Annual UK care sector roundtables and survey report 2018-2019
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Challenges exist but sector remains confident

As we have been doing in the autumn for the last eight years, Barclays, Knight Frank, Pinsent Masons and Caring Times conducted an electronic survey of sentiment in the residential care sector. The survey provides an invaluable insight into sector changes in thought, sentiment and practice over recent years.

The 2018 survey was used as the basis for a number of regional Roundtable discussions, involving leading personnel in the sector, some of whose opinions and conclusions are reported later in this booklet.

“We heard from several businesses who were making real changes to ensure that their workforce harboured a positive working culture and appreciated the greater good/moral purpose in what they and their team were trying to achieve.”

Dan Braithwaite, Senior Associate, Healthcare, Pinsent Masons

The results of the 2018 survey were particularly keenly anticipated because of the current political and financial uncertainty caused by the result of the Brexit referendum. When answering the question ‘What impact do you think leaving the EU will have on your business?’, just 3 per cent thought it would be positive (compared to 5 per cent in 2017), 54 per cent thought it would be negative (up from 41 per cent in 2017) and those thinking it would have no effect dropping from 54 per cent in 2017 to 43 per cent in 2018.

In other ways, what proved most surprising, perhaps, was that the results of the survey were not significantly different from 2017 – for example in terms of operator confidence in their own businesses and the sector more widely.

68 per cent of operators in 2017 were either extremely or very confident in their businesses while by 2018 this figure had dropped by just five per cent to 63 per cent. Part of this confidence comes from maintaining occupancy levels with 76 per cent reporting levels above the watershed 90 per cent.

Traditionally operators are much less confident about the sector generally than in their own businesses. In 2018 45 per cent of operators had little or no confidence in the sector but this figure was only 4 per cent more than 2017 so, again, it would appear confidence has not been greatly dented recently.

The biggest challenges facing the care home sector

Operators perceived issues surrounding staff as their biggest challenges - as they have done for the previous two years.

Three quarters of operators said rising staff costs was an extremely or very significant challenge for them. By contrast a very surprising 14 per cent said they had no concerns, but we do not know who exactly
these lucky operators are. Anecdotal evidence would suggest their care homes would most likely be in London and the South-East. During Roundtable discussions, ever rising agency costs were identified as the major cause for increasing staff costs.

**Staff recruitment continues to be the most significant challenge faced by operators after staff costs**, but again a very surprising 13 per cent said they had no problems (up from 5 per cent in 2017). During Roundtable discussion the most successful recruiters were also the most passionate advocates for a well thought-out and well-funded retention programme.

“There is so much going on and there are too many variables to make a meaningful assessment.”

*Tony Stein, Chief Executive, Healthcare Management Solutions*

The importance for care homes of maintaining a good reputation was again emphasised by operators. During Roundtable discussion it became clear that social media can be a very successful medium to promote a home locally but it can also be a minefield easily triggered by ignorant or careless staff. A carefully thought-out and frequently used educational programme for staff on the pros and cons of social media is therefore essential.

**Local Authority (LA) fee cuts** and the failure to keep up with inflation remain very important areas of concern for over 66 per cent of senior management although a very surprising 13 per cent described them as their least important challenges. The nature of the email survey does not permit identification of where, in geographical terms, fee cuts are hurting but it was clear from the regional discussion groups that the perceived difficulties in the North remain a reality. It is generally perceived that private fees are becoming an increasingly important revenue source for operators, particularly in the South, but an interesting finding was that more operators (28 per cent) reported a decline in private fee revenue than those reporting an increase (21 per cent).

**Whilst on the subject of Local Authorities**, we always like to ask operators whether relations are improving with them. This year we are pleased to report an improvement. Significantly more operators reported increased interaction than reported a decline, although it has to be said that the majority reported no change.

**Perceptions of the regulatory authority (CQC)** remain an interesting area. In the past, concerns about CQC were rife and evident, both in the annual survey and during discussions. The major concern has always been the subjective nature of the inspection process and this remains true (particularly surfacing in Wales recently), but now two thirds of responders said they believed CQC had a positive impact on quality standards in the sector.

One welcome ongoing development over the last seven years is the gradual decline in care home management perceiving other local care homes as a threat. As the sector matures it is increasingly realising that working together is key to surviving the many challenges out there. In the most recent survey less than 10 per cent viewed their local competition as a serious threat, while 19 per cent perceived local homes as a minimal threat.
Significant further findings

- Operators showed less willingness to expand (43 per cent) than last year when 50 per cent were keen
- There is considerable conjecture currently as to whether operators are closing nursing beds because they cannot find the nurses to staff them. Our survey would appear to support this view. In 2017 just 22 per cent were considering such a move but in the 2018 survey 38 per cent were
- Another popular subject for conjecture is how long residents live following entering their care home. Only 7 per cent of responders said the average stay of their residents was less than six months while over a third said the average stay in their homes was longer than two years. Most respondents said they felt length of stay had marginally decreased or stayed the same
- The number of operators considering selling their businesses has risen from 20 per cent in 2017 to over 30 per cent in 2018. When considering what factors most influence a sale, price comes way ahead of other factors such as sustainability of business, quality of purchaser, ability to cap liabilities and proof of funding
- The National Living Wage has had the impact 86 per cent of operators expected and unlike last year most operators (55 per cent) believe it is threatening the viability of their businesses
- The sector remains Remainers when it comes to the impact of Brexit on their businesses. Less than 3 per cent believe that leaving the EU will have a positive effect while 53 per cent believe it will be negative
- It looks like management is beginning to embrace technology. In 2017 40 per cent introduced a significant new piece but in 2018 it was up to almost 50 per cent. We are on the move.
A tale of two sectors
By Caring Times Editor
Geoff Hodgson

How hard can it be to knock down a clay pigeon? Just aim a little in front, pull the trigger and have the satisfaction of seeing the target blown to smithereens.

Simple enough, so why were we missing so many when we gathered at a shooting school near Snaith in North East Yorkshire towards the end of last year?

There were 15 of us, care home providers, bankers, lawyers and healthcare property specialists, spending the morning in the admittedly atavistic exercise of clay target shooting before sitting down to discuss the care sector and, in particular, the 2018 survey of care home operators conducted by Caring Times on behalf of Barclays, Knight Frank and Pinsent Masons.

It soon became evident that assessing what was going to happen in the sector in the next couple of years was every bit as difficult as hitting a moving clay target.

“There is so much going on and there are too many variables to make a meaningful assessment,” said Tony Stein of Health Care Management Solutions.

“Will we ever get the right decisions out of politicians to fix the problems? The NHS is the nation’s sacred cow; it’s worth votes and it’s high on the political agenda, so it will always attract the money, whereas social care is way down on the agenda. If you look at the Red Book for the Budget, there are 59 mentions of the NHS and 12 mentions of social care which gives some idea of the relative importance that government attaches to each.”

The discussion ranged widely over staffing costs, recruitment and retention, development finance, the likely impact of Brexit and the perennial problems of regulation. It soon became clear, however, that the independent provision of social care services was now divided into two quite separate sectors – the private pay sector and public provision, each with their own concerns, challenges and opportunities.

“Too many people can’t afford to fund their own care and I think they are left too long at home; there’s a lot of unmet need, a lot of loneliness and isolation.”

Belinda Black, Chief Executive, Sheffcare

“No one is building in Sheffield because there isn’t the market for the self-funders,” said Belinda Black, chief executive of Sheffcare, a not-for-profit provider which operates 10 residential care homes across Sheffield.

“We have good occupancy, a high level of self-funders and low staff turnover, but I do worry about the sector as a whole. Too many people can’t afford to fund their own care and I think they are left too long at home; there’s a lot of unmet need, a lot of loneliness and isolation. A person has to have had a number of falls now before they are considered frail enough to come into a care home.”

There was a general consensus that staffing and recruitment costs remained the biggest
concern for providers. Belinda said the 4.9% increase in the National Minimum Wage was a concern, especially as that increase would have to be done for all staff to maintain the differential.

“We forecast that by 2020 we’ll be out of business, based on historical fee rates from Sheffield Council,” said Belinda.

“We work very hard at recruitment and retention. We have a turnover of about 12% which is one of the lowest levels in the country. We pay as much as we can, we give the staff a bonus every year. The lighter things that we do include Christmas presents and thankyou letters, and we pay for all the training. But we have fantastic long-standing managers and to me, they are the key. And Sheffcare has a great reputation and is seen as a good place to work.”

Pinsent Masons’ James Long, who chaired the discussion, asked if banks had any sense that providers were finding acquisition and development finance more difficult to raise, as was suggested by the survey results. Barclays Head of Healthcare (North) Jonathan Thompson said he had not seen any evidence of this.

“Talking to people it seems there are far more forms of finance available,” he said

“There was a time when banks were pretty much the only show in town, but now there are funds flowing from various sources and in many places, the sector is awash with funding. Increasingly, people are looking to the ground rent scheme.

“The biggest challenge from a banking perspective is that banks have become far more aware of the cost of keeping capital on their balance sheets and pricing has become difficult. The care sector is a big consumer of debt funding so it does have an impact on the balance sheet but really, we’re lending more than we have done previously. Good operators with a good business plan and a model we can work with will find funding is still available.”

As with similar events held in past years, all providers expressed full confidence in their own operations but all were more reserved in their assessment of the social care sector as a whole. Anchor’s Mark Greaves put his rating at 3 of a possible 5.

“Brexit is a worrying uncertainty,” he said. “We don’t know whether or not there will be security of supply of some consumables.”

James Long agreed: “I think there’ll be a big drop in transactions in the first quarter of 2019 owning to uncertainty over Brexit, but I’m cautiously optimistic for the sector generally so 4 and 5. There’s going to be a lot of activity over the next five years, in both care homes and retirement villages.”

Knight Frank’s Rick Tarver was also bullish, despite the uncertainties. “I give a confidence rating of 5 for healthcare generally, because the demand is there and is growing,” he said. “Most people consider the value of their business to have increased over the past five years. The sector as a whole is dynamic, it’s fluid, it’s constantly changing. That will continue to bring opportunity, innovation and change.”
Cautious confidence

By Caring Times – Editor-in-Chief Dr Richard Hawkins

Lucky care home operators were invited by Barclays, Knight Frank and Pinsent Masons to enjoy some clay pigeon shooting mixed in with some high-level discussion about the sector. Clay pigeon shooting (formerly known as Inanimate Bird Shooting) is the art of shooting a firearm at special flying targets known as clay pigeons or clay targets.

“Good operators with a good business plan and a model we can work with will find funding is still available.”

Jonathan Thompson, Head of Healthcare (North), Barclays

That said, no one present had a good word to say for the implications of Brexit for recruitment and staffing in general. The survey by contrast revealed that an amazing 12.7 per cent of responders considered recruitment the least of their worries and a similar number (13.9 per cent) said that staff costs were of no concern. “Where do they live?” we are forced to ask.

Looking ahead, the feeling was that 2019 was promising to be uncertain. The outstanding Green Paper is making operators nervous about making big decisions until they know what it contains. Combine political and economic uncertainty and people are sitting tight and holding off buying and selling until there is more certainty. The positive is that there was general acceptance that the healthcare sector is more defensive than other property sectors and will hold up better than other sectors should the shooting resume with even greater ferocity.

Good to hear from the younger leaders

By Dan Braithwaite, Senior Associate, Healthcare, Pinsent Masons

In a year when the news and developments in the sector were predictably downbeat, as has become usual at the Roundtable events, I found it really heartening to hear about the innovative ways in which the attendees were dealing with the issues thrown at them. It was also great to hear some of the new younger leaders in the sector talking very passionately about the sector and what they want to do to shape the market.
As has been the case for the last the few years, there was significant discussion about staffing shortages (exacerbated in the lead up to Brexit, with EU recruits staying away until the situation becomes clearer), fee cuts, interaction with local authorities and of course, the Care Quality Commission.

However, on a more positive note, a lot of the discussion was focused on the use of new technologies in the provision of services and new and innovative ways of retaining staff. We heard from several businesses who were making real changes to ensure that their workforce harboured a positive working culture and appreciated the greater good/moral purpose in what they and their team were trying to achieve. The good news was that they were already reaping the benefits in relation to staff retention and productivity.

It was also interesting to hear about the increased use of tablet devices and apps that support patient care (both in residential homes and in community settings).

A view from Barclays – David McHattie

The 2018 survey reveals some interesting trends, many of which are consistent with last year, but a number of new factors have emerged.

The biggest single issue is unchanged. Staffing costs and recruitment were the key concerns that emerged from discussions with clients at the round tables and are clearly evident within the surveys as the biggest challenges facing the sector. Fee cuts and reputation remain close behind, again reflecting the nature of conversations around the tables. The sheer number of respondents stating that the Living Wage had impacted their business was not a surprise, but a majority stating that it could threaten the viability of the business was surprising. This demonstrates the impact that fee cuts have had over a period of time, whilst cost pressures have continued to increase. The lack of any clarity on funding for social care in the long term is adding to the pressure, and with no sightlines as to when the Green Paper may now be published, this pressure is certain to continue for some time.

Add to this the Brexit impact. At the point of writing this, the Brexit debate is still very alive, with no clarity on the terms of our departure. The sector is expecting a negative impact, and undoubtedly this will be felt in staffing, which is already suffering shortages, especially in rural areas. Depending upon the outcome, we may also see shortages of imported goods impacting upon the care sector in the short term post March.

A particular note, which is at slight odds with the finance sector, is that respondents’ confidence in the care home market has decreased sharply over the year. This contrasts with investors who are competing strongly, with a wall of money looking to be invested in the care sector, as investors seek safe long term cash flows which specialist care and high acuity care in particular can provide. As a result, there is no shortage of monies to invest in the right projects, whether that is expansion or acquisition. As one of the largest lenders to the sector, Barclays credit appetite remains unchanged, with our balance sheet ready to be
deployed to enable operators providing high quality care to grow and succeed.

Our business continued to grow in 2018, with a wide range of deals completed across all sub sectors and all geographies. With a large number of the major players currently up for sale, there is clearly going to be change in the sector in 2019 and we are ready to play our part. Consolidation will undoubtedly continue. Technology will be the other major factor. Perhaps surprisingly, just under half of respondents stated that they had implemented significant new technology into their care homes in the last year. With the pace of technological change this is an area where operators will need to invest continually in order to remain relevant and to maximise efficiency. As the regulatory environment continues to grow, clear audit trails become ever more important and technology has a key part to play in demonstrating compliance. We will also see greater use of artificial intelligence, especially in back office areas as this becomes more mainstream.

There are undoubtedly many challenges as we go into 2019, but I am confident that the sector will rise to meet them and we look forward to debating the issues once again around the table in 2019.

A view from Pinsent Masons - Jo Ellis

There has been a staggering 83% rise in the number of social care businesses entering insolvency over the last 12 months. This is due to continued reductions in local authority fees, rising staff costs and difficulties for operators in recruiting staff because of Brexit.

Allied Healthcare, the largest domiciliary care provider in the UK with 8500 employees and 13,000 service users, went into administration at the end of November 2018. Nestor and Ark followed closely behind. It is widely reported that Four Seasons, the second largest care home operator in the UK, continues to have restructuring talks with its creditors. Sadly, the headwinds facing much of the healthcare sector show no signs of abating in 2019.

“There the sector as a whole is dynamic, it’s fluid, it’s constantly changing. That will continue to bring opportunity, innovation and change.”

Rick Tarver, Partner, Healthcare Team, Knight Frank

Following the end of its Market Study in 2017, 2018 was a highly active year for the Competition and Markets Authority’s enforcement activities in the sector. In January, Maria Mallaband gave a voluntary undertaking to no longer require the continued payment of fees after a resident’s death. These undertakings were followed in May by an announcement that the CMA had secured agreement from Sunrise Senior Living to end

David McHattie
Head of Public Sector and Healthcare, Barclays
its policy of charging residents upfront fees of several thousand pounds, which had to be paid before they had secured a place at the home. SSL also agreed to pay more than £2 million in compensation. Finally, the year was rounded-off in December by the issuing of a letter before action to Care UK concerning its policy of charging compulsory, non-refundable, administration fees. The CMA provided an ultimatum to the company to refund over 1,600 residents up to £3,000 each or face being taken to court. Care UK had previously agreed to stop charging the fee but the CMA is pressing for full compensation.

“Brexit is a worrying uncertainty. We don’t know whether or not there will be security of supply of some consumables.”

Mark Greaves, Managing Director, Care Services, Anchor Hanover

In addition to enforcement, the CMA also sought to lead the industry in its compliance efforts by publishing consumer law guidance in November. The guidance addresses certain consumer law issues highlighted in the 2017 Market Study Report. The guidance is extensive but presented in a user friendly format. Operators may implement many parts of the guidance through process improvements, such as new complaints procedures or amendments to terms and conditions. However, the new guidance on performing services with reasonable care and skill overlaps with CQC requirements, raising the prospect of parallel enforcement actions for operators. Looking ahead, the CMA has committed to carry out a compliance review in November 2019 so it is clear that homes must take action on implementing this guidance.

From a transactional point of view, we have remained very busy and there remains no shortage of appetite to do deals in the space (even in these last few months before Brexit), particularly in children’s services and live-in care, as well as asset backed businesses such as the sale of a large portfolio to Aedifica, a Belgian REIT. There appears to be plenty of US and other overseas interest in UK care sector investments and we have a number of clients looking to dip their toe into retirement villages and the potential opportunities around those developments (both in rural and city settings).

Despite the survey revealing that only 49% of care homes implemented new technology into their businesses in 2018, it was apparent from the attendees at the round table events that the sector is seeing an increase in apps and cloud based software that support patient care. This is undoubtedly a healthy development but providers should be wary of the increased volume of data that they will generate. How this data is stored and the privacy laws that govern it are among a number of legal considerations that face the sector. We are encouraging our clients to consider these implications from the outset, so as to be on the front foot if / when challenged.

Jo Ellis
Partner, Pinsent Masons
A view from Knight Frank – Care home trading performance

Knight Frank is pleased to introduce the seventh annual review of trading performance in the UK care home sector based on data kindly provided by leading care home operators. We are proud to announce a 46% increase in the number of care home operators in our care homes trading performance index (CHTPI) for the financial year 2017/18. The CHTPI review provides industry-leading benchmarks on occupancy rates, mix of funding type, average weekly fees (AWF), costs such as staff and agency outlays, and profitability. The headlines show that both occupancy and AWF increased as did staff costs as a percentage of income but profit margins fell against last year’s performance.

Figure 1: Regional share of the sample

<table>
<thead>
<tr>
<th>Region</th>
<th>% of Total Care Beds (FY 2017/18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wales</td>
<td>3%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>4%</td>
</tr>
<tr>
<td>London</td>
<td>6%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>7%</td>
</tr>
<tr>
<td>North East</td>
<td>7%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>8%</td>
</tr>
<tr>
<td>South West</td>
<td>8%</td>
</tr>
<tr>
<td>Scotland</td>
<td>10%</td>
</tr>
<tr>
<td>East of England</td>
<td>11%</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>11%</td>
</tr>
<tr>
<td>North West</td>
<td>12%</td>
</tr>
<tr>
<td>South East</td>
<td>13%</td>
</tr>
</tbody>
</table>

Figure 2: Share of the sample by size

Figure 3: 2017/18 Results at a glance
Occupancy Rates & Fees

Occupancy

Occupancy rates have hit a record high since dataset records began in 2006, increasing for the sixth consecutive year to 89.4%, finally surpassing the 2006 figure of 89.3%. As illustrated in Figure 4, a marginal uplift of 0.2% in occupancy percentage has been seen. With an ageing population and a strong demand for elderly care facilities, this upwards trend is no surprise.

In 2018, the gap between personal and nursing care occupancy closed further, following a similar trend to last year’s review. Occupancy in nursing homes increased from 88.7% to 89.1% while occupancy rates fell for personal care homes from 90.2 to 89.9%. The following reasons are contributing to this trend:

• Residents are moving into care homes when their needs and acuity levels are higher and admission is necessary
• Nursing care providers are shifting their offering to personal care due to the nursing staff shortages
• Only 39% of the existing provision is registered as a nursing home compared with 61% of personal care homes

Similar to last year’s review, the South West region is operating at the lowest occupancy rate of 83.1% triggered by a low occupancy rate (81.6%) in its nursing homes. This region also has the second largest self-funder (SF) percentage of income (56%) indicating longer fill periods for operators targeting the private pay market. The most noticeable movement by region was in Wales, where occupancy rose from 87.9% to 90.8%. Figure 7 illustrates that the highest occupancy rate (90.2%) is in properties built from 2000-2009. Occupancy is significantly lower for properties built after 2010 mainly due to slower fill rates for new developments that are strategically positioned to predominantly target the private pay market. Please note, Knight Frank Research use effective beds opposed to registered beds to determine an accurate measure of occupancy. Effective beds are also known as operational beds, which are available to the service users during the financial year.

Figure 4: UK care home occupancy rate %

Figure 7: Occupancy rates by property age (FY 2018/2018) %
**Fees**

AWF increased for the seventh consecutive year rising by 3.6% to £773 in the financial year 2017/18. This is above the RPI inflation of 3.3% for the corresponding period, and represents the highest rate since dataset records began in 2006 (Figure 8). In real terms, the AWF increase represents a less impressive movement of only 5% since 2006 (Figure 8).

The increase in fees has been driven by:

- Increased Local Authority (LA) fee rates (rising on average at 3.6% as per LaingBuisson’s Care Markets Annual Survey report, July 2017)

- Continued SF fee inflation, above RPI and the continued shift towards the private pay care market

Income per resident increased by 4.5% to £40,922. However, this is less than the 4.7% increase in staff costs per resident. The gap between nursing and personal care fee rates has widened even further this year. This has been driven by the appetite for nursing homes to inflate fee rates for the acute nature of care provided and due to increasing nursing staffing costs. In addition, the NHS-funded nursing care (FNC) rate introduced at £155 per week from April 2017 has subsequently increased by 2% to £158 per week from April 2018. This is to assist with the nursing wage pressure, due to the shortfall of qualified nurses within the UK but in real terms reflects a fall.

Figure 9 illustrates the South-East region’s continuous dominance, supported by its strong affluence profile which is reflected in the SF percentage of income increasing in this region by 1% to 60% of income. The East Midlands also had a high percentage of SF income at 54% (increasing by 2% from the prior period) which is encouraging for developers who continue to head north of the Watford Gap to maximise returns. Figure 9 also identifies a North South divide. In comparison to the prior period, the North-East relegated to bottom place, switching places with Northern Ireland, driven by the region’s SF percentage of income falling from 35% to 25%.

Figure 10 examines the relationship between SF and LA income by region. The outcome is predictable with the exception of London where a large proportion of the stock was built in the last century and is funded by the LA and NHS PCT.
Costs

Staffing Costs

Although care home operators are coming to terms with the impact of the National Living Wage (NLW), recruiting and retaining good quality staff remains challenging, particularly qualified nurses. Staff costs in 2017/18 increased by 4.7% to £23,575 per resident, which has reduced from a 7% increase witnessed in last year’s review, when Care Assistant pay rates were inflated to meet the NLW standards. The national average wage rate per hour for a Care Assistant stands at £8.00 which is 50 pence per hour higher than the NLW in 2017/18. The current rate is also above the 2018/19 NLW of £7.83 per hour.

However, the NLW is projected to rise to at least £9.00 per hour by 2020, therefore the rising staff costs per resident, since 2011/12, as illustrated in Figure 21 will continue this upwards trend. As staff costs per resident increased materially, staff costs as a percentage of income only marginally increased by 0.1% to 57.6% due to:

- AWF inflation
- Increasing SF ratios
- An average 3.6% LA fee rate increase

However, when predominantly focusing on the LA pay market (90% of income and above) staff costs as a percentage of income stands at 69.9%, up from 65.5% in last year’s review which indicates that the LA fee rate increases are insufficient.
Recruiting and retaining good quality staff remains the biggest challenge for operators as agency costs increase from 7.4% to 8.2% when compared with last year’s analysis. The UK unemployment rate fell to 4% in the three months to June 2018, its lowest rate since 1975. More choice and opportunities are available for staff, allowing them to switch jobs for preferential pay rates and to work in less challenging environments. This is quite evident in the South East region where staff agency costs are above the national average at 10%.

The shortfall of skilled nursing staff in the UK continues to hamper the sector and mount further pressure on existing staff. This is affecting trading performance as agency costs in nursing homes reflect 9.3% (8.5% in 2016/17) when compared with 5.4% (4.1% in 2016/17) for personal care homes. As per Knight Frank’s Healthcare Development...
Opportunities Review 2018, the sector witnessed 226 home closures in 2018 in the UK (6,740 beds), 90% of which were rated Inadequate or Requires Improvement by the Care Quality Commission before deregistration. A large proportion of these homes closed due to the impact of the NLW and challenges of recruiting nursing staff. In light of the nursing staff crisis, a shift towards personal care home developments has continued as 54% of new openings in 2018 were for personal care homes only.

In regards to staff costs per resident, London takes top spot from the South East region as shown in Table 1 when compared with 2016/17, driven by the upwards pressure to recruit and retain staff within the M25. The lowest staff cost as a percentage of income was established in the South East at 52.9% driven by the higher fees in the region, comfortably compensating for higher labour costs. Staff costs as a percentage of income has reached 71% for Northern Ireland driven by low fee rates paid by the Trusts and a low percentage of self-funders (7%) coupled with the challenges of recruiting staff from only six counties within the region and required nursing ratios.

### Table 1: Staff costs (FY 2018/18)

<table>
<thead>
<tr>
<th>Location</th>
<th>Per resident P.A.</th>
<th>As a % of revenue</th>
<th>Agency staff cost as % of total staff costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>£28,266</td>
<td>58.3%</td>
<td>6.9%</td>
</tr>
<tr>
<td>South East</td>
<td>£27,822</td>
<td>52.9%</td>
<td>9.9%</td>
</tr>
<tr>
<td>South West</td>
<td>£26,150</td>
<td>57.9%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Scotland</td>
<td>£25,230</td>
<td>60.9%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>£24,642</td>
<td>71.0%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Wales</td>
<td>£23,415</td>
<td>58.7%</td>
<td>8.1%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>£22,689</td>
<td>57.4%</td>
<td>8.2%</td>
</tr>
<tr>
<td>North West</td>
<td>£22,198</td>
<td>60.0%</td>
<td>9.9%</td>
</tr>
<tr>
<td>East of England</td>
<td>£22,149</td>
<td>54.7%</td>
<td>8.2%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>£20,977</td>
<td>54.7%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Yorkshire and The Humber</td>
<td>£20,551</td>
<td>60.0%</td>
<td>7.3%</td>
</tr>
<tr>
<td>North East</td>
<td>£18,984</td>
<td>56.7%</td>
<td>3.7%</td>
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<tr>
<td><strong>ALL UK</strong></td>
<td><strong>£23,575</strong></td>
<td><strong>57.6%</strong></td>
<td><strong>8.2%</strong></td>
</tr>
</tbody>
</table>
Property Costs

Property costs comprising utilities, council tax, insurance, repairs and maintenance, are small in comparison to staffing costs, but they clearly must be managed efficiently to maximise profits. Property costs were similar to the previous year’s review at £2,006 per bed, which equates to 5% of income. Figure 23 illustrates a surge in property costs to 2013/14 before they started to stabilise. This is mainly due to a substantial change in dataset sample to reflect a higher proportion of newer properties. Properties built in the last century are costing £2,167 per bed in comparison with £1,910 per bed for properties build after 2010. We expect to see property costs rise in the forthcoming years due to rising energy costs, albeit the Government’s strategy to price cap by the end of 2018. Repairs and maintenance will continue to dent the Profit and Loss account, specifically for properties built in the last century. On a regional level, property costs as a percentage of income were lowest in the London region (4.5%) compensated by its strong AWF and highest in the North East driven by low AWF.

Figure 23: Property costs per bed
£ per bed

Capital Expenditure (Capex)

A new inclusion in the Index is an assessment of Capex across the sector. 85% of the UK care home stock is over 40 years old where Capex starvation remains a concern. We have carried out a review to show capex spend per bed by property type and age. On a national level capex per bed stands at £1,430 for the financial year 2017/18.

Table 2: Capex/Bed by region

<table>
<thead>
<tr>
<th>Regions</th>
<th>CAPEX/BED</th>
</tr>
</thead>
<tbody>
<tr>
<td>East of England</td>
<td>£1,804</td>
</tr>
<tr>
<td>West Midlands</td>
<td>£1,614</td>
</tr>
<tr>
<td>Scotland</td>
<td>£1,581</td>
</tr>
<tr>
<td>East Midlands</td>
<td>£1,474</td>
</tr>
<tr>
<td>London</td>
<td>£1,454</td>
</tr>
<tr>
<td>North West</td>
<td>£1,425</td>
</tr>
<tr>
<td>North East</td>
<td>£1,321</td>
</tr>
<tr>
<td>South West</td>
<td>£1,372</td>
</tr>
<tr>
<td>Wales</td>
<td>£1,364</td>
</tr>
<tr>
<td>South East</td>
<td>£1,258</td>
</tr>
<tr>
<td>Yorkshire and The Humber</td>
<td>£1,228</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>£1,126</td>
</tr>
<tr>
<td><strong>UK AVERAGE</strong></td>
<td><strong>£1,430</strong></td>
</tr>
</tbody>
</table>

Food Costs

Food costs increased by 3% from last year’s study to £1,462 per resident (£4.00 per day) which consumes 3.6% of income. Food costs as a percentage of income remains static when compared with 2016/17, which
means that operators have been able to increase fees in line with their food costs, which is encouraging. The increase is driven by operators’ continuous efforts to invest in good quality produce tailored to individual residents, offering choice and a wide variety of fresh fruit, diary, vegetables, grains and protein, as nutrition for the elderly and specifically for dementia residents is an important area of focus in order to improve their wellbeing. Interestingly, food costs per resident in homes that are predominantly self-funded (70% and above) are at 1,676 (£4.59 per day).

Figure 24: Food cost index (FY 2018/18) % difference from all UK

Profitability

EBITDARM as a percentage of income fell to 28.3%. The industry standard definition of earnings before interest, tax, depreciation and amortisation, rent and management (EBITDARM) allows for consistent comparison across all care homes. The 2017/18 financial year witnessed a fall in profitability from 29.0% in 2016/17 to 28.3%, measured as a percentage of income.

The trend line in Figure 25 shows a gradual downwards slope in EBITDARM as a percentage of income since dataset records began in 2006/07, and profit margins achieved before the recession in 2007/08 have not been regained. One of the main reasons for this fall is contributed by the decline in profit margins for personal care homes from 29.9% to 28.5%. The year-on-year increase in staff costs per resident (7%) exceeded the increase in income per resident (5%) in personal care homes. Within our dataset, over 50% of the personal care home stock was built in the last century and circa 30% built in the early 2000’s. This limits their ability to inflate fee rates to a sufficient level due to its inferior offering when compared with future-proof assets built over the last 10 years. These homes may also be suffering from a lack of capex.

Interestingly, the homes that are mainly LA funded (90% of income and above), profit margins stand at 15.9%, down from 20.7%. There was only a marginal fall in profitability for nursing homes from 28.6% in 2016/17 to 28.2% which is supported by the increase in occupancy in nursing homes, as discussed earlier in the report.

The South East remains in top position as the most profitable region, its robust trading performance driven by the affluence of the region. The region’s AWF increased by 5% while its staff cost per resident increased by 4%. Staff costs as a percentage of income are also controlled well and the region presents the highest percentage of SF income. Combining the regional picture with the care home type,
the East Midlands have the most profitable personal care homes with a margin of 33.0%. Staff agency costs are at 3.0% which is well below the national average. It also has the lowest staff costs as a percentage of income at 51.9%. The most profitable nursing homes are in the South East region. It is also no surprise that Northern Ireland remains rock bottom, driven by its low AWF and high staff costs.

Whilst averages are an interesting and intuitive way to analyse markets, distributions give an added dimension of insight (Figure 28). Considering 10 percentage point brackets for EBITDARM as a percentage of income, the largest proportion of homes (28.9%) make a profit between 20% and 30%. A quarter of homes make between 30% and 40% profit. Interestingly 12.4% of homes make a profit margin above 40% (increasing from 9.2%) which indicates demand for the premium end of the market driven by affluent locations, luxury products, good quality food and activities.

![Figure 25: EBITDARM as a % of income](image1)

**Figure 25: EBITDARM as a % of income**

![Figure 26: EBITDARM as a % of income (FY 2017/18)](image2)

**Figure 26: EBITDARM as a % of income (FY 2017/18)**

![Figure 27: Distribution of profit margins across the CHTPI (FY 2017/18)](image3)

**Figure 28: Distribution of profit margins across the CHTPI (FY 2017/18)**
Challenges and Opportunities ahead

Challenges

• Increasing care needs of residents, creating upwards pressure on existing nursing provision as operators continue to shift towards personal care only
• Recruitment and retention of skilled staff, exacerbated by BREXIT
• Staff pension contributions increased from April 2018 to a minimum employer contribution of 2%, increasing to 3% from April 2019.
• Failure of LA fee rate increases to track increasing costs leading to further closures, particularly for smaller and older stock.
• Increasing regulatory requirements from the Care Quality Commission and health and safety legislation
• Slower fill rates for new developments, strategically placed to target the private pay market

Opportunities

• Future-proof care home stock entering the market providing a lifestyle choice for residents with amenities such as cinema rooms, cafeterias, gym and spa and hair salons
• With regulatory requirements becoming more stringent, technology will play a substantial part to improve processes and efficiencies, such as electronic care plans and medication systems and more long term Artificial Intelligence.
• Technology such as acoustic monitoring to improve staff efficiencies
• The sector is already seeing welcome bonuses and rewards being paid to nursing staff to enhance the recruitment and retention process
Conclusion

Would you invest in care homes?

This question came from the floor at a recent care home forum. “Yes I would,” replied speaker. “But I would be very careful about the homes I invested in.” Thus was exposed the essential dilemma facing the sector. So much demand, so much need, so much opportunity, the promise of technology, so much expertise, so much compassion. And yet... and yet... too few staff, too little money, inexperienced management, corporate debt, the challenge of dementia unsolved, the relentless march of demographic pressures stressing communities.

The pluses...

The speaker above could have quoted the 2018 Barclays/ Pinsent Masons /Knight Frank survey which highlights the demands faced by care home owners but also shows they are a pretty resilient lot. Although the market is highly fragmented, many operators are still looking to expand – especially the small to medium sized groups without too much debt, run by young, second - generation owners open to new ideas, to new ways of thinking, to innovative ways of operating - especially using technology. They go out into their communities because they want to show off what amazing care they provide. They welcome other good homes because they know their real enemy is the ongoing perception that care homes are terrible places to live and die – and they need their colleagues’ help to end that fallacy.

This resilient new brand of owners loves new ideas and loves creating the environment that is going to transform their businesses. Need a 30-bed extension? No worries, nowadays it can be done in three months, and operational in six. Need the money to pay for it? No worries, visit banks and the City without fear or trepidation. If you have a good model, finance is available. Need good staff to run the extension? No worries, put in a new, person-centred care plan which takes all the drudgery out of management and releases your wonderful but overworked staff to do what they love most – looking after people with care and compassion.

And yet......and yet......

When questioned, every care home owner will tell you recruitment and retention of staff is their foremost challenge. After widespread speculation, our 2018 survey showed that owners are at last accepting that a lack of nurses is forcing them to deregister from nursing to residential care.

Are we surprised? Not really. We know that there is a 20,000 deficit of nurses in the UK – partly because England is doing so little to encourage (young) people to train as nurses. A trainee nurse in England could have run up a debt of £50,000 after completing training, repayable from only a modest salary once starting work. Some places are trying harder. Scotland is providing an attractive alternative. Instead of scrapping grants for student nurses, they have increased them from just over £6,500 a year to £10,000 a year by the year 2020-21. Makes sense. And Australia has good pay, sun and sea to offer. Tempting.
Funding remains the other major challenge for the care home sector. In last year’s booklet we highlighted reports from the Kings Fund and even CQC which said the sector was near tipping point, and a report from the Competition and Markets Authority (CMA) which identified a funding shortfall of £1bn a year across the UK because the fees local authorities (LAs) pay for funded residents are below the costs incurred by care homes.

Have things improved? Hardly. In our survey 35 per cent of owners said their fees from LAs had not risen in the previous year and after contacting all LAs in England, Care England found that one in five had made no increase in the baseline rate for nursing home beds, 18% had made no increase for nursing home beds for people with dementia and 22% had paid no increase for residential care home beds, including for those with dementia.

Prospects for 2019

In the uncertain times we live in, property-based businesses, boosted by a certain, unrelenting demand for their products and services, will do well. Care homes will do well – provided of course they are the right ones.