

FOCUS

Carterwood Focus
Issue 15 • 2015

Staying afloat in a perfect storm

A comprehensive review of revenue trading performance
of the third sector NCF membership



Adult social care is facing a period of unprecedented change.

The provisions of the new Care Act, combined with the anticipated impact of the forthcoming National Living Wage, have massive implications for the future revenues and costs of care home owners and operators.

Carterwood has prepared a benchmarking study for the National Care Forum (NCF), looking at the revenue side of the profitability equation. The work concentrates on turnover, including fee rates, occupancy and funding sources, and the results, so far, already show some interesting conclusions at both national and regional levels.

Sample size:
11,984
residents

What we did

Our comprehensive survey was undertaken utilising the following dataset:

- 20 NCF members;
- 272 care homes for older people varying in age, style and accommodation provision;
- 11,984 residents: split approximately 75 per cent receiving personal care and 25 per cent receiving nursing care.

There was no data from Northern Ireland and limited data from Scotland and Wales in our regional analysis. Three further regions in England did not have a sufficient sample size from which to draw any meaningful conclusions and when comparing against other regional benchmarks we have excluded them. However, the results are encompassed in our overall data set in the rest of the document.

To enable meaningful comparison with the rest of the market, we have benchmarked the NCF data against LaingBuisson data from their latest UK market report (Care of Older People UK Market Report, 27th Edition), where practicable throughout this bulletin at the NCF's request. All references to LaingBuisson relate to this recent publication. When comparing LaingBuisson data we have utilised their 'UK' average for our comparator in all of our analysis.

Regional breakdown

Table 1: Regional breakdown by sample size		
Government Office Region	No. of residents	Sample size
East of England	1,957	High
East Midlands	100	Low
London	898	Medium
North East England	91	Low
North West England	1,831	High
Scotland	226	Low
South East England	1,264	High
South West England	2,589	High
Wales	132	Low
West Midlands	2,208	High
Yorkshire & The Humber	181	Low
Non regional specific data	507	-
Total	11,984	

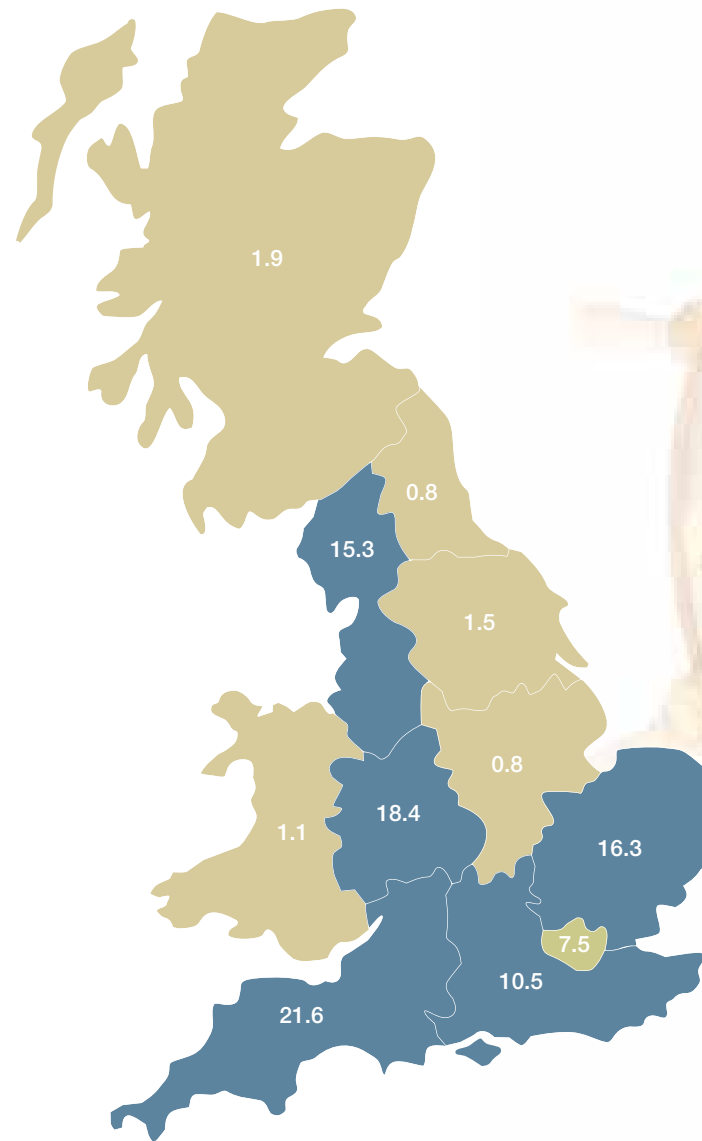
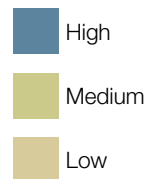


Figure 1: Map showing percentage distribution of sample care home residents by Government Office Region (GOR)

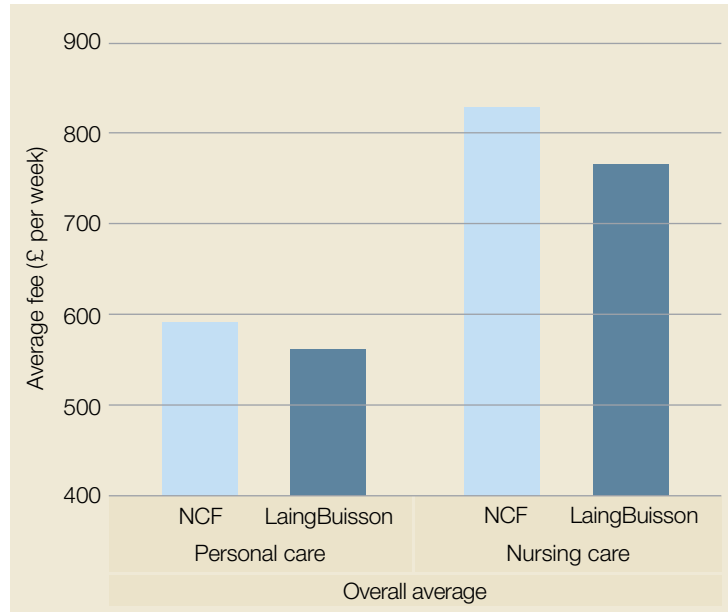


Figure 2: Fee Rates

The dataset outperforms the rest of the market and NCF members are able to charge a premium above sector average fee rates to reflect the quality of care and accommodation provided.

The self-funded average fee rates are stronger still in nursing care provision.

NCF
Personal care
self-funded
average
£695
per week

NCF
Nursing care
self-funded
average
£960
per week

Category of care

The table below shows the average fee rates by category of care from the NCF dataset (no direct comparator available from LaingBuisson):

Care category	Average fee rate (£)
Nursing homes	
Dementia	762
Nursing - elderly frail	836
Personal care - elderly frail	670
Personal care homes	
Dementia	580

Source: NCF

The data collected in the nursing homes sample also includes dementia residents admitted as personal care referrals, which explains why the dementia average fee is lower than the elderly frail average rate. Many homes operating under a nursing registration also provide self-contained units of different care categories, which can also distort like for like comparison.

Interestingly, personal care fees for referrals placed in nursing homes are nearly £100 per week higher than those within personal care only homes, and tracks an interesting trend that perhaps people are prepared to pay a premium for nursing staff being on site regardless of any clinical need, also negating the need for a subsequent move into a nursing home if needs increase. This maybe further explained by many operators insisting upon a flat rate charged for referrals into nursing homes regardless of an individual's care needs to cover the cost of the qualified staff being on site 24 hours a day.

Within personal care only homes the premium achieved for the provision of personal care dementia is £20 per week or 3.6 per cent higher on average. This is a little lower than we would have expected based upon our own experience, but the variance is substantial from operator to operator and the dependence levels of dementia residents being catered to within individual homes.

Regional performance

The table below shows average fee rates for private sector homes by region compared against the data from the NCF. We have utilised the weighted average fee rates from the LaingBuisson survey data for comparison purposes.

The results show a broad trend in line with the private sector results except that generally NCF members outperform the rest of the independent sector, particularly in nursing fees. We consider this is largely due to increased staffing levels and higher costs. The only region where the private sector outperforms the NCF members is the South West. NCF members are particularly strong in the North West, West Midlands and the South East. Personal care fees are again broadly similar at the regional level, except in the South East and London where NCF members outperform their private sector counterparts by some distance.

£962/resident/week
NCF members average
weekly fee
for South East for nursing care

Region	LaingBuisson - private homes only		NCF data set	
	Nursing	Residential	Nursing	Residential
East Midlands	681	525	-	-
East of England	813	659	812	669
London	889	628	897	687
North East	631	522	-	-
Scotland	704	534	-	-
North West	678	471	741	478
South East	920	669	962	733
Wales	676	517	-	-
South West	844	578	771	571
West Midlands	731	529	765	532
Yorkshire & the Humber	683	513	-	-
UK / Total sample	756	563	837	598

Source: NCF, LaingBuisson



Influence of asset type and accommodation quality on fees rates

Current thinking and basic market economics suggests that if an enhanced level of environment and facilities are provided, establishments are able to charge higher fee rates.

We have analysed, this trend which is the first time that this type of analysis has been undertaken to try and determine the quantum, if any, of the relationship between fee rates and underlying asset class.

We have separated the homes in the sample into one of three groups or asset classes and have utilised the provision of en-suite / wetrooms and whether the property is purpose built or converted as our differentiators, as follows:

- Primary – modern, purpose built homes, mostly en-suite wetrooms – **one-fifth of sample**;
- Secondary – older purpose built homes and conversions with a high proportion of en-suite bedrooms, but limited or no en-suite wetrooms – **two-fifths of sample**;
- Tertiary – homes with limited or no en-suite provision – **two-fifths of sample**.

Before analysing the data, we have compared the NCF dataset to the UK. Overall, the sample NCF data is of a better quality than UK averages when benchmarked against the proportion of en-suites and wetrooms. We consider that this certainly contributes towards the strong performance when benchmarked against private sector UK fee rate averages generally, and needs to be considered whenever direct comparisons are being made of the dataset against other external data sources.

Basis of assessment	Sample	UK
Number of care homes for older people	272	12,913
Number of bedspaces	11,984	476,676
% en-suite	70	63
% wetroom	29	14

Source: NCF, Carterwood

29%

wetroom provision
for sample

14%

wetroom provision
in UK

We have utilised the A-Z Care Homes Guide to determine the UK position for comparison purposes as well as over our own wetroom database. We have considered the NCF average self-funded fee rates for personal care and nursing residents in Figure 2 below.

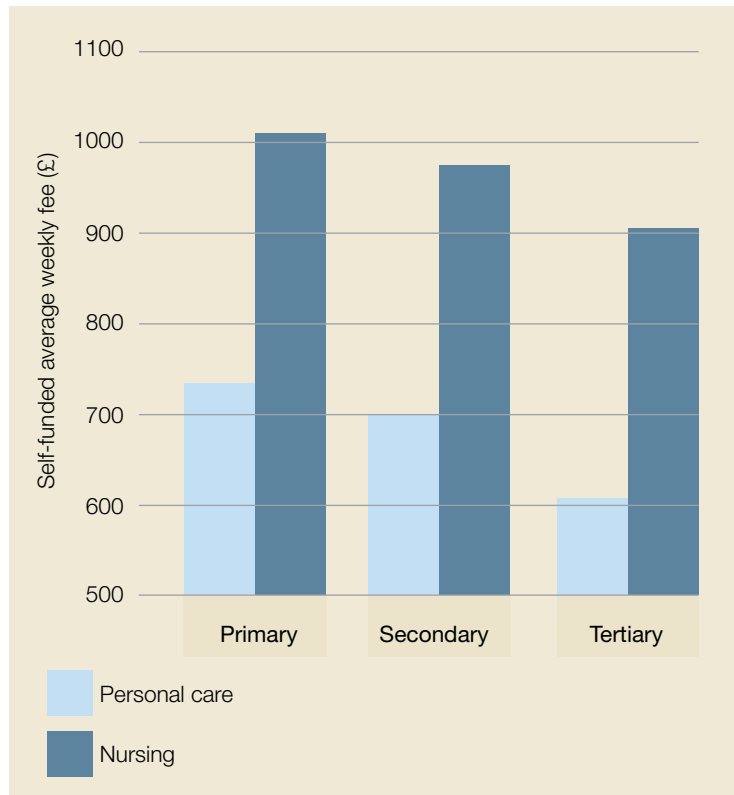


Figure 3: NCF average weekly fees by asset class, and category of care

The average self-funded fee paying uplifts between older style properties without en-suite facilities (tertiary assets) and modern new build units is £110 per week and £120 per week for nursing and personal care, respectively.

Whilst the above trend is exactly what we would expect, the scale of the quantum of the increase (between 11 and 21 per cent premium for nursing and personal care respectively) is lower than we would have anticipated, particularly in respect of nursing care. This demonstrates the robustness of the NCF members to be able to charge strong self-funded fee rates within more challenging accommodation due to high quality care provision.

It also potentially points to some reticence of the third sector to become “market makers” and set the highest fees, even if the accommodation is the best in the area. Most NCF members do not adopt a profit maximisation strategy and there may be some resistance in fee setting policy at the very top of the market, if the operator has charitable status or other non-profit motivations.

The combined effects lead to a clear relationship between asset quality and fees, although perhaps not as pronounced as expected.





Funding mix

The overall proportion of NCF wholly self-funded service users is 44.8 per cent, which compares favourably against other benchmarks - LaingBuisson's latest estimate of size of the self-funded market is 41 per cent, although they note in their latest survey that this is only an estimate.

The funding mix is summarised in the charts below where we have compared the NCF data against LaingBuisson national averages:

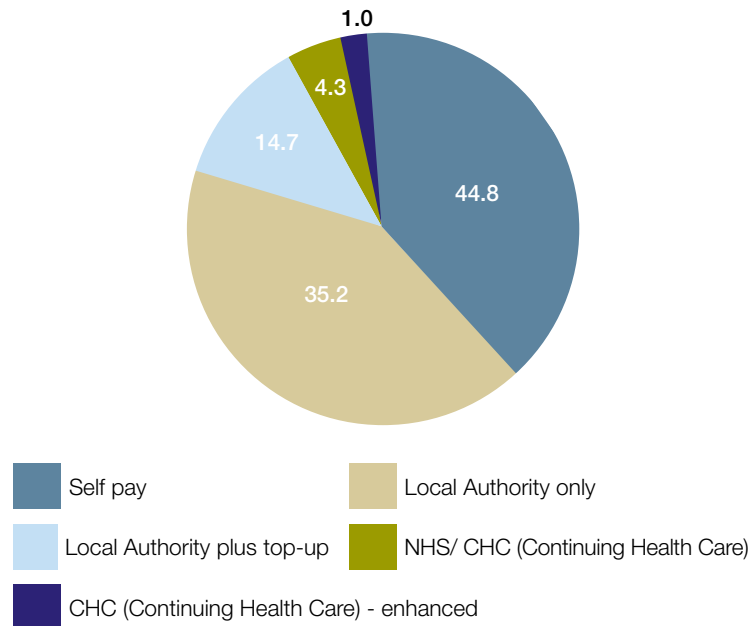


Figure 4: Funding mix – all homes (NCF)

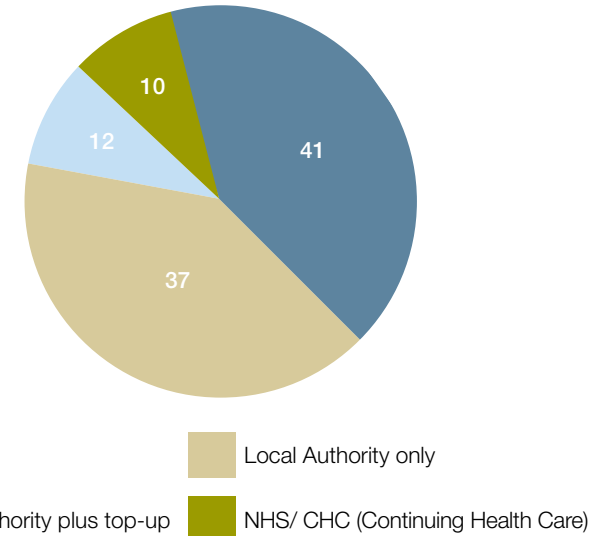
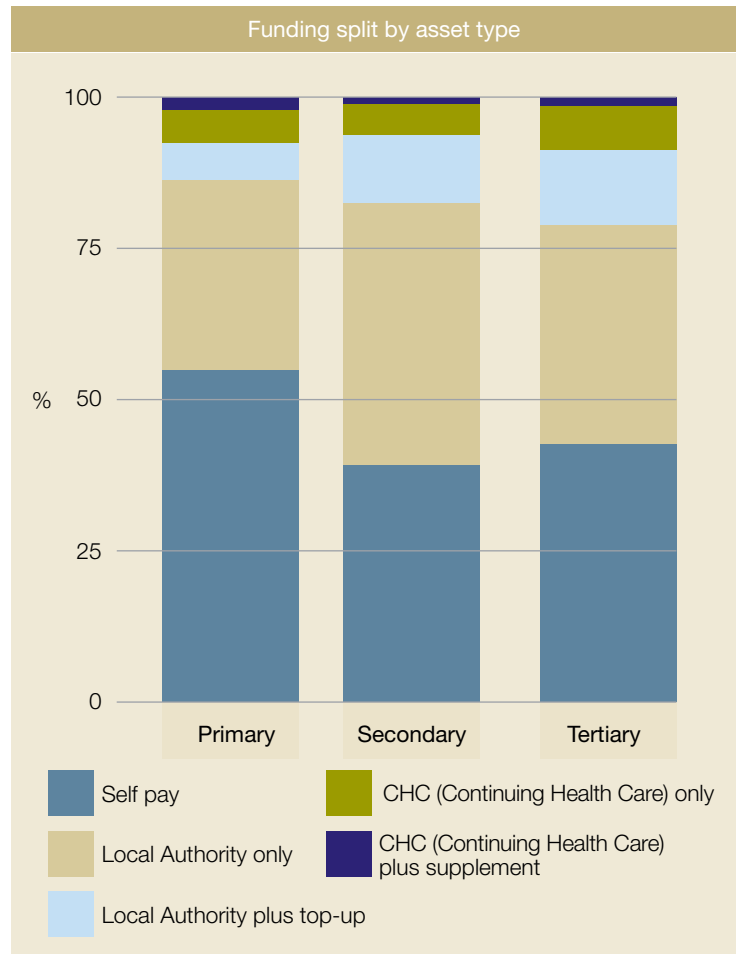


Figure 5: Funding mix – all homes (LaingBuisson)

There is a lower than anticipated proportion of Continuing Health Care (CHC)/NHS referrals, but we consider that this is distorted as a result of the higher proportion of personal care homes (nearly three times the number of nursing homes) in the sample.

There is an increasing trend for CHC/NHS referrals to accept supplementary fees from operators providing enhanced levels of accommodation/other services outside of what would typically be offered. This study indicates that supplementary CHC fees are achieved in approximately 20 per cent of cases, which mirrors the proportion of primary assets in the sample, providing some credibility to this assertion. The average supplementary uplift is difficult to quantify due to the reporting mechanisms, but an average of £40 per week is being charged over average rates where no uplift is being achieved.

The funding mix by asset class also demonstrates a similar trend to the fee analysis – the robustness of the third sector to attract self-funded service users (as well as charge premium fee rates). Again we consider that this is likely due to the perceived quality of the care provided and local reputational strength of the NCF members in their local areas enabling them to outperform the local markets, as well as the inherent strength of the underlying asset quality compared to UK norms.



Source: Carterwood, NCF

Figure 6: Funding split by asset type

The distribution of the funding mix by asset class shows evidence that better quality facilities improve the proportion of self-funders. However, similarly to our analysis of fees, the relationship is not as strong as we would expect.

The top-up relationship identified in the chart (left) shows that more homes achieve top-ups in the tertiary asset class than the primary asset class. This is highly counter-intuitive and the opposite of what we would expect, pointing to factors driving this relationship other than underlying asset class.



Occupancy

Overall occupancy across the NCF members was 91 per cent, which is slightly higher than the overall LaingBuisson independent sector average of 90 per cent and slightly lower than the LaingBuisson third sector average of 93 per cent.

Table 5: Average occupancy by region (%)

Region	LaingBuisson - UK average		NCF data set
	Nursing	Personal care	Combined nursing and personal care
East Midlands	89.3	90.2	-
East of England	91.9	91.6	91.4
London	90.3	93.9	92.1
North East	85.9	88.0	-
North West	91.8	91.0	93.2
South East	89.3	91.4	91.0
South West	90.0	90.5	85.5
West Midlands	85.8	94.0	95.1
Yorkshire & the Humber	89.0	89.4	-
UK	90.0	91.2	91.2

Source: NCF, LaingBuisson

Table 6: Occupancy by asset class

Home type	Average occupancy (%)
Primary	92.6
Secondary	91.9
Tertiary	89.2
All homes	91.2

Source: NCF

Occupancy varies significantly across the sample by region, with the South West performing particularly poorly and the West Midlands and the North West performing very well in comparison. (There is little correlation regionally between the LaingBuisson regions and the NCF members, which illustrates the general variability in occupancy across the country when analysis is conducted on a "spot" basis rather than a rolling basis over multiple periods. There are a host of factors that can influence occupancy data at home level on a spot basis including seasonality, target market, asset class, reputational strength, etc.

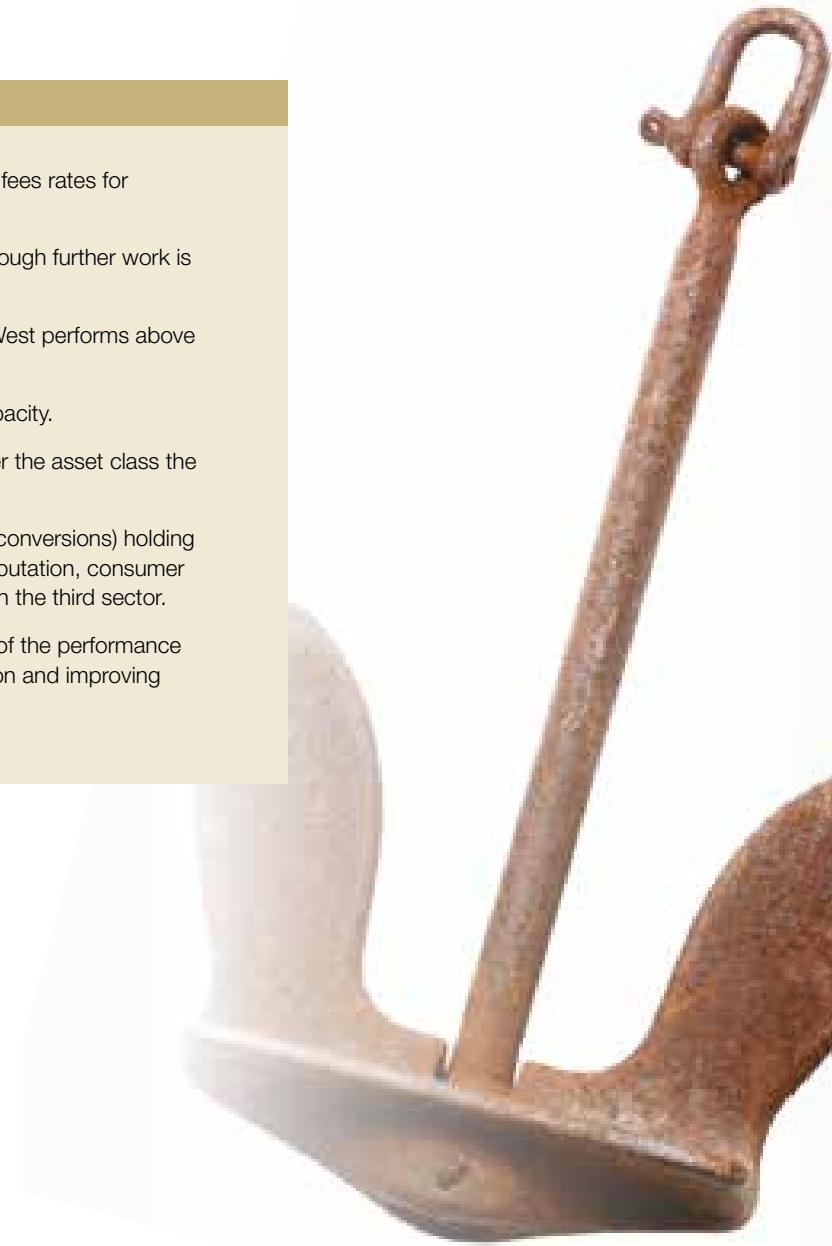
The underlying asset type also impacts upon average occupancy levels. This is an expected trend, with highest levels of occupancy enjoyed by the strongest underlying asset classes and mirroring that of the other key revenue drivers.

95.1%

Highest occupancy
in West Midlands

Key findings

- NCF average fee rates across the survey are between 6.2 and 10.7 per cent higher compared to LaingBuisson average fees rates for personal care and nursing care, respectively.
- There is evidence of a small premium being achieved for dementia care in a personal care setting by NCF members although further work is required to quantify this relationship.
- Regionally, as expected, London and the South East are the strongest performers. In our study of NCF data the North West performs above national averages whilst the South West lags behind.
- NCF occupancy is in accordance with LaingBuisson's independent sector average rates at 91 per cent of registered capacity.
- There is a direct relationship between the class of the underlying NCF asset and all of the key revenue drivers. The higher the asset class the higher the average fee rate, the greater the proportion of self-funders and the stronger the occupancy levels.
- The strength of the relationship is, however, not as strong as expected, with many 'tertiary' assets (predominately older conversions) holding up very well against newer purpose built accommodation. This is likely to be due to the quality of care provided, local reputation, consumer choice not always preferring larger homes, as well as profit maximisation not being the primary organisational objective in the third sector.
- The quality of the assets in our survey is superior to the LaingBuisson average, which also helps to explain the strength of the performance at national level. This is unsurprising given the third sector's and particularly the NCF members', prioritisation of innovation and improving accommodation over the past decade.





Carterwood and NCF – working together

- This issue of Focus has drawn on data supplied by NCF member organisations who provide care and support services throughout the UK.
- The National Care Forum represents the interests of not-for-profit health and social care providers in the United Kingdom. Accredited with becoming a leading authority in the sector, its activities involve assisting their members in keeping up to date with developments in the care sector and to promote improvements in the quality of services.
- NCF and Carterwood have been working together for more than five years. It is our intention to build on this partnership to develop this benchmarking survey into an annual initiative. We are confident that the survey will in the future include a larger sample and dataset to contribute important information on trends and developments in the care sector.

Carterwood's products and services

With a wealth of healthcare experience within the team, we operate an agency, valuation and a consultancy division and it is these three strands combined that enable the insight to provide developers with the market intelligence, site-specific commentary and research methods to make better informed decisions.

We currently work for over 250 clients in the social care market and 70 per cent of the top 20 care home operators.

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