FUNDING ADULT SOCIAL CARE
OVER THE NEXT DECADE

WHO CARES?

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CONTENTS

DATA SOURCES

- Much of the data used in this report is derived from official, private and Bupa data sources as well as from Laing & Buisson's 2010 edition of *Care of Elderly People Market Survey*.

FOREWORD

The Government has taken some very welcome steps towards integrating health and social care through its Health and Social Care Bill published in January 2011, and the establishment of a Commission on Funding of Care and Support, which has the opportunity to create a sustainable and properly-funded social care system for our older people in the long-term.

The political will to reform the sector is commendable and the sector is determined to play its part in supporting this process. However, it will be some years before any reforms to funding the aged care sector are able to take effect. So, while there may be a long term solution in sight, in the shorter term decisions are being made about funding and provision of aged care that will have unintended adverse consequences in the wider public sector.

From Bupa's international aged care experience we believe that a number of practical and straightforward steps can be taken to avoid the possibility of the National Health Service facing hundreds of millions of pounds in extra costs over the next decade, caused by having to cope with up to 100,000 more frail elderly people in NHS hospitals.

These steps include:

1. local authorities pledging to pass on, in full, the £2billion allocated by the Government to adult social care by 2014/15 and take care home inflation into account when setting fees;

2. local councils working more closely with primary care trusts and emerging GP commissioning consortia to further join up health and social care systems;

3. local authorities assessing and planning for likely future demand for care home places in their area;

4. central government creating a simple and easy to understand, nationally-set standard system of assessing the individual's needs; and

5. central government working with local councils to simplify planning rules for new care homes.

These steps are necessary over the medium term to avoid the closure of many care home beds. Unless action is taken, up to 81,000 specialist beds will be lost over the next 10 years mainly because of the likely reductions in fees that local authorities pay. Over the same period, our research predicts that, because of the changing demographics, 18,000 more people than today will need care home places. Tens of thousands of older people who need specialist help will, as a consequence, be unable to access care home places. The danger is that, given the dependency of these people and the practical difficulties of providing care to them in their own homes, many would end up having to be admitted to NHS hospitals.

Even if, optimistically, just half of these people were admitted to hospital, it would put an intolerable strain on the already-stressed 170,000 NHS beds in the UK. [1] It would stretch the NHS far beyond the pressure imposed by events such as seasonal flu outbreaks. (Over Christmas 2010 one-fifth of England's critical care beds were taken up by flu patients.) More importantly, it would also be an inappropriate way to provide the long-term care that many older people require.

We recognise that the Department of Health allocated an additional £2billion to protect social care. However, councils across the country are facing a cut in central Government funding over the next four years. Bupa has a real concern about whether the money will reach its intended target – frail, elderly people – as the money is not ring-fenced.

We believe that an immediate commitment by council leaders to pass on the £2billion in full and to recognise care home inflation when setting fees, could help the care home sector continue to make a positive and long-term contribution to supporting the NHS and ensuring that older people are able to access the specialist, long-term care they need.

Mark Ellerby
Managing Director, Bupa Care Services

[1] Department of Health statistics, November 2010; NHS Scotland statistics, December 2010; Welsh Assembly Government statistics, October 2010.

1. EXECUTIVE SUMMARY AND KEY FINDINGS

- Council cut backs could see the loss of 81,000 care home beds over the next 10 years. The anticipated increase in the UK's ageing population would, at the same time, increase demand by 18,000 in the same period. Therefore, almost 100,000 older people could be unable to access the care home places they need and, because of their frailty, many would have to be admitted to hospital, creating a bed blocking crisis for the NHS.
- Real terms spending cuts (anything below cost inflation) to aged care over the coming years, as predicted by the Association of Directors of Adult Social Care, could lead to a shortfall of care home beds over the next decade because:
  - providers with large levels of debts could fail;
  - fewer new care homes will be developed;
  - there will be less money to spend on maintaining and improving existing homes; and
  - local authority fee rates have been lower than 'Fair Price' levels [2] for some time, so they are already starting from a low base.
- In addition to a bed blocking crisis, Bupa is predicting a 'postcode lottery' in care for the elderly over the next 5-10 years, if spending on social care is cut back. Shortages in capacity will emerge in parts of the country, and access to care homes will become difficult.
- Bupa is calling for the following steps:
  1. The £2billion allocated by the Government to fund adult social care by 2014-15 must be ring-fenced and local authority leaders must pledge to pass it on, in full. Local councils should also take care home inflation into account when setting fees. [3]
  2. Local authorities should work with primary care trusts and the emerging GP commissioning consortia to make every possible effort to join up the health and social care systems and produce plans that cross 'budget borders'.
  3. Local authorities should also begin to assess and plan for likely future demand for aged care in their areas.
  4. Central government should end confusion by creating a simple and easy to understand 'national standard' system for assessing an individual's needs.
  5. Central government should work with local government to make it easier for new care homes to be built by simplifying the planning process.
- These reforms are essential to prevent a medium-term crisis. They would not prejudice the important work of the 'Dilnot Commission' (the Commission on Funding of Care and Support), which is critical to addressing the under-funding of aged care over the long-term.

[2] Fair Price Toolkit developed by Laing & Buisson in association with the Joseph Rowntree Foundation. See Table 5.

[3] Letter from Rt Hon Eric Pickles MP to Leaders of Local Authorities in England, 20 October 2010. In that letter the Government stated its intention to provide "£1 billion of additional funding through the NHS budget to break down the barriers between health and social care, and rolling over £2.4 billion of adult social care grants – including an additional £1 billion by 2014-15 – into formula grant"

2. FINANCIAL BACKGROUND TO THE SECTOR

2.1 Dominance of independent sector supply

The majority of care home services for older people in the UK are provided by the independent sector, with 90% of capacity (Table 1).

2.2 Comparative costs of independent sector and public-sector supply

This situation is very unlikely to change for the foreseeable future because independent sector providers are much less expensive than public-sector providers (Table 2) and of roughly equivalent quality.

2.3 Sources of funding – polarisation of the care home sector

The independent care home sector is competitive on the supply side but highly influenced on the demand side by public-sector purchasers which frequently exercise a substantial degree of monopsony power. [4] The public sector pays for about 60% of residents across the country as a whole (Table 3).

The public-sector share of funding varies widely across the country (Table 4). It is higher in non-affluent areas and lower in affluent areas. This has led to a significant degree of geographical polarisation in the care home market. The market environment for providers is significantly more favourable in affluent areas where private payers dominate and less favourable in non-affluent areas where public payers dominate.

17-year legacy of under-funding in the care home sector

2.4 Publicly paid fees are typically below 'fair fee' levels

Since they took on the lead role in purchasing state-paid care from 1993, local authorities have tended to use their purchasing power to set fee rates which are lower than 'fair price' levels. This has left a 17-year legacy of under-funding in the care home sector.

Evidence for this comes from surveys of baseline fee rates (the rates that councils are usually willing to pay) set by local authorities. [5] Because each local authority sets its own baseline fee rates - typically expressed as upper and lower limits in frequently complex bandings which vary from authority to authority - it is not possible to cite national average fees paid by local authorities. Unit costs published by the NHS Information Centre do not provide reliable or timely data on average fees actually paid by local authorities for the principal client groups segmented into residential and nursing care, and frail elderly people and people living with dementia.

It is possible, however, to conclude from published information on baseline fee rates that very few local authorities pay at a fair level – as defined by the Fair Price Toolkit developed by Laing & Buisson in association with the Joseph Rowntree Foundation (Table 5).

[4] A market dominated by a single buyer. A monopsonist has the market power to set the price of whatever it is buying – Economics A-Z, The Economist.

[5] Laing & Buisson baseline fees survey 2009/2010.

There are examples of local authorities cutting back the fees they are willing to pay, even before the current constraints on public spending began, and it is likely that this trend will continue. For example, one local authority reduced its payment for complex nursing care and for 2010/11 only paid £507 per week for residential nursing for people with dementia, compared to £572 it paid in 2009/10. [6] By comparison, the Fair Price Toolkit level for this service is £613 per week.

The table below (Table A) shows the gap between existing average fee levels and the 'fair price' for 2010/11 and a prediction of that gap if local authorities were only to provide an average 0.8% increase.

Furthermore, the existing fragmented situation where providers already face widely varying fee levels, even between nearby authorities, is also likely to continue. In 2010/11 the differences between maximum fees offered by, for example, two central London boroughs for the same dementia nursing care varied by around £400 per week. Outside the capital, the picture was similar with, for example, the maximum fee for nursing dementia care offered by a town in the south-west almost £120 a week lower in 2010/11 than that offered by the county council surrounding it. [7]

TABLE A Comparison of average fee levels for nursing care and 'fair price' levels

	Rest of England	London
Average fees paid by local authorities for nursing care of older people	£488.95	£611.91
Nursing element of care paid by NHS	£106.30	£106.30
TOTAL FEES 2009/10	£595.25	£718.21
ESTIMATE FOR 2010/11 (2009/10 PLUS 0.8%)	£600.01	£723.96
Laing & Buisson 'fair price'	£694.00	£794.00
PREDICTED WEEKLY SHORTFALL FOR 2011/12	£93.99	£70.04

Source: *NHS Information Centre. Provisional Detailed Unit Costs, England 2009/10* Laing & Buisson

[6] Community Care Market News, June 2010

[7] Survey of UK local authority baseline fee rates 2010/11 published in Community Care Market News (June 2010)

3.1 Inflation and local authority baseline fees

Following the global credit crisis of 2008, the ensuing recession and the public spending cutbacks, the care home market has now entered a phase in which fees paid by public-sector purchasers - starting from an already low base - are expected to track below inflation. As a consequence fee rates and margins are expected to fall for operators of care homes catering for publicly-funded residents. These reductions will subsequently impact on levels of investment in new homes, maintaining buildings, training staff, and introducing new services.

The average increase in local authority baseline fees for 2010/11 across the UK was just 0.8% and, while there were regional variations, some 63% of local authorities decided not to increase fees at all. In the West Midlands, for example, providers saw average fee increases of only 0.6% in 2010, while Inner and Outer London providers were even harder hit with baseline fee increases of just 0.2% and 0.4% respectively.

In November 2010, the Bank of England predicted that inflation is almost certain to stay above its 2% target throughout 2011. [8]

Care homes catering principally for privately-paying residents are expected to be affected less, since private fees are usually derived in one way or another from capital assets, such as property, which in most cases remain adequate to pay for care, despite the downturn in property values.

The average increase in local authority baseline fees for 2010/11 across the UK was just 0.8%

[8] Overview of the Inflation Report November 2010, Bank of England.

3.2 Cyclical trends – lessons of history

The last 15 years can be divided into three periods as regards fee trends. Supporting data are provided in Tables 6 and 7.

- **First Period:** This period lasted from the mid 1990s, when fee inflation tracked below wage inflation (measured by average hourly wage rates for women) as the sector struggled with overcapacity and low occupancy rates. Local authorities took advantage of this market to impose RPI-only fee increases. These fees resulted in severely-reduced margins and several financial failures amongst care home groups with high debt levels that were operating sale and leaseback business models.

- **Second Period:** The second, more benign, period started around 2001/02 - although bed closures continued at fairly high levels until 2006, as substantial numbers of small care home owners continued to leave the sector. Increases in local authority baseline fees started to take effect, which continued at a variable pace up to 2006/07. Fee inflation was also driven by robust private demand and reinforced by NHS nursing subsidies. Fee inflation continued to exceed wage inflation up to and including 2007/08.

- **Third Period:** The elderly care home sector entered a third period in 2009/10 as local authority baseline fee increases were reined back and private fee increases were impacted by the recession. While private pay fee rates have not yet fallen behind care home cost inflation, local authority fees certainly have, with UK councils' baseline fee rates increasing by an average of just 0.8% for financial year 2010/11 compared with 2.1% required for a steady state situation.

Bed closures continued at fairly high levels until 2006

4. COST PRESSURES AND FUTURE FEE LEVELS

4.1 Care home costs looking forward

- Staffing is the main element of care home costs, according to the Fair Price Toolkit (Table 5). The issue for many care home operators, however, is that the fees they are actually being paid by local authorities are already below these used in the model. So, in reality, care home staff costs are likely to account for over two-thirds of the fees being paid by local authorities.

Looking forward over the short to medium-term, a number of trends in staffing costs can be projected:

- The previous government's policy of addressing the pay and employment conditions of low-paid staff is continuing but at a lower rate:
  - there are no plans for any further increase in the minimum paid holiday entitlements following the increase to 28 days a year in April 2009, which followed an increase from 20 to 24 days in October 2007;
  - adult National Minimum Wage rates were raised by 1.2% and 2.2% respectively in October 2009 and 2010. It is likely that the Coalition Government will stay at this level while the economy remains fragile; and
  - there are, however, now firm plans for minimum employers' pension contributions of 1% of gross pay from 2012 rising to 3% by 2017, subject to employee opt-out, under the Pensions Act 2008.
- Following implementation of the 'Agenda for Change' project for restructuring NHS nurses' pay, the Government is now seeking to contain pay across the public-sector generally. The nurses' pay award for 2010/11 was 2.25%. Social care providers have to compete with the NHS for nurses and, therefore, the level of NHS wages growth impacts on both the care home sector's ability to recruit and its costs;
- Within the labour market generally, prospects for the supply of labour are relatively benign over the short to medium-term. Other factors which will have a tightening effect on labour supply are:
  - the return of many migrant workers home to Eastern Europe; and
  - further restrictions proposed by the Coalition Government on work permits for people from outside the European Union.

As regards non-payroll costs, the two largest current cost items, utilities and provisions, are subject to strong inflationary pressures. Their overall impact is significant, even though non-staff costs absorb about 12-15% of income (Table 5), because there is emerging evidence that food inflation and increased utilities costs could see this figure rise by 10%.

An additional potential source of cost inflation is the increasing frailty of residents. Bupa's most recent census of the dependency levels of residents in its care homes showed that:

- 62% are living with the effects of dementia, stroke or Parkinson's disease;
- 48% are immobile; and
- 94% have a clinical reason for seeking a residential care home place. [9]

In 2003, Bupa care homes looked after just under 4,000 people who were living with dementia, in 2011 this figure is close to 7,000 and rising.

The trend of increased dependency is also reflected in other research which found that the number of care hours per resident per week provided by nursing homes for older people had increased by 5% between 2004 and 2008. [10]

In summary, it looks likely that care home cost inflation will run in the region of 2.5% per annum over the medium term.

Cost inflation of 2.5% is relatively benign in a historical context. However, it would be damaging for many providers of care home services for publicly-paid residents if it were to coincide with continued annual fee increases of less than 0.8% per annum over the medium-term. [11]

[9] Bupa Care Services resident census 2009

[10] Laing W (2008) Calculating a Fair Market Price for Care: a toolkit for residential and nursing homes, Third Edition. The Policy Press. Bristol. Laing W (2004) Calculating a Fair Price for Care: Second Edition. The Policy Press. Bristol. Laing W (2002) Calculating a Fair Price for Care. The Policy Press. Bristol

[11] The amount offered by local authorities on average for 2010/11, Laing & Buisson survey - see earlier.

In such a scenario, based on the cost structures in Table 5, at the end of five years average margins, as a percentage of revenue, for nursing homes could be significantly reduced, leaving care home providers with high levels of debt unable to pay interest costs and/or rent, and removing any financial incentive for development of new capacity. Furthermore there will be a direct impact on maintaining - or raising - the quality of their existing homes.

4.2 Prospects for fees looking forward

The care home sector is very concerned that, in the face of potential and actual real-terms cuts in central government funding over the period 2011/12 to 2014/15, cash-strapped local authorities are likely, once again, to impose care home fee rates at levels which fail to keep pace with cost inflation. This will lead to financial failures, home closures and a downturn in investment in both new capacity and the maintenance of existing facilities. The likelihood of this scenario is reinforced by the fact that the NHS now tends to follow local authority fee rates, meaning that all publicly-paid residents are now subject to similar fee pressures.

In other sectors, businesses faced with the downturn in the economy since 2008 have been able to make efficiency savings, often by losing staff and freezing pay rates for remaining employees.

Care homes are also seeking efficiencies in the face of fee pressure, but the scope for savings is extremely limited given that over two-thirds of costs are people. It is extremely unlikely that operators could reduce the number of care and support staff hours per resident per week, without compromising quality and safety – an outcome that is unacceptable to providers themselves, regulators, and residents and their families. Nor is there much desire for reducing payroll costs by freezing wages (or indeed scope in a sector where pay rates for unqualified staff are typically at or not far above minimum wage). Non-staff costs (for example food and utilities) have been targeted for efficiencies by major providers in the past, but these costs are now also subject to increased inflationary pressures.

In the absence of substantial scope for efficiency savings, any continuation of the pattern which emerged in 2010/11, in which fee inflation fell below care home cost inflation, will have predictable effects, depending on how far fees are reduced.

The predictable effects of care home fee rates which fail to keep pace with cost inflation will be:

- financial failure of some highly-geared providers;
- care home closures;
- less capital expenditure to maintain the fabric of existing homes;
- a downturn in development of new or replacement homes;
- emergence of shortages of care home places in some areas;
- harder access to care homes places for frail and elderly people living in areas where capacity is already limited, especially for publicly-funded residents;
- re-emergence of ‘bed blocking’ in NHS hospitals as the public-sector struggles to find locally available capacity that can provide the round-the-clock care that frail elderly people increasingly require; and
- less investment in staff training and specialist development.

These are the medium-term problems that need to be balanced against any short-term gains that some public-sector purchasers may derive from reducing fees.

Since local authority and NHS purchasers are likely to continue to be the principal source of downward pressure on care home fees, the impact will be principally felt in local care home markets where public-sector purchasers dominate.

However, since care home markets are highly localised, and subject to the purchasing policies of 212 separate councils with social services responsibilities, the pace at which the fall-out of fee reductions impact on local care economies will be highly variable across the country.

5. PROJECTED HOME CLOSURES AND FUTURE DEMAND

5.1 Projections of home closures

Historical cycles in the care home sector offer some guidance on how care home closure rates may be affected by a worsening financial environment over the next five years.

The last surge in care home closures ran from the mid to late 1990s, peaking around 2000 (Table 7) when closures eliminated 3.8% of capacity that year. The closures were driven by:

- overcapacity, leading to depressed occupancy rates (Table 8) as local authorities introduced assessments of need for new placements from 1993 onwards and the volume of demand declined;
- fees lagging significantly behind care home cost inflation during the period, as local authorities took advantage of overcapacity to impose below-inflation fee settlements (Table 6), leading to severe pressure on margins and a number of financial failures; and
- the existence of large numbers of smaller care homes (more than there are today) on the borderline of viability, which were strongly affected by adverse market conditions. Most closures were of homes of smaller than average size and their exit was facilitated by a strong residential property market into which small, typically converted care home properties could be sold.

With the more benign market conditions during the first decade of the 21st century, the attrition rate from closures fell back to 1% in the year to April 2010. It now looks set to start rising again, as the situation which the care home sector faces in 2011 is similar in many respects to that faced at the start of the previous increase in closures in the mid 1990s:

- the strong likelihood that local authorities, and the NHS, will respond to the worsening financial environment by again imposing fee settlements over a period of years which are lower than care home cost inflation; and
- the viability of smaller care homes remains highly vulnerable to a squeeze of fees and margins. However, in mitigation, there are now fewer small care homes and their closure is not assisted as it was before by a strong residential housing market.

These factors give rise to the reasonable scenario that attrition of care homes will increase once again. One possible scenario is that the scale of closures will mirror those seen in the period between 1997 and 2006. Another is that the increase may be less than in the last period of large-scale home closures – because there are fewer sub-scale homes now and it is harder to leave the sector.

Bearing in mind the similarities and differences between the 1997-2005 squeeze and the one that is now in prospect, a reasonable and relatively conservative scenario would be that care home closures could rise to half the level observed at the previous peak year of 2000 (see Table B).

A conservative scenario would be that care home closures rise to half the level of 2000

TABLE B Projected capacity loss from closures of independent sector care homes for older and physically disabled people, UK 2010-2015, if care home fees were to track below cost inflation throughout the period

Year to April	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total 2010 - 2020
Lost beds	4,360	5,190	6,020	6,840	7,670	8,500	8,500	8,500	8,500	8,500	8,500	81,080
Stock of beds	428,240	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	

Source: Projected from Laing & Buisson database on the assumption that care closures will rise to a peak by 2015 of half the level observed at the peak of the last upturn in home closures, in the year 2000, and continue at the same rate from 2015 to 2020.

5.2 Future demand for care homes

The threat of care home closures and reduced development of new care home capacity matters because the demand for care homes is set to expand again, having bottomed out in the last four years. Bupa's view is that a tipping point has been reached in the demand for care home places.

Upward pressure on demand from the ageing population is now stronger than the countervailing downward pressure exercised by public-sector commissioners seeking to divert demand where practicable to non-residential care.

Over the last century, life expectancy has increased, leading to a growth in the number of older people. This growth in life expectancy is evident in the care home population. In 2010, Bupa was caring for around 500 people in its UK care homes who were aged over 100 – and it expects a further 150 residents to reach that age in 2011.

Research carried out by the Office for National Statistics for the Department for Work and Pensions (DWP) in late 2010 suggested that by 2066 some 10 million people - 17% of the UK's population - would live to 100 or more. [12]

While increasing life expectancy is something to celebrate, this demographic change will create a range of new challenges. From experience, we see that as people age, the number of them with conditions such as Parkinson's disease, dementia, or who are suffering the effects of stroke, also rises in proportion. And figures show that while only 0.8% of 65-74s need to live in a care home, this rises to over 15% of people aged over 85 who need the support and care offered by a residential home. [13]

Another factor in the rising dependency profile of the care home population is that admission criteria for publicly-funded residents have become more stringent. This high-dependency profile means that the potential for residents to be diverted into non-residential care is now more limited.

The Bupa Health Pulse 2010 survey of over 12,000 people in 12 countries – including the UK – also identified that it is increasingly unlikely that families can step in to look after their older relatives. [14] The traditional 'informal care network' is crumbling as society changes because of a range of factors, such as more women going out to work, increases in divorce rates, more one-person households, and fewer generations of families living together. Another key factor is that many families are simply not able to provide the kind of specialist care that people with more complex conditions and dependencies increasingly require.

Data showing past trends and future projections of demand are set out in Table 9.

Overall demand has been stable over the last four years as reductions in local authority demand have been balanced by increases in NHS and privately-paid demand. There is evidence that the volume of local authority demand is declining at a slower rate than it was before, and that part of the decline is now being achieved by displacement to NHS continuing healthcare budgets. Table 10 shows that in the year to April 2010 the number of older people supported in residential settings by local authorities and the NHS combined remained virtually static (a decline of only 0.5% in the year).

By 2066 some 10 million people - 17% of the UK's population - are predicted to live to 100 or more.

[12] This analysis is published on the DWP website at http://research.dwp.gov.uk/asd/index.php?page=adhoc_analysis

[13] Laing & Buisson, Care of Elderly People, UK market survey

[14] Bupa Health Pulse 2010 Research: Ipsos MORI interviewed 12,262 members of the General Public across 12 markets between 10 June and 14 July 2010. All interviews took place through Ipsos online panels and Ipsos panel partners.

5.3 Relative cost of care homes and domiciliary care

While we would not advocate that local authorities should admit people into care homes in preference to non-residential care on the grounds of economy alone, it is worth emphasising that residential care is not always a more costly option. For people with high levels of dependency, residential care will often be a lower cost option, as well as in many cases being the only practical way of providing the round-the-clock care and the regular social contact and interaction that an individual requires.

After deducting user charges, the net cost to local authorities of providing residential care for an older person was £336 per week in 2008/09, which equates to about 24 hours of domiciliary care. If the cost of housing benefit were also taken into account, the 'break even' point of domiciliary care in their own home (i.e. costs are comparable to residential care) would be something in the region of 15-20 hours for those people whose housing costs are paid by the public sector.

6. RECOMMENDATIONS TO MEET FUTURE DEMAND FOR RESIDENTIAL AGED CARE

6.1 Keep raising quality standards

A combination of more investment by providers, good quality regulatory oversight and a greater interest in the sector, has brought an improvement in the quality of care for older people. Care Quality Commission figures for England show that the proportion of adult social care services (such as care homes and home care services) rated as 'good' or 'excellent' rose from 69% to 77% between 2008 and 2009. [15]

For this progress to continue, there needs to be a public acceptance that investment is needed to continually train and develop staff, research new and innovative approaches to care, upgrade existing facilities, and build modern care homes that can cater for the individual needs of people who are more frail than ever before and, increasingly, are living with conditions such as dementia.

6.2 Addressing the funding of care

The establishment of the Dilnot Commission on Funding of Care and Support is an important and welcome step forward in addressing the ongoing underfunding of the aged care sector. We hope the Commission will provide a long-term and viable solution to funding but, understandably, it will be many years before its benefits are fully felt.

In the short term, and as set out in previous chapters, there is a real danger that a number of problems could be created, which will hamper progress and lead to a bubble of unmet demand for care home places. The most serious effect could be that the only way to provide care for vulnerable older people who cannot find care homes places would be through NHS beds, just at a time when the NHS itself is under significant financial pressure.

6.3 Five steps for the short term

In sum, Bupa believes there are five steps that could help to ensure demand for care home places are met in the short term and avoid further pressures on NHS resources.

1. Local councils must pledge to pass on in full the £2billion allocated to adult social care by the Government. This is critical to avoid worsening the chronic underfunding of the care home sector and the consequential loss of 81,000 beds. Councils should also take into account the true cost of care home inflation when setting fees and work towards paying a 'fair' price in the longer term.

2. Councils should work with the NHS to improve the integration of health and social care systems and budgets. Local Government should build further on its initial steps so that integrated plans can be developed that cross 'budget borders' in developing alternative care solutions for older people.

3. Local authorities should assess likely future demand for aged care. Demand should be assessed at local levels and plans for provision implemented – especially for specialist services such as caring for people with dementia.

4. Central Government should create a national standard system of assessing an individual's needs. In Australia, this system has proved to be a better way of allocating limited funds and simpler for older people and their relatives to understand and subsequently to plan.

5. Central Government and local councils should work together to simplify planning rules for new homes. This would help to speed up the planning and building of new, designed-for-purpose, homes by including care homes in categories that provide new employment, qualify as 'residential' homes, and meet assessed demand in the area. [16]

[15] The state of health care and adult social care in England, Care Quality Commission

[16] Not Invented Here, Bupa Care Services 2008

APPENDIX 1 – DATA TABLES

TABLE 1 Care of older and physically disabled people in residential settings, UK capacity at April 2010

	Beds	Share
Independent Nursing	189,400	40%
Independent Residential	238,800	50%
TOTAL INDEPENDENT SUPPLY	428,200	90%
NHS Long Stay	15,500	3%
Local Authority	30,700	6%
TOTAL PUBLIC SUPPLY	46,200	10%
TOTAL CARE IN RESIDENTIAL SETTINGS	474,400	100%

Source: *Care of Elderly People UK Market Survey 2010.* Laing & Buisson

TABLE 2 Comparative costs of independent sector and public-sector provision, care of older people in residential settings, England 2008/09

	Independent sector	Public-sector	% Cost of independent sector against public-sector
Residential care	£445 pw [1]	£824 pw [1]	54%
Nursing care	£656 pw [2]	£1,673 pw [3]	39%

[1] Unit costs of residential care purchased by local authorities, published by the NHS Information Centre. http://www.ic.nhs.uk/statistics-and-data-collections/social-care/adult-social-care-information/personal-social-services-expenditure-and-unit-costs-england-final-2008-09

[2] Average nursing care fee, public and private purchase combined, from Laing & Buisson surveys. *Care of Elderly People UK Market Survey 2010.* Laing & Buisson

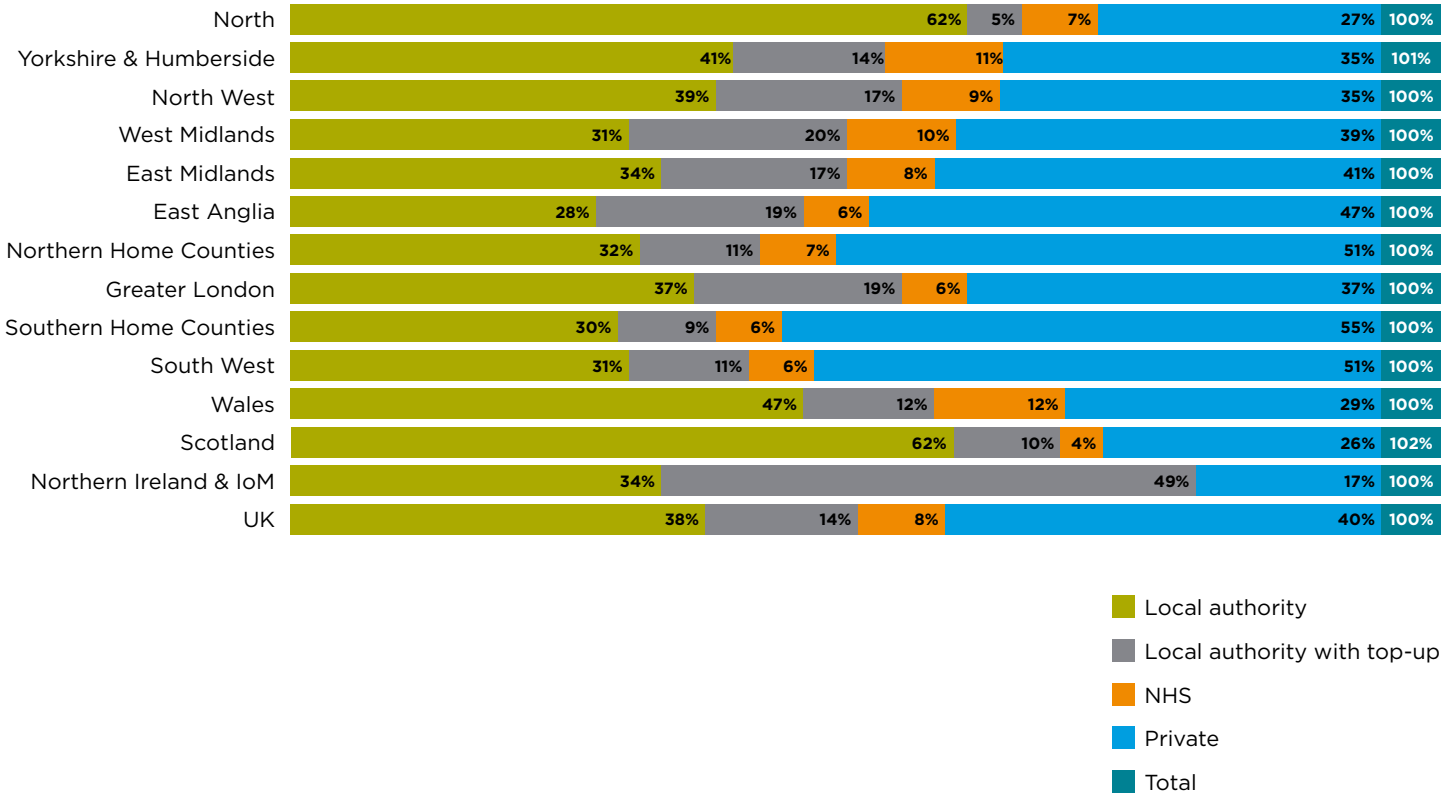
[3] NHS Reference Costs 2008/09. There is no currency code specifically for long term care of older or older mentally ill people, but the English average for currency code VC42Z 'Rehabilitation for other disorders (without treatment episode)' is shown as £239 per day.

TABLE 3 Sources of finance for residents in independent sector care homes for older and physically disabled people, UK April 2010

	Nursing care		Residential care		Nursing & Residential	
	No.	%	No.	%	No.	%
Local Authorities	65,000	39%	134,000	62%	199,000	52%
NHS	31,300	19%	0	0%	31,300	8%
Private	70,000	42%	81,000	38%	151,000	40%
TOTAL	166,300	100%	215,000	100%	381,300	100%

Source: *Care of Elderly People UK Market Survey 2010.* Laing & Buisson

TABLE 4 Sources of finance for residents in independent sector care homes for older and physically disabled people, UK April 2010, by region



Source: Laing & Buisson

TABLE 5 Illustration of reasonable care home costs on a per-bed basis in 2010/11 for independent sector homes

	Nursing care for older people or people with dementia		Residential care for older people		Residential care for people with dementia	
	a) Provincial Location	b) London	a) Provincial Location	b) London	a) Provincial Location	b) London
A) STAFF, INCLUDING ON-COSTS	Per Week	Per Week	Per Week	Per Week	Per Week	Per Week
Qualified nurse staff	£111	£116	£0	£0	£0	£0
Care staff	£162	£167	£148	£154	£176	£184
Domestic staff	£48	£49	£48	£49	£48	£49
Management / Admin. Staff	£42	£49	£42	£49	£42	£49
Agency staff allowance – nurses	£3	£3	£0	£0	£0	£0
Agency staff allowance – carers	£2	£3	£2	£2	£3	£3
Training backfill	£4	£4	£3	£3	£3	£3
Total staff	£372	£391	£243	£257	£271	£287
B) REPAIRS AND MAINTENANCE						
Maintenance capital expenditure	£20	£20	£20	£20	£20	£20
Repairs and maintenance (revenue)	£11	£11	£11	£11	£11	£11
Contract maintenance of equipment	£3	£3	£3	£3	£3	£3
Total repairs and maintenance	£35	£35	£35	£35	£35	£35
C) NON-STAFF CURRENT COSTS						
Food	£24	£24	£24	£24	£24	£24
Utilities	£23	£23	£23	£23	£23	£23
Handyman / gardening (on contract)	£7	£7	£7	£7	£7	£7
Insurance	£5	£5	£5	£5	£5	£5
Medical supplies (inc. equipment rental)	£3	£3	£3	£3	£3	£3
Domestic and cleaning supplies	£3	£3	£3	£3	£3	£3
Trade and clinical waste	£3	£3	£3	£3	£3	£3
Registration fees (inc. CRB checks)	£3	£3	£3	£3	£3	£3
Recruitment	£2	£2	£2	£2	£2	£2
Direct training expenses	£2	£2	£2	£2	£2	£2
Incontinence products	£0	£0	£0	£0	£0	£0
Other non-staff current expenses	£6	£6	£6	£6	£6	£6
Total non-staff current expenses	**£84**	**£84**	**£84**	**£84**	**£84**	**£84**
D) CAPITAL COSTS (12% Return on Capital)						
Land	£43	£125	£43	£125	£43	£125
Buildings and equipment meeting national minimum standards for 'new' homes first registered since April 2002	£161	£161	£157	£157	£157	£157
Total capital costs	£204	£285	£200	£281	£200	£281
Fair price for homes meeting all standards for 'new' homes in *National Minimum Standards for Care Homes for Older People*, 3rd Edition February 2003	**£694**	**£794**	**£561**	**£658**	**£590**	**£688**
Maximum capital cost adjustment for homes not meeting physical standards for 'new' homes	**£81**	**£81**	**£79**	**£79**	**£79**	**£79**
Fair price for homes which do not exceed the interim physical standards for 'existing' homes in *National Minimum Standards for Care Homes for Older People*, 3rd Edition February 2003	**£613**	**£713**	**£482**	**£579**	**£511**	**£609**

Figures may not add because of rounding
Source: Laing, W (2008) *Calculating a Fair Market Price for Care: a toolkit for residential and nursing homes, Third Edition.* The Policy Press. Bristol. Updated for 2010/11 using Laing & Buisson Surveys.

TABLE 6 Year on year per cent changes in average care home fees compared with the hourly earnings index for women and the Retail Price Index (RPI)

	Nursing care fees (public and private average) % change	Residential care fees (public and private average) % change	Hourly Earnings Index for Women % change	RPI % change	
1992/3	6.0	7.0	8.3	3.2	
1993/4	2.4	5.2	4.7	2.3	
1994/5	2.8	3.1	2.8	3.5	
1995/6	1.2	1.7	3.8	2.7	**Period One**
1996/7	2.4	3.4	5.0	2.6	
1997/8	2.2	1.8	4.9	3.5	
1998/9	2.3	2.7	4.4	2.1	
1999/2000	4.1	4.2	5.8	2.6	
2000/01	3.5	3.8	4.2	2.3	
2001/02	6.0	6.1	6.4	1.8	
2002/03	7.8	8.0	5.4	1.7	
2003/04	7.4	7.4	3.7	2.9	
2004/05	7.4	8.3	5.3	3.0	**Period Two**
2005/06	7.5	5.2	3.4	2.8	
2006/07	5.0	6.1	3.9	3.2	
2007/08	5.2	6.1	3.4	4.3	
2008/09	4.3	3.7	4.2	4.0	
2009/10	1.9	3.2	4.3	-0.5	**Period Three**
2010/11	3.6	4.0	3.0	4.9	

Source: *Care of Elderly People UK Market Survey 2010.* Laing & Buisson

TABLE 7 Care home closures, capacity lost in independent sector care homes for older and physically disabled people which closed in the period, UK 1990-2010

	Beds in homes which closed	Attrition rate (beds in closed homes as % of total capacity)
Calendar year		
1995	8,509	2.0%
1996	5,690	1.3%
1997	8,023	1.8%
1998	11,000	2.4%
1999	15,144	3.4%
2000	16,980	3.8%
2001	14,446	3.3%
Year ending April		
2003	15,013	3.5%
2004	12,714	3.0%
2005	12,267	3.0%
2006	7,461	1.8%
2007	6,421	1.6%
2008	5,368	1.3%
2009	4,245	1.0%
2010	4,360	1.0%

Source: *Care of Elderly People UK Market Survey 2010.* Laing & Buisson

TABLE 8 Occupancy rates, independent sector care homes for older & physically disabled people 1990-2010

March / April	Occupancy rate %
1990	91.0
1991	90.8
1992	94.1
1993	92.1
1994	90.5
1995	90.2
1996	88.1
1997	85.9
1998	86.4
1999	86.3
2000	88.6
2001	90.9
2002	90.4
2003	92.3
2004	91.9
2005	90.8
2006	90.7
2007	90.6
2008	90.8
2009	89.8
2010	89.0

Capacity being removed

Source: *Care of Elderly People UK Market Survey 2010.* Laing & Buisson

TABLE 9 Demand for places in care homes (nursing and residential) for elderly and physically disabled people in the independent and public-sector, UK 1990-2010 and projections for 2011-2020

	Demand satisfied in independent sector homes	Demand satisfied in public-sector (Local authorities and NHS long stay beds)	TOTAL DEMAND (No. of Residents)	Projected increase %
Actual figures				
1990	290,000	182,000	472,000	
1991	318,000	171,000	489,000	
1992	353,739	150,008	503,748	
1993	374,216	136,617	510,833	
1994	385,259	124,055	509,314	
1995	394,296	113,948	508,244	
1996	396,875	106,459	503,333	
1997	393,211	97,110	490,321	
1998	393,591	90,188	483,779	
1999	388,748	82,192	470,940	
2000	393,549	75,112	468,660	
2001	397,028	68,892	465,919	
2002	385,373	62,888	448,261	
2003	385,744	59,320	445,064	
2004	377,889	56,935	434,824	
2005	369,815	51,147	420,962	
2006	371,057	47,169	418,226	
2007	372,522	44,128	416,650	
2008	376,201	41,584	417,785	
2009	380,362	38,254	418,616	
2010	380,962	36,923	417,885	
Projections				
2011	385,209	33,252	418,460	
2012	389,056	30,950	420,006	
2013	392,289	28,808	421,096	
2014	395,661	26,814	422,475	
2015	399,184	24,959	424,142	
2016	402,615	23,232	425,846	
2017	406,208	21,625	427,832	
2018	410,210	20,129	430,339	
2019	414,556	18,737	433,293	
2020	419,621	17,441	437,061	

1.3% increase in demand 2010-15

4.5% predicted increase in demand 2010-2020

Source: *Care of Elderly People UK Market Survey 2010.* Laing & Buisson

TABLE 10 Changes in volume of state funded demand for care in residential settings for older and physically disabled people, UK 2004-10 (April each year)

Funded by	Provided by	2004	2005	2006	2007	2008	2009	2010
Local authorities	Independent sector [1]	234,900	228,100	224,400	215,300	207,000	202,500	199,800
Local authorities	In-house [1]	36,700	32,000	29,700	28,300	26,700	24,000	22,100
Local authorities	All sectors	271,600	260,100	254,100	243,600	233,700	226,500	221,900
NHS	Independent sector [2]	14,200	14,100	15,000	16,000	22,300	27,400	31,300
NHS	In-house [3]	20,200	19,200	17,500	15,900	14,800	14,200	13,600
NHS	All sectors	34,400	33,300	32,500	31,900	37,100	41,600	44,900
Local auths + NHS	Independent sector	249,100	242,200	239,400	231,300	229,300	229,900	231,100
Local auths + NHS	In-house	56,900	51,200	47,200	44,200	41,500	38,200	35,700
Local auths + NHS	All sectors	306,000	293,400	286,600	275,500	270,800	268,100	266,800
Local authorities	All sectors % change		-4.2%	-2.3%	-4.1%	-4.1%	-3.1%	-2.0%
NHS	All sectors % change		-3.2%	-2.4%	-1.8%	16.3%	12.1%	7.9%
Local auths + NHS	All sectors % change		-4.1%	-2.3%	-3.9%	-1.7%	-1.0%	-0.5%

Source: *Care of Elderly People UK Market Survey 2010.* Laing & Buisson

[1] Numbers funded by local authorities calculated by extrapolation from England data as at 31 March, most recently published in *Community Care Statistics: Social Services Activity, England 2009-10 – Provisional Council Data.*

[2] Numbers funded by the NHS in the independent sector estimated from Laing & Buisson surveys of care homes.

[3] For estimated numbers provided by the NHS in NHS long-stay hospitals and care homes, see *Care of Elderly People UK Market Survey 2010*, SOURCES AND NOTES FOR TABLES 2.1 – 2.3 at end of Chapter 2, Market Size and Trends, above.

ABOUT BUPA CARE SERVICES

- Bupa cares for over 18,500 older people in the UK.
- We have over 300 care homes in the UK which provide specialist care to some of the country's oldest and most vulnerable people.
- Bupa has no shareholders and that means we are still able to invest in more training for our people and providing better environments for our residents.
- We are one of the biggest providers of dementia care in the UK.
- Over 70% of our UK care home residents receive state funding.
- Bupa welcomes the government's establishment of a commission on the future of funding social care in England.
- We have extensive international experience and also operate care homes and retirement living centres in Spain, New Zealand and Australia.

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