Mind the gap

The growing shortfall in the number of elderly care beds spells disaster for our ageing demographics. **Clare Connell** and **Henry Hunt** of Connell Consulting investigate

Melbury Court, HC-One

Connell Consulting

New research from the consumer group Which? has suggested that "urgent action" is needed to address a shortfall in care home beds of 42,000 by 2022. This mirrors recently published data from Newcastle University's Institute for Ageing, which has suggested a national lack of 71,000 care home places by 2025. However, these studies have tended to focus on demand trends rather than supply. An ageing population means the number of elderly people with substantial care needs is increasing, but shrinking numbers of care homes, only modest increases in the supply of total beds, and a changing 'mix' of care homes means that a big part of the looming crisis is down to supply side factors.

The elderly care home market has seen increased consolidation, but also significant care home closures in recent years

Despite recent consolidation in the elderly care home market, driven by large transactions such as HC-One's acquisition of 122 Bupa homes in August and Helen McArdle in January, overall the elderly care home market is relatively fragmented. The ten largest for-profit providers hold just 24% of market capacity, with much of the remaining 76% of the market made up of smaller operators.

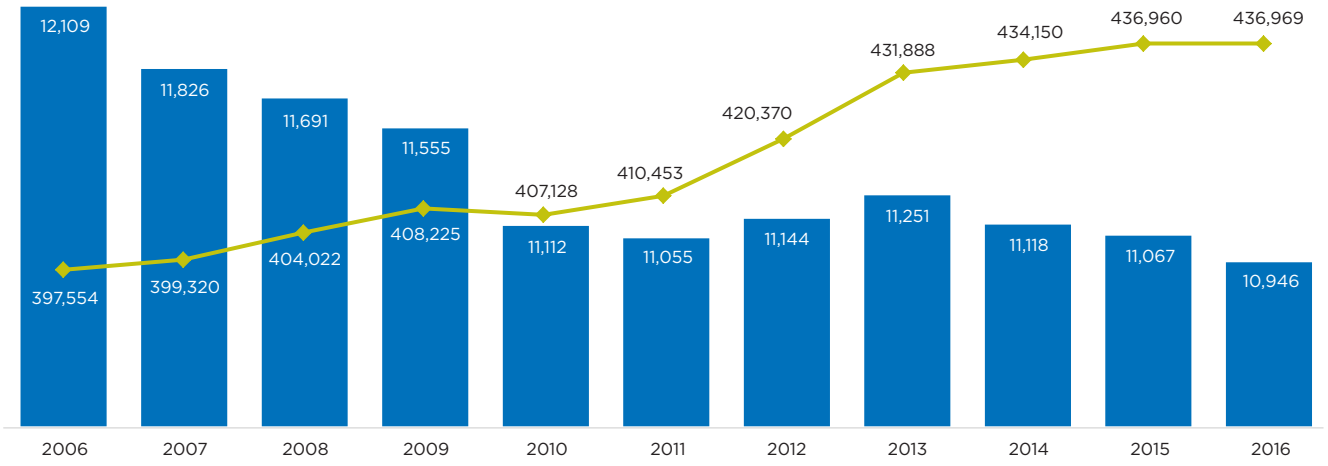
In addition, one in 20 care homes has closed over the past three years. While some are being replaced – according to JLL there have been roughly 7,000 new care homes every year – the type of home that is closing is very different to the type that replaces it. The homes that leave the market tend to be pushed out because they are no longer financially viable, generally being older, smaller and having lower proportions of self-funders. The new homes being built tend to be larger and almost invariably target the more lucrative self-funding market, which drives profits.

Market effects in affluent regions force outdated care homes from the market

This shift is most keenly felt in the south, where markets are less forgiving to weaker homes. Take, for example, a small converted care home of 30 beds. It will have few economies of scale and therefore low margins. These problems are magnified if the home is split across ▶

FIGURE 1

Number of elderly care homes and care home beds in the UK, 2006-16



- Since 2006 the number of care homes in the UK has fallen by 9.6%, but bed capacity has increased by 9.9%
- Older, smaller homes, have been replaced by larger homes with the average number of beds per person increasing from 32 to 40 over the last ten years
- Knight Frank's 2016 Care Home Trading Performance Review determined that the most efficient homes tend to be larger. Those with the most cost effective staff are between 60 and 79 beds and those with the greatest ebitdarm per bed tend to be between 80 and 99 beds.

Source: Connell Consulting

▶ multiple floors; these arrangements don't make the best use of staffing ratios, making recruitment problems more acute. Then, a new home might open across town that offers 90 beds in a purpose-built setting with smart décor and en-suite bathrooms. Future referrals to the existing smaller home, and potentially even existing residents, may take flight to the new and occupancy will dwindle. It might even be the case that a home manager is poached to operate newly opened services; the cost of recruiting good home managers has increased over time and small homes are not optimising a scarce resource that would be better served in a much larger home.

The operators of smaller homes must reassess the financial viability of their service, as well as its ability to work at safe staffing levels, and measure that against the potential alternative options for the home. An ex-manor house that had been converted into a care home may once again be turned into a family home or flats. This may be an opportunity that looks pretty enticing when compared to the tough outlook for small care home operators.

It's in this way that the UK has seen a net loss in the number of care homes. Whilst new developments tend to be larger, with overall bed numbers on the rise (there were reported to be 436,969 elderly market beds in 2016 versus 397,554 in 2006), they are almost universally catering to a different, more affluent demographic of service user (*figure 1*). They're unlikely to accept local authority rates or negotiate on private pay fees. In some parts of the country, elderly people who cannot afford to pay for their care are faced with limited options, as elderly care commissioners struggle to find available beds at the local authority rate – these are the people who will be most affected by the changing mix of care home beds.

In less affluent areas home closures tend to be driven by regulatory rather than economic factors

Poorer, mostly northern markets see less of a corrective effect following the development of new capacity. Service users are less persuaded by new purpose built homes and do not flock to new services as readily as in the south, perhaps in part because of a lack of familiarity with plusher options. Proximity also tends to be the more important factor; family members are more likely to have to rely on public transport meaning the closest homes will be favoured, often at the expense of quality. A limited base of customers with enough assets to afford to pay privately for their care also makes for a less competitive market, meaning standards stagnate.

Moreover, the alternative use of care homes is limited in less affluent areas. There are fewer people who can afford to buy an old manor house and turn it into a family home in South Tyneside than in Surrey, for example. Social housing or flats may be an option, but the pay-off will be smaller. Additionally, in rougher areas if a care home is closed, but remains unsold for any length of time, it is vulnerable to vandals and squatters, further reducing the value of the property.

Incentives to close are also counterbalanced by lower operating costs in poorer areas. An inadequately performing home may be able to hold on longer in the market than it would in other parts of the country, even if it has poor occupancy levels, especially when a consideration must be made for the safe closure of a home, which typically costs around £200,000. In this scenario, occupancy must be run down gradually over time – the fixed costs remain, but are spread across a smaller revenue stream. Rather than make the decision to close and take this hit, poorly performing homes simply struggle on.

(©CQC/Joe D Miles – ImageCapture, flickr.com)

Stricter Care Quality Commission and local authority inspections push poor capacity out of the market

Increasingly robust Care Quality Commission (CQC) inspections, and more aggressive councils that are willing to place homes under embargo if they are not considered fit to take on new service users, have managed to crack down on poorly performing homes, but at the expense of overall capacity. Increased focus on the delivery of high quality care means that sites that are structurally unsuitable, have struggled with staffing, or don't have the funds from private payers to maintain and refurbish, are seeing their CQC rating suffer. In a downward spiral their remaining service users will dwindle; local authorities might place a home under embargo or take it as an opportunity to lower rates. Some local authorities have used their banded rates as a means of forcing out what the council considers to be underperforming homes from the market. For example, Blackburn with Darwen Council has three bands associated with a Quality Assurance Scheme with a difference in fees of over £75 for residential care. Homes that perform well are incentivised to reinvest in the quality of their offering but worse homes end up not even being able to maintain conditions.

Where market forces haven't reduced capacity, regulatory enforcement has cut services out of poorer areas. While this is good for the overall standard of care being provided, it is not good for the capacity available to a rapidly growing population of ageing people with substantial care requirements.

The problem in poorer areas is that there are fewer homes being set up to replace lost capacity. While in the south at least some development is on-going – even if it only caters to a smaller, more affluent section of the elderly population – in poorer areas there is little new capacity being built.

Largely because of recruitment difficulties, rural homes are at greater risk of closure resulting in unequal distribution of beds

It is not just whether a home is located in the north or south of the country that affects its likeliness to close. Rural services are at greater risk as they struggle disproportionately with referrals and staffing – two of the biggest factors in the viability of a given home. There is a smaller population of potential service users in rural areas, with occupancy levels impacted as a result. Poor transport links are also a key factor in attracting both referrals and staff. Low wages at or near the national living wage mean that care staff are unlikely to own a car. Better public transport links between population hubs and care homes means retention of staff is more acute than in rural homes.

Staffing is such a problem in some rural areas that providers can be in the frustrating position of having plenty of demand, but no staff. They have to rely on expensive agency staff, which affects the bottom line and prompts closures.

Going forward, rural areas are likely to be overrepresented in the population of elderly people unable to source care beds that are appropriate to their needs.

A mismatch of demand and supply

As a national picture, it seems quite simple: the number of care beds is rising, but not quickly enough to meet the needs of a growing population. However, the UK elderly care market is, in reality, a patchwork of 100s of micro-markets subject to differentiated demographic shifts.

The affluent portions of the country, particularly urban and suburban areas, are fairly adequately supplied with plenty of choice for prospective service users and will be shielded from shortfalls for years to come. Older homes may exit the market, and there will be increasing pressure on local authorities to source beds at local authority rates, with a need for bigger, more efficient homes to fill gaps in local markets at prices that are within reach of the majority of local populations.

In poorer areas, homes that must rely on local authority funded residents will suffer. Substandard services are being pushed out of the market by the pressures of the CQC and local authorities, but relatively few beds are being developed to replace them. As local authorities enact a pincer movement of low fees and heightened regulatory scrutiny, few providers would want to operate in such an environment. As a result, shortfalls in beds will be highly concentrated in less affluent areas. ■

Clare Connell is managing director at Connell Consulting, a strategy consultancy specialising in the health, social care and education markets. 020 7371 8142 / clare@connell-consulting.com

Connell Consulting