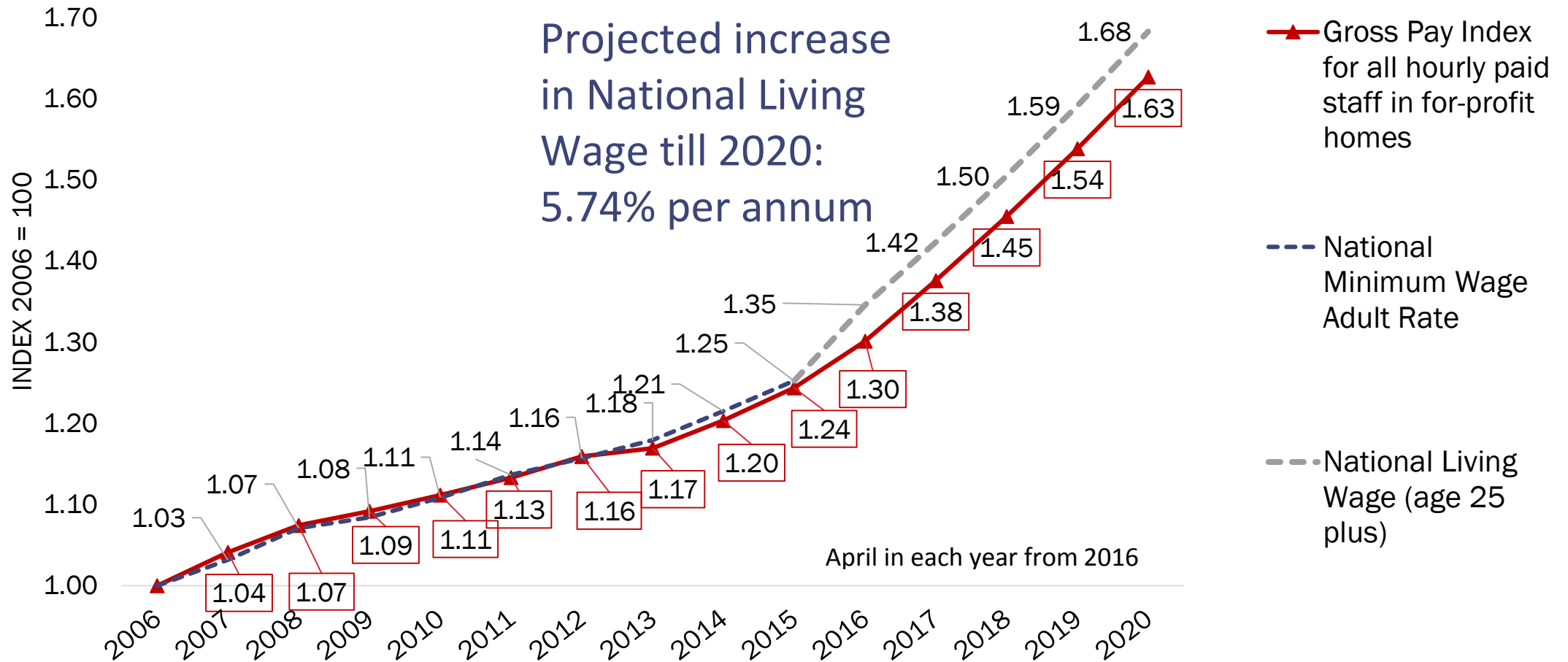
Pay indices – care homes for older people



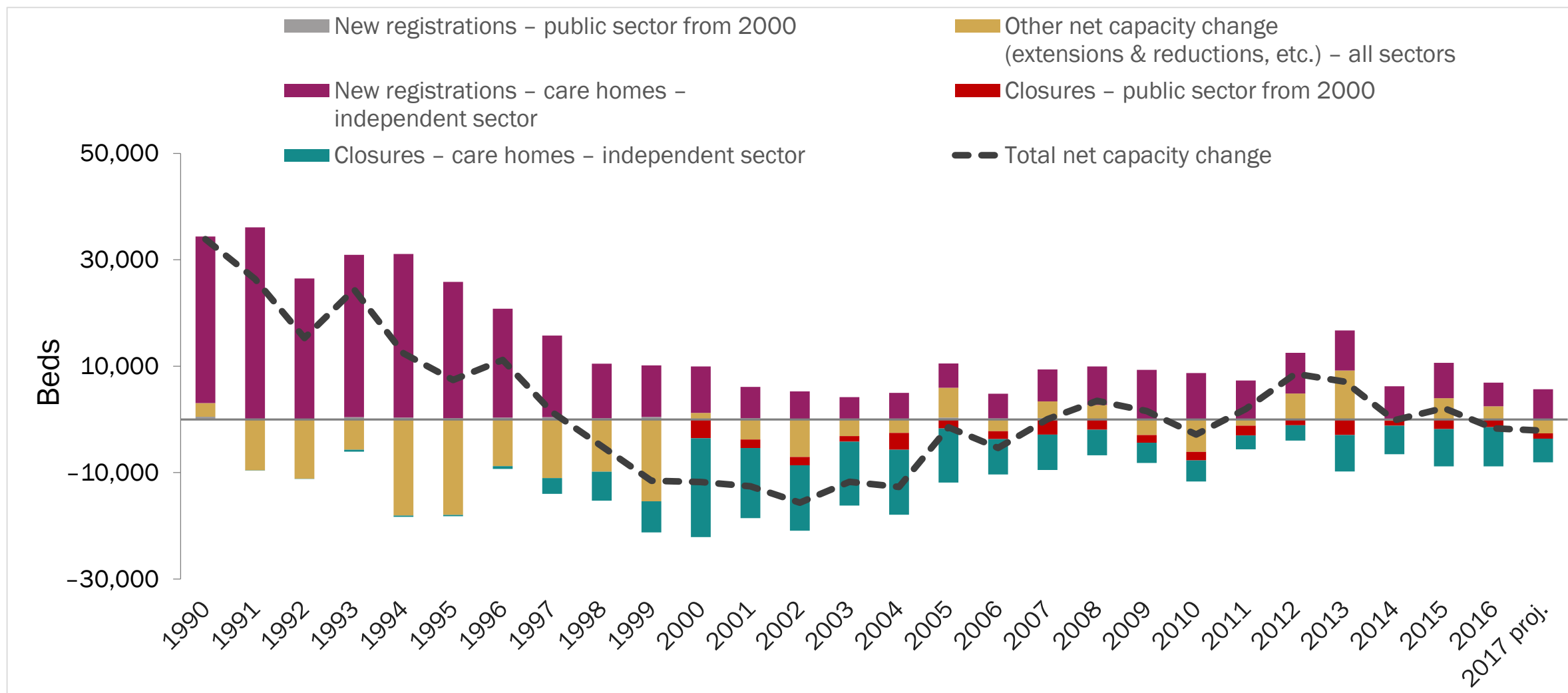
Agency staff shifts as % all staff shifts, care homes for older people



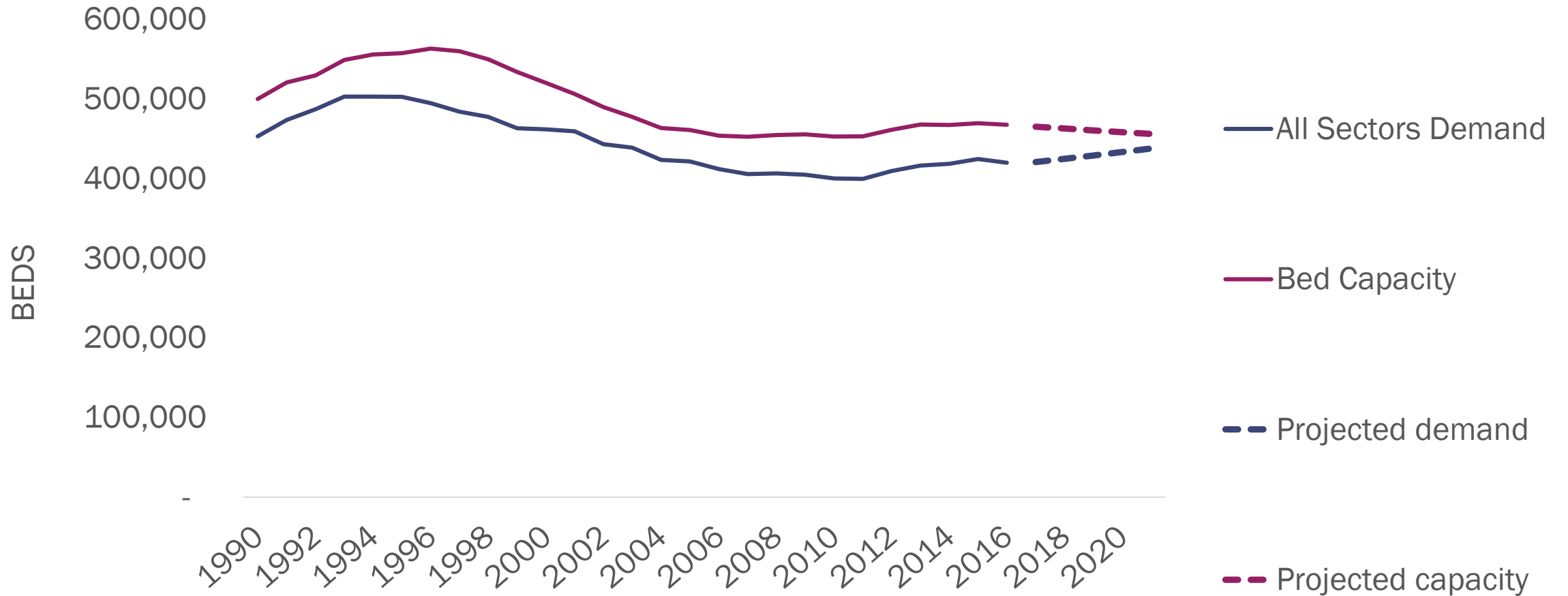
Pay inflation projections – care homes for older people



Historic capacity cycle – UK Independent Sector Care Homes for older people & dementia change in bed capacity in year



Capacity and demand – crisis scenario

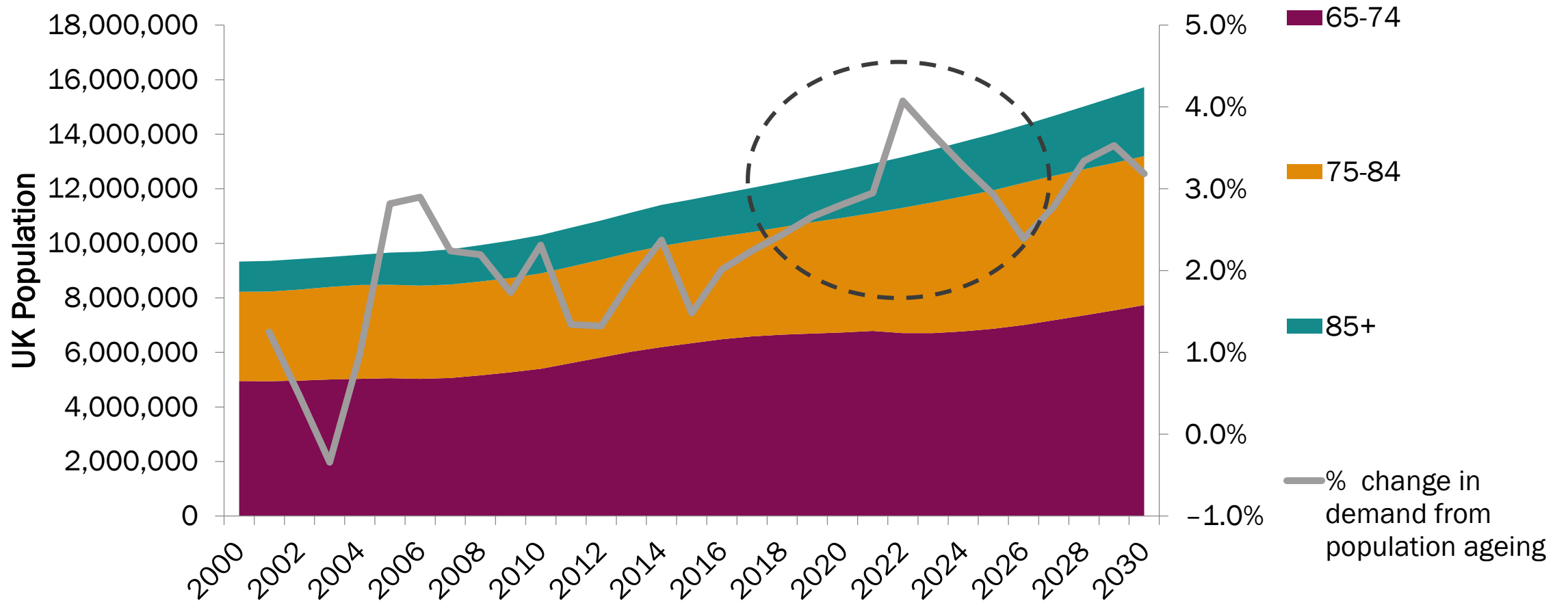


Key drivers of capacity and demand

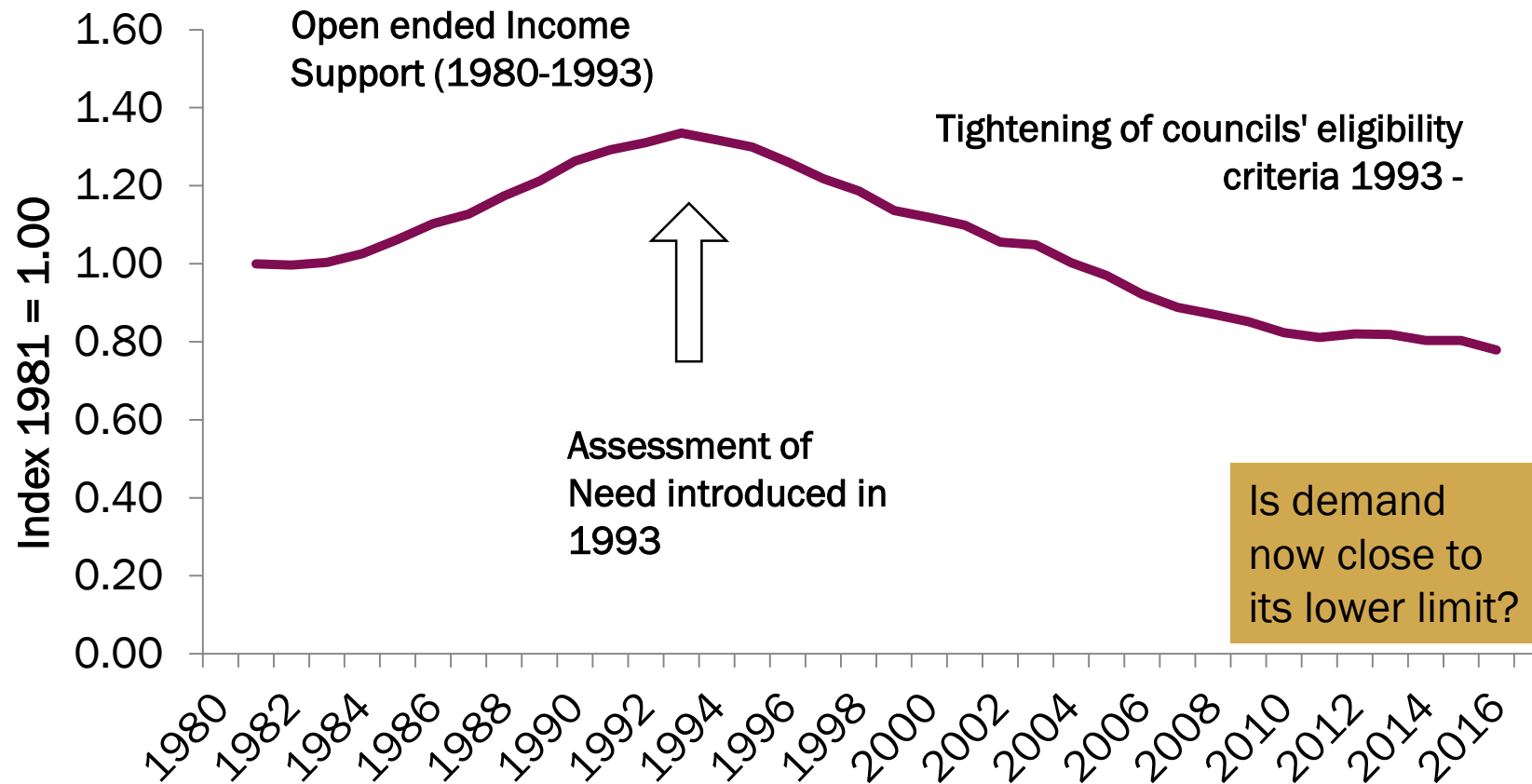
The key drivers are:

- **Appetite for investment in new capacity (currently high for private pay but low for public pay)**
- **Demography (rising demand)**
- **Propensity to enter care homes (this is the wild card)**

DEMOGRAPHY – Expected growth in demand, assuming constant age-specific propensity to be resident in a care home



Propensity to enter care homes - age standardised index of demand* UK 1981-2016



*March 1981 = 1.00. Ratio of observed to expected residents, the latter being the number that would have been observed in a given year if 1981 age specific rates of occupation of care homes and long stay geriatric and older mental illness hospitals and units are applied to the population in that year.

Medium term scenarios (for state funded operators)

1. BLEAK

Councils continue to succeed in containing demand; and they continue to put downward pressure on fees; bounce-back in profitability in 2016/17 is eroded by cost inflation driven by NLW

2. POSITIVE (MARKET CORRECTION)

Demand rises while capacity falls; strengthening occupancy rates shift market power in favour of care home operators and councils are forced into upwards price corrections; government is forced to fund councils

3. POSITIVE (NEW SETTLEMENT FOR SOCIAL CARE)

Government recognises the need for very substantial cash injections and councils are enabled to raise fees to a level sufficient to incentivise investment in new capacity