

LaingBuisson[®]
EVENTS

Care Homes for Older People UK Market Report 23 Feb 2022

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Care Homes for Older People – UK market report



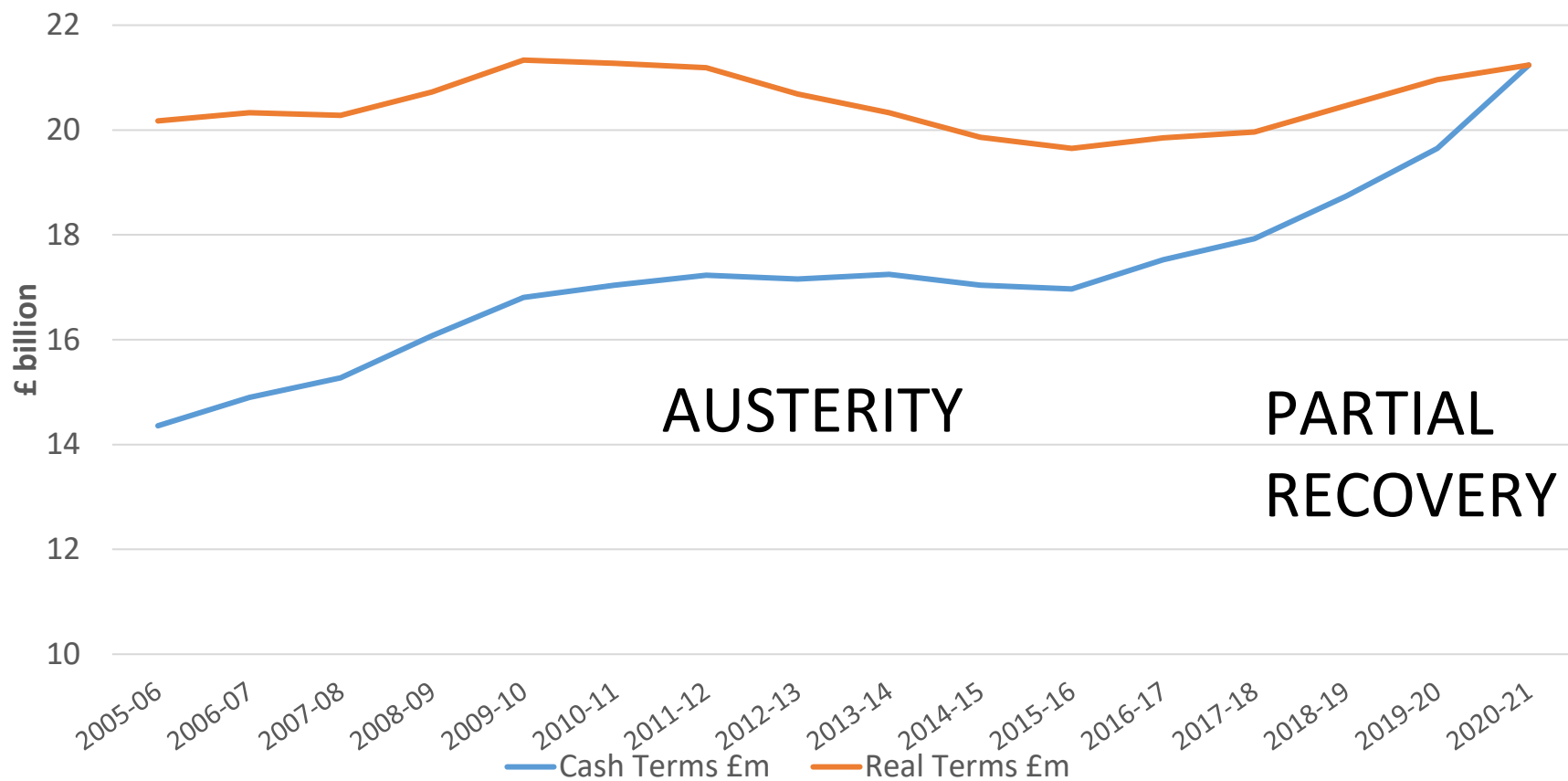
Presentation by William Laing, Executive Chairman, LaingBuisson
Wednesday 23 February 2022

Adult social care funding gap?

£7 billion (Health Committee 2021)

The quantum depends on how it's counted

Gross current expenditure on adult social care by English councils

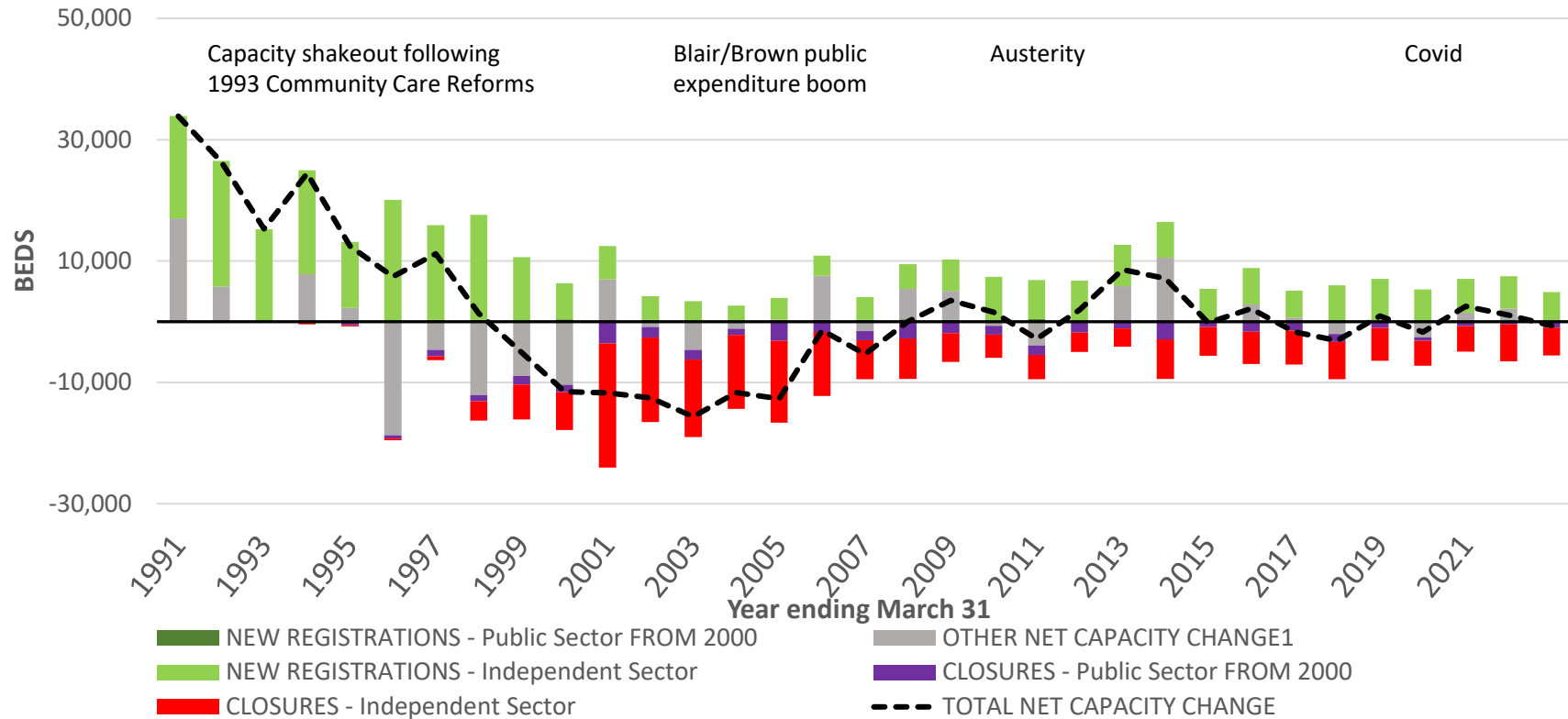


Goodbye to Covid?

Goodbye to Covid?

- Independent sector has proved itself as a reliable infrastructure provider
- LB has reviewed the statutory accounts of over 100 care providers
- Financial costs of Covid were absorbed with little fallout
 - Costs largely if not wholly mitigated by government support, including Infection Control Fund
 - Older people's care homes were impacted most because of reduced occupancy
- Will occupancy bounce back to pre-Covid levels by 2023?
- Has Covid shifted demand to substitutes (live-in care, extra care)?
- Why did Covid did not trigger more capacity closures?

Openings and closures of care homes for older people, UK



From Covid to the social care reforms



FROM THE FRYING PAN

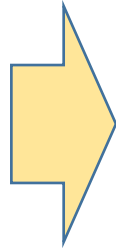
TO THE FIRE



Social care reforms – policy objectives

Pre-reform

- Citizens face catastrophic LTC costs
- LAs cannot afford to pay full care home costs
- Most operators are only viable through the contribution of premium private fees
- Endemic cross-subsidisation from private to public payers, unfair to private payers



Post-reform

- Protection for citizens via £100k upper asset threshold at £86k lifetime care cost cap
- Central government funding injection to enable LAs to pay at 'Fair Cost' rates
- Care homes become able to operate viably on LA fees only
- Harmonisation of fees - 18(3) enables private payers to access care at LA 'Fair Cost' rates

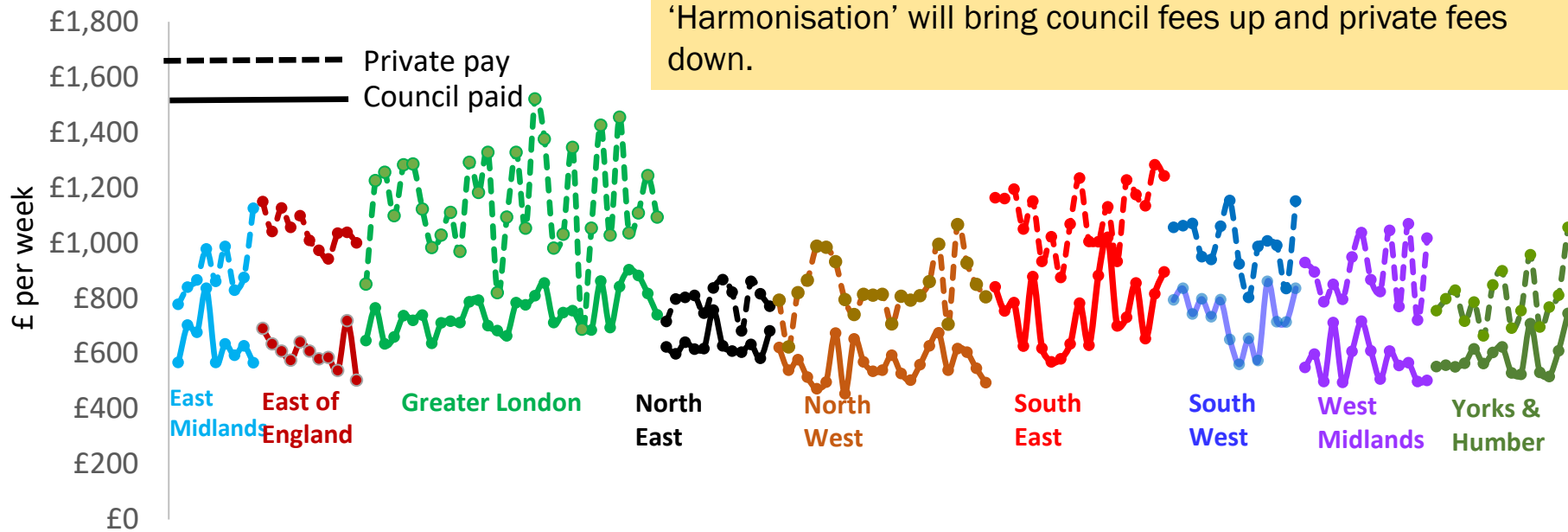
PROBLEM: The new central government funding earmarked for 'fair price' is insufficient to realise the ambitious market re-shaping that is envisaged, without risking destabilisation of some local care home markets

Private pay v council-paid fees – RESIDENTIAL CARE of older people (65+)

English councils 2021/22

Cross subsidisation is endemic. Private pay fees are currently c. 40% higher than council-paid fees. Differentials vary widely by locality.

‘Harmonisation’ will bring council fees up and private fees down.

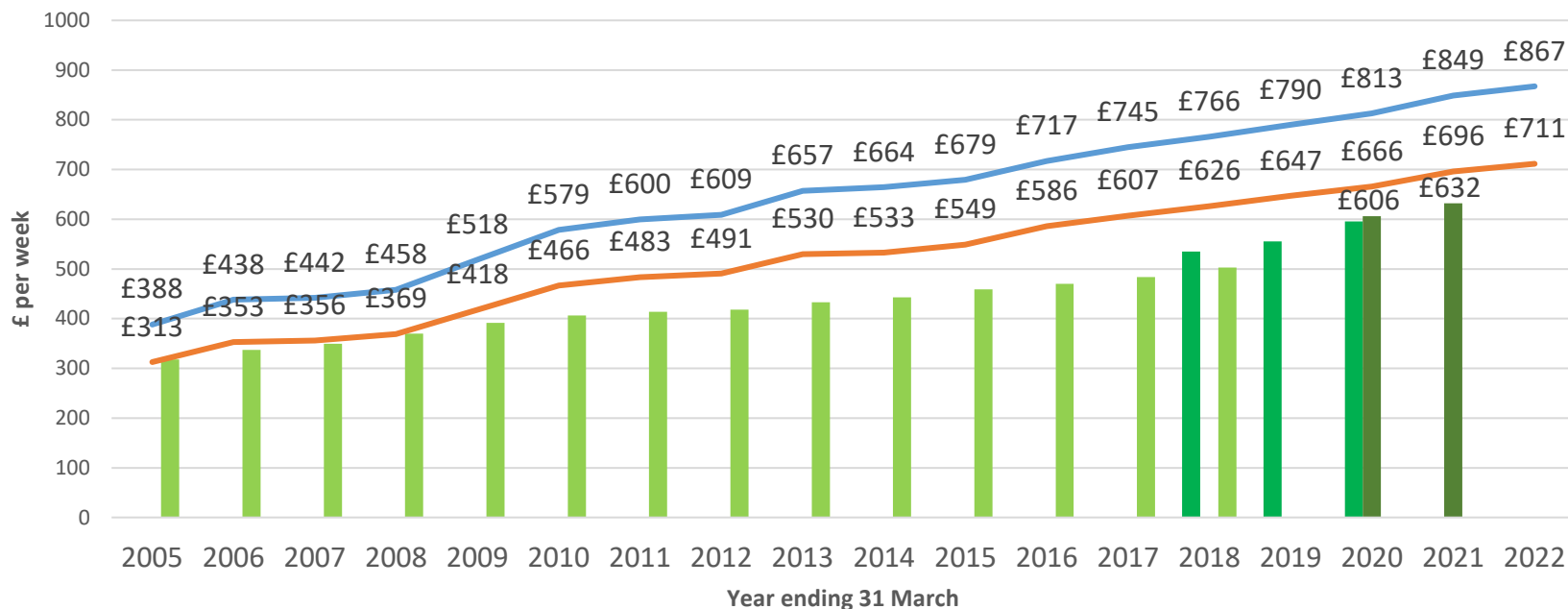


Social care reforms – risks from the twin policies of ‘Fair Price’ and 18(3)

- Government has recognised inadequate LA fees for the first time. The commitment to fund a move towards a Fair Price for care is a positive step
- Implementation of clause 18(3) of the Care Act will depress private fees
- Care home operators face a risk that income loss from 18(3) will outweigh the income gain from ‘Fair Price’
- Local markets could be destabilised as money drains out
- The lower the cash injection into Fair Price, and the higher the use of 18(3), the greater will be the risk of destabilisation
- Harmonisation of fees and an end to endemic cross-subsidisation is desirable, but only if properly funded
- Providers will be looking for judicious implementation of the reforms

How much more will 'Fair Price' cost ?

Council-paid fees - residential care of older people (65+) England



Council-paid fees have tracked below the Care Cost Benchmarks 'Floor' since the beginning of austerity

■ Council-paid fees (Fol requests)

■ Council-paid fees (NHS Digital)

— 'Care Cost Benchmark' FLOOR (2)

■ Council Paid Fees (iBCF)

— 'Care Cost Benchmark' CEILING (1)

*'FLOOR' is the English average fee level required to pay operating costs and give a whole business return of 11% per annum on a minimal capital investment of £25,000 per bed including reasonable operators profit.

*'CEILING' allows for capital investment of £100,000 per bed (new-build to a basic specification).

Fair Price for Care (older people) - Additional Costs to Local Authorities

*'Our assessment is that if LAs were to pay the full cost of care for all residents they fund, the additional cost to them of these higher fees would be **£0.9 to £1.1 billion a year** (UK wide, and assuming this money is directed specifically to those homes)*

Competition and Markets Authority 2017

LaingBuisson estimates of annual additional cost of raising LA fees to 'fair price', England,
(2023/24 projected prices)

FLOOR*: £ billion

Mid-Point* (recommended): £ billion

CEILING*: £ billion

Amount earmarked by the government for implementing Fair Cost of Care

(2023/24 – first full year of the reforms)

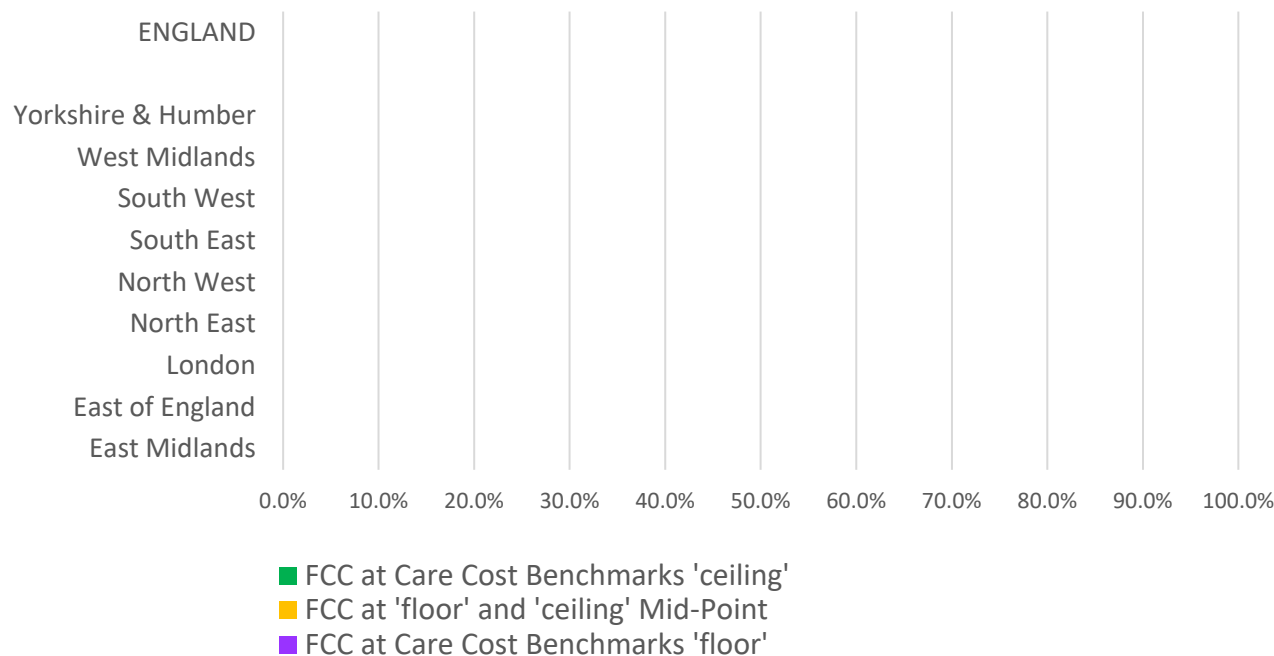
£0.38 billion

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The lower that 'Fair Prices' are set, and the higher the use of 18(3), the greater the risks of income loss for care home operators and market destabilisation

Potential care home operators' net revenue gain/loss from 18(3) and 'Fair Fees'



Data has been redacted from this chart, pending public release.

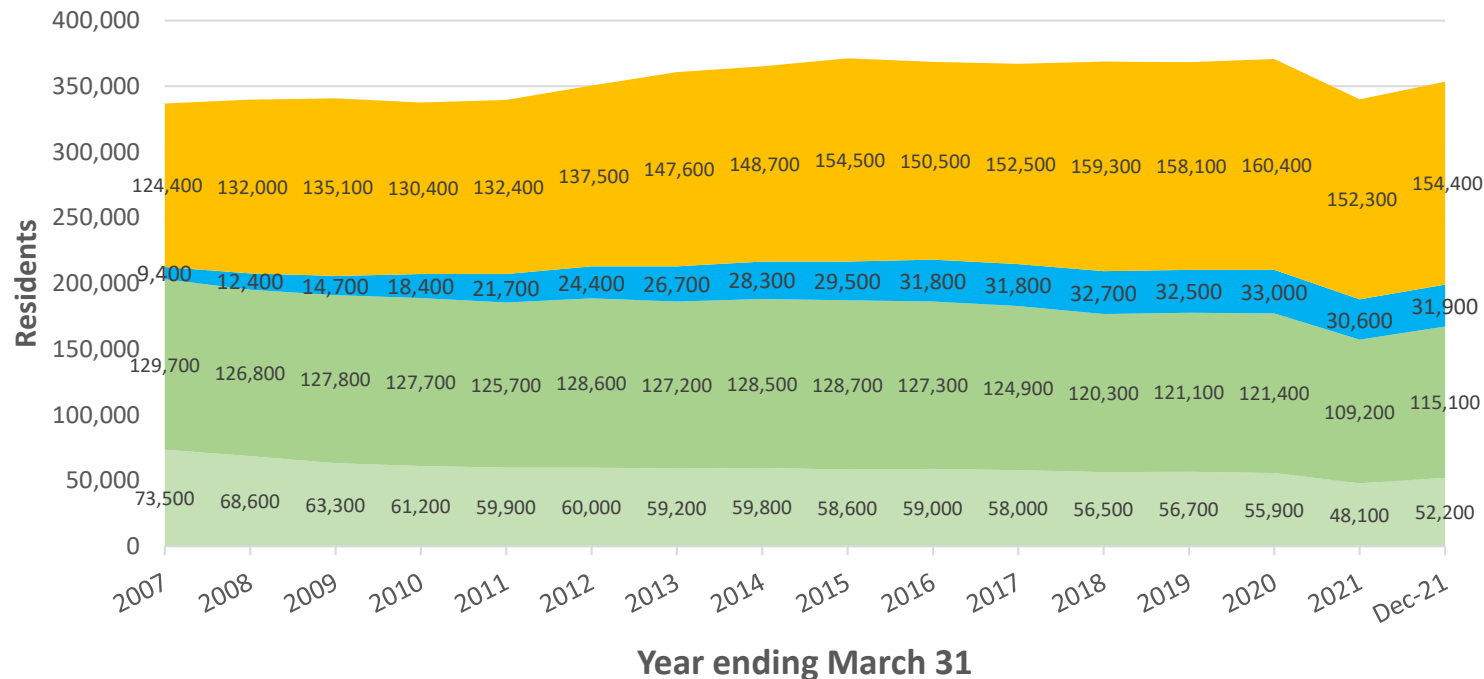
The chart shows that, under given scenarios, care home operators in some areas stand to lose significant amounts of current revenue as a result of implementation of 18(3) alongside under-funded 'Fair Price'.

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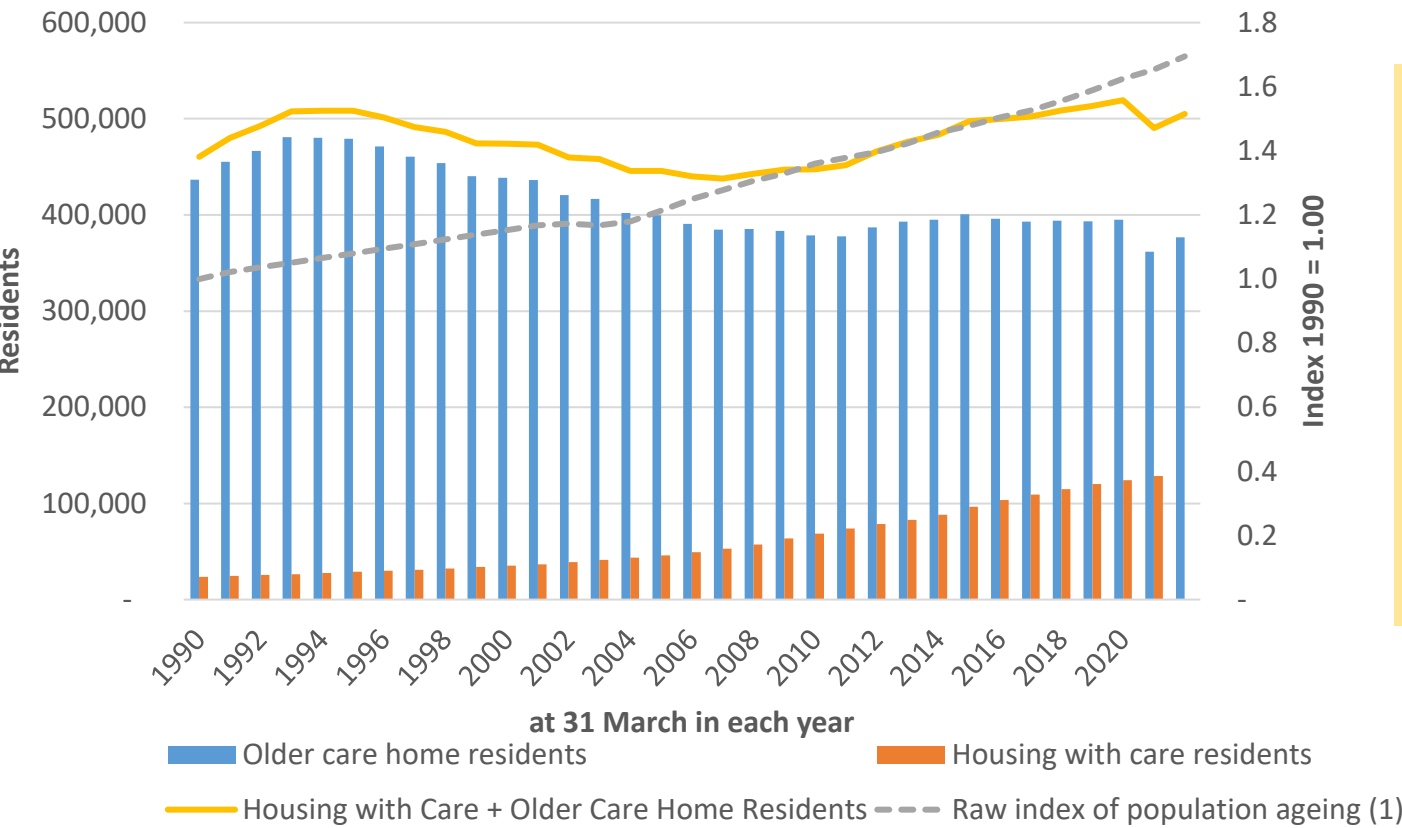
Care home demand – historic and future projections

Historic demand trends by payor group, UK



Trend towards private pay is set to reverse as a result of the social care reforms, via 'Payor Shift' and 18(3) 'Market Equalisation'. More placements will come within the ambit of council procurement.

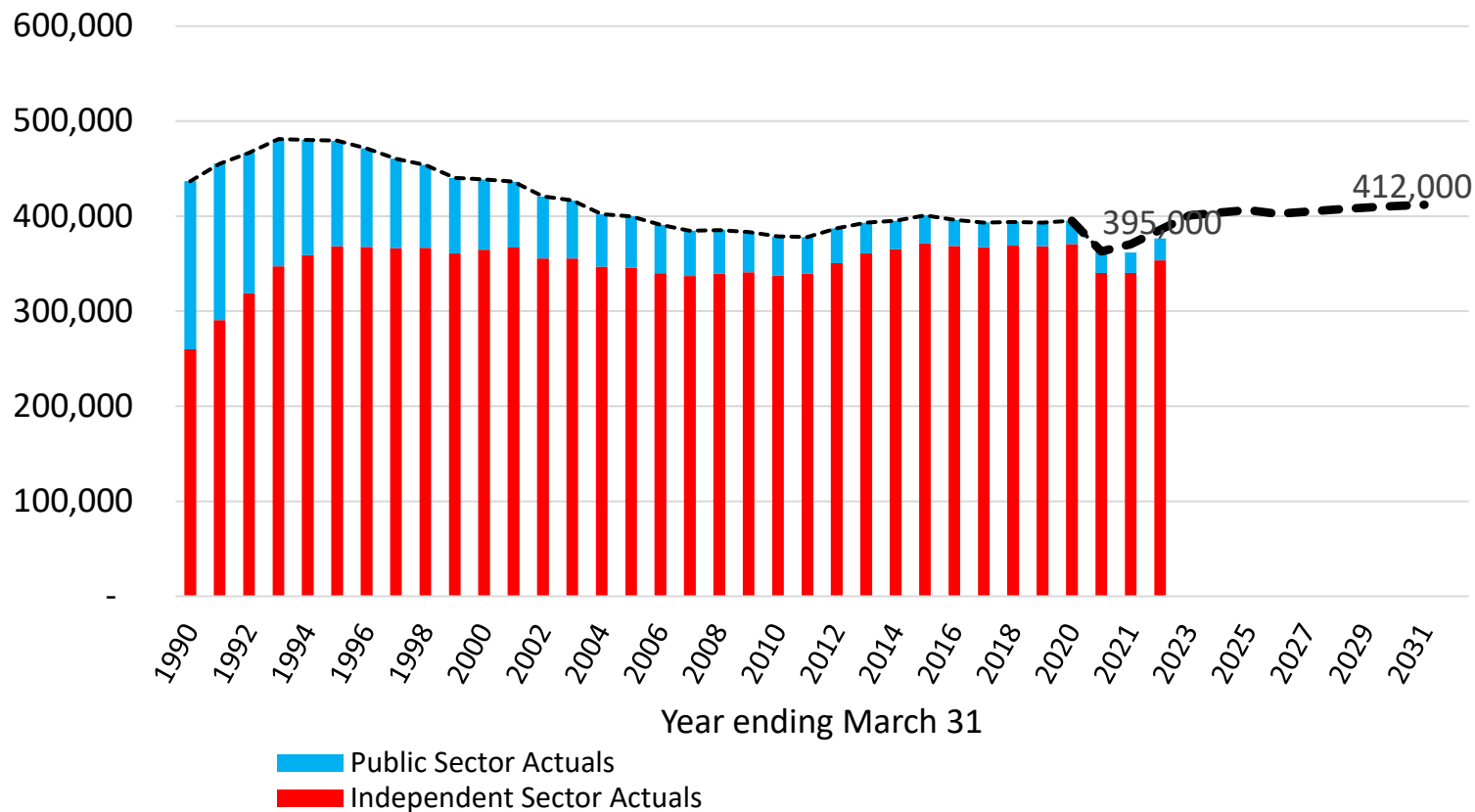
Substitution by housing with care?



Decline in demand from 1993 to 2000's is explained by introduction of needs tests by councils in 1993

More recently, does the expansion of housing with

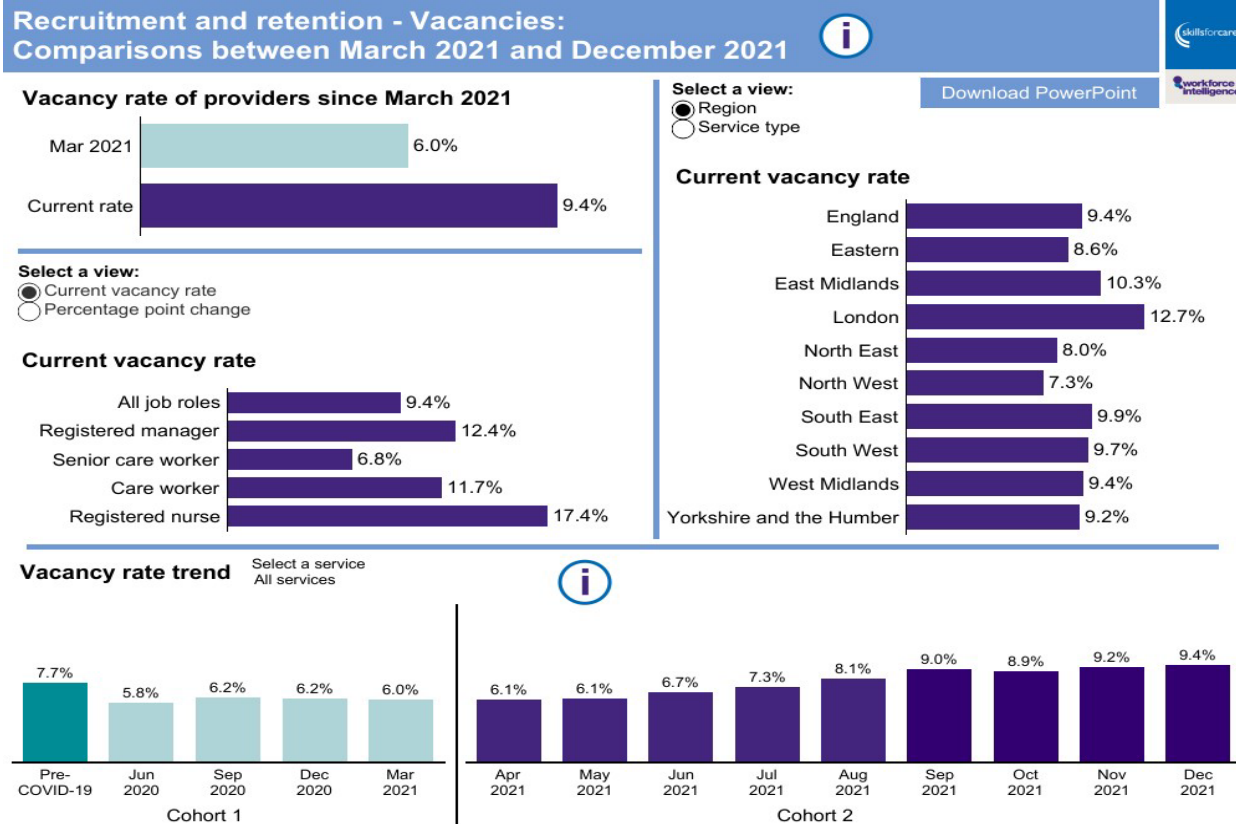
Projections of care home demand, UK



Projections assume a continuing 'counter-demography' factor (substitution by housing with care, live-in care, etc.)

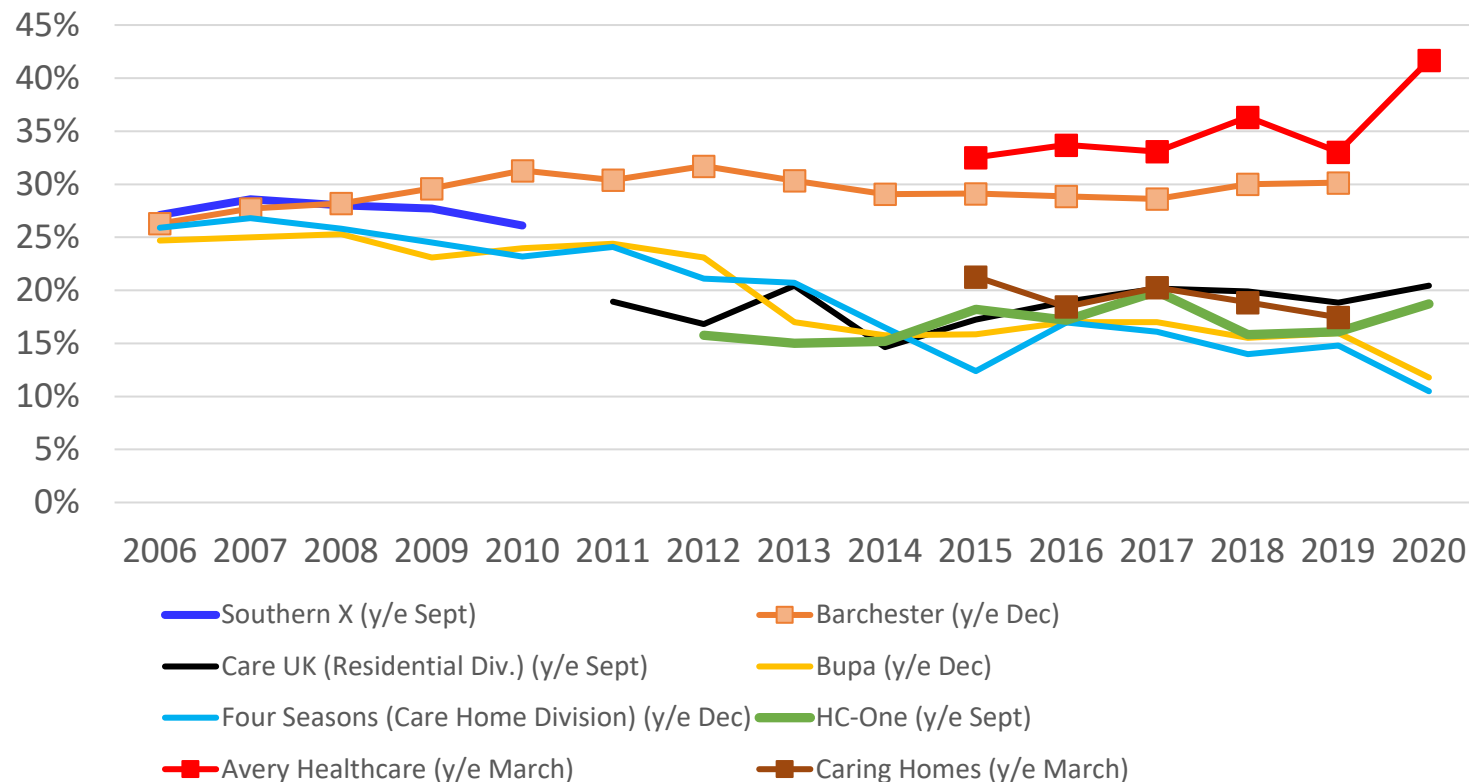
Will growth be constrained by staffing shortages?

Recruitment and retention, vacancy rates in England (Skills for Care)



Underlying profitability

Underlying profitability of major care home groups, EBITDAR as % revenue



Public-pay facing groups are less profitable and trending downwards

Quality performance

CQC ratings performance, December 2021 snapshot

Sector	Care homes rated to date	Outstanding	Good	Requires improvement	Inadequate	% awarded Good or Outstanding
NHS	7	-	3	4	-	43%
Not-for-profit	1,075	65	861	136	13	86%
Local Authority	269	9	219	39	2	85%
For profit of which:	7,380	298	5,406	1,536	140	77%
Nursing	3,188	154	2,266	711	57	76%
Residential	4,192	144	3,140	825	83	78%
Group operated	4,059	175	3,015	806	63	79%
Non-group operated	3,321	123	2,391	730	77	76%
All sectors (rated)	8,731	372	6,489	1,715	155	79%
All sectors (not rated)	2,038	-	-	-	-	-

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32nd Edition

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