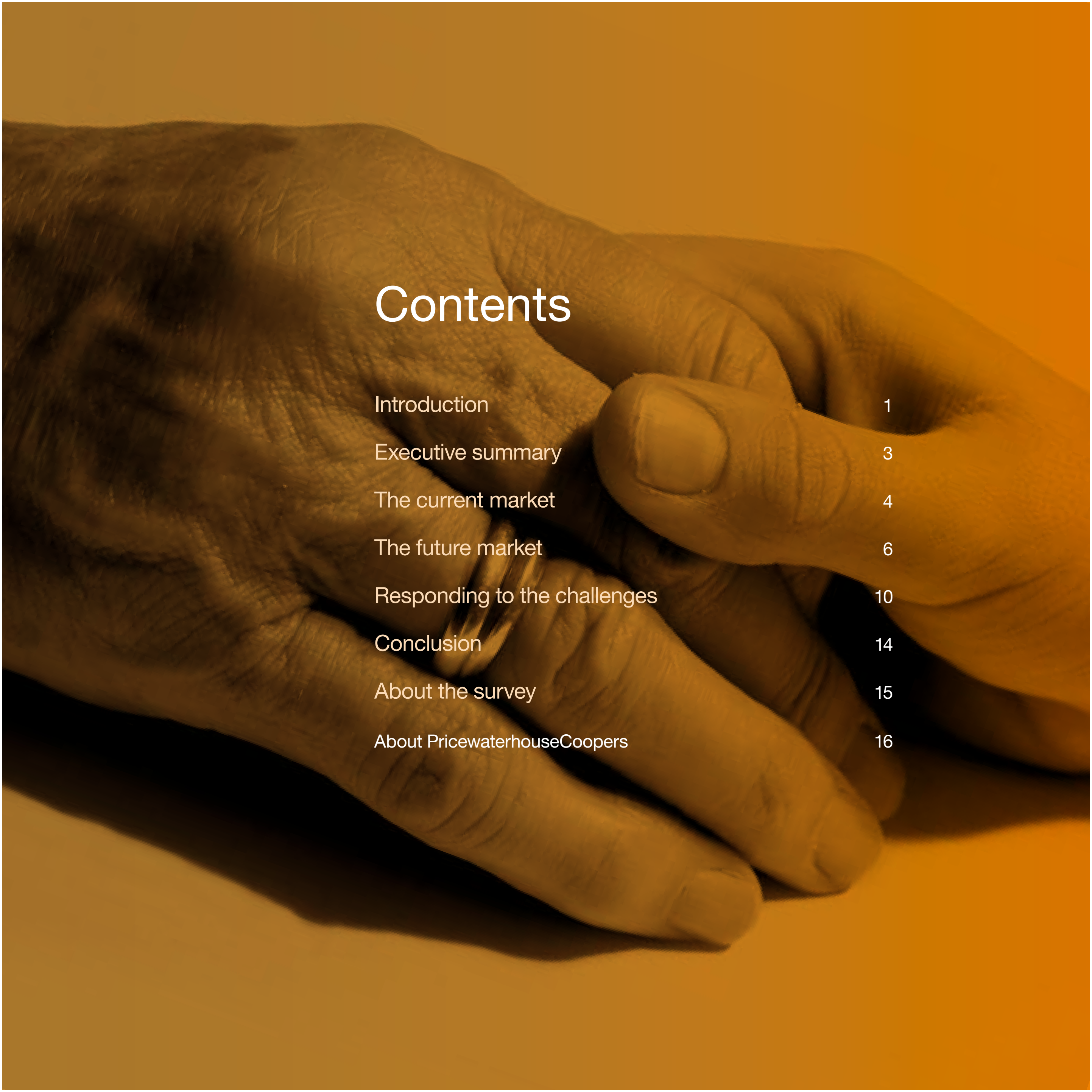
Fair care crisis?

An independent survey of social care providers for the elderly

PricewaterhouseCoopers



Contents

Introduction	1
Executive summary	3
The current market	4
The future market	6
Responding to the challenges	10
Conclusion	14
About the survey	15
About PricewaterhouseCoopers	16

Introduction

The elderly care market is going through a period of profound change, with significant reform likely under the new coalition government. As the population ages and demand for care rises, the funding environment for elderly social care in England is becoming increasingly challenging.

A two-tier care system is appearing with those who are provided for by local authorities and those who are self funded or supported by family, as public spending is cut and the personalisation agenda takes shape.

There is also ambiguity and confusion about the future of the elderly social care market. In a research study commissioned by PricewaterhouseCoopers (PwC) last year to explore public levels of awareness and understanding of social care provision, key themes were: low awareness and uncertainty; confusion about the nature of social care services; misconceptions about social care funding; a strong desire for more information and debate on the future of social care[1].

In our recent *Taking care – Shaping the future of social care* publication we took the debate further and looked at the whole market from the perspective of the key stakeholders, namely service users, providers and commissioners[2].

In response to this changing environment we commissioned this national survey during May 2010. 117 providers took part, from both the domiciliary and care home sectors, to give their views on the current challenges and the future shape of the market.

Our aim was to gain a better understanding of how providers view the challenges and opportunities in the market, in the macroeconomic context of sweeping government spending cuts and increasing demand for elderly care. In particular, we wanted to explore how the market is perceptibly changing and whether these changes are affecting the ability of providers to deliver high quality care. Furthermore, we wanted to gain a clearer understanding of how providers are coping with these challenges, the barriers to competing successfully in the market and what support is needed.

We are very grateful to the participants who took the time to provide thoughtful responses. We hope you find these results interesting and our analysis insightful and, like us, look forward to exploring the market development challenges in elderly social care, and to propose practical ways of working together to meet them.

Amanda Kelly
Lead Partner – Social Care

1 Expectations and Aspirations, June 2009, www.psrc-pwc.com
2 Taking care – Shaping the future of social care, April 2010, www.psrc-pwc.com

Executive summary

In May 2010, we commissioned Opinion Leader to survey executives of more than 100 domiciliary and care home providers, to explore their views on the current and future challenges facing the market, drivers for growth, changes to the structure of the market and their actions to remain competitive.

Until now, there has been no real information on the size and scope of the challenges facing providers, their focus in the market or how the market has changed in light of the recession. As we did with service users, PwC is taking forward the debate on the future of the elderly social care market, by giving a voice to this key stakeholder in the market.

Overall, the findings from the survey[3] present an interesting insight into the elderly social care market. The main findings indicate that:

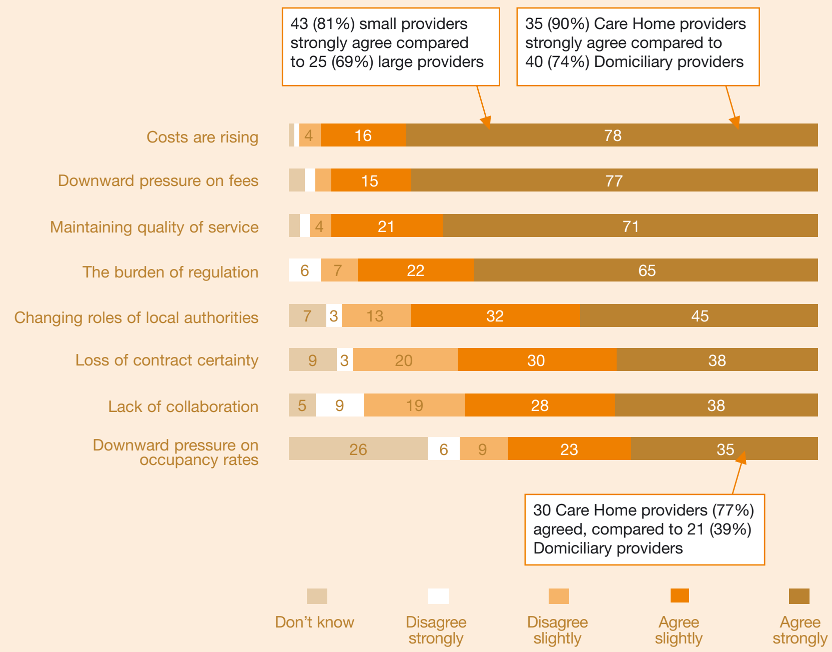
- There is a strong desire from providers to have more central and coordinated support from Central Government, in order to establish a framework within which care providers can plan for their business. 55% feel that they do not receive sufficient support in responding to the market challenges and 79% strongly agree that Central Government needs to articulate its vision of the market's future.
- 85% of providers want fair fees from commissioners to allow them to achieve a reasonable rate of return.
- Key challenges for providers are to maintain the quality of services against a backdrop of rising costs and downward pressure on fees and consequently providers feel that service user expectations of care may be unrealistic (77% agree).
- Providers are optimistic that the market will grow with an ageing population and that they will continue to be successful, but expect greater pressure on fees (77% strongly agree) and further consolidation of the market in the medium term (83% agree).
- Overall, both domiciliary and care home providers spoke with one voice about the market, but it was clear that care home providers are more concerned about the future than domiciliary providers and that small providers are not as confident about their ability to cope with future market changes.

These findings highlight the need for government to set clear policy and direction for the funded market now, to address the acute funding crisis facing the sector which could result in reduced choice and potentially lower quality provision for the service user. For providers, the challenge will be to go beyond their current plans and be more flexible in their business strategy to remain competitive. There will be clear opportunities for providers who grasp these market changes and adapt appropriately.

3 Please note – not all charts in this survey will show a result of 100%, due to rounding up when converting respondent's answers to percentages.

The current market

To what extent do you agree or disagree that the following are challenges facing elderly care providers currently?



The current economic climate forms a critical backdrop to future developments in the elderly social care market.

As such we were keen to understand the current challenges that providers are facing. The overwhelming majority felt that the main challenges are rising costs (94%) at a time of downward pressure on fees (92%), impacting their ability to maintain quality of services (92%). In particular, small providers (81%) and care home providers (90%) strongly feel that rising costs are the biggest challenge they are facing. Care home providers (77%) are also feeling downward pressure on occupancy rates.

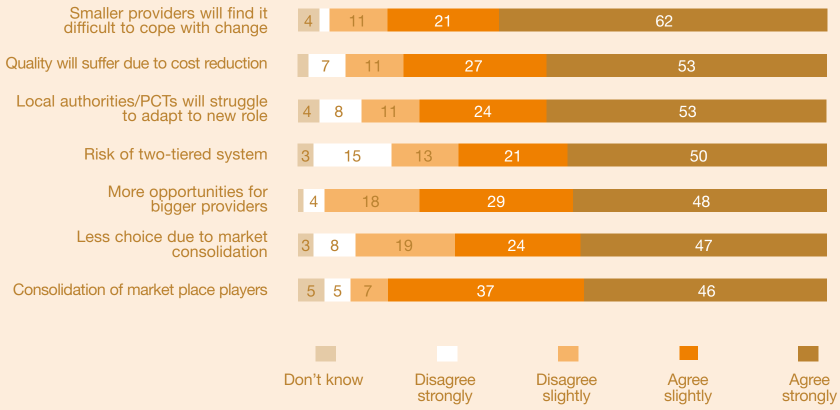
> *I think the funding streams are going to be a challenge, because of the personalisation agenda. I think that the funding streams are getting too complicated for both providers and users.*

Respondents feel that these challenges will lead to market consolidation (84%), potentially impeding the smaller provider who will find it difficult to cope with the changing marketplace (83%). Respondents also indicate they are concerned that there will be less choice for users (71%) and that quality of care services will suffer due to cost reduction measures (80%).

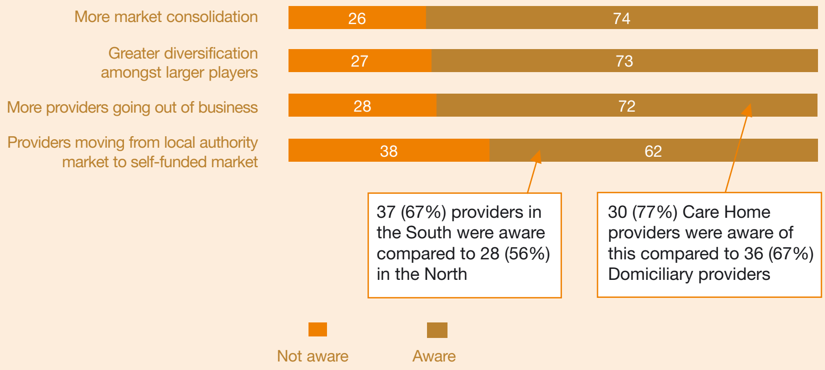
Respondents are already seeing greater diversification amongst larger players (73%), more providers going out of business (72%) – particularly amongst care home providers – and more providers moving from local authority/PCT-funded market to the self-funded market (62%), particularly in the south of the country.

The challenges facing care organisations are clear – rising costs in the face of fee pressures and rising consumer expectations against a backdrop of difficulty in maintaining quality. Most expect the market to respond to these challenges by consolidating, with some providers exiting the market and with the more flexible providers taking a holistic and diversified approach to the sector. How do they think these pressures are going to play out in the longer term?

To what extent do you agree or disagree that the challenges we just covered will lead to the following market impact?

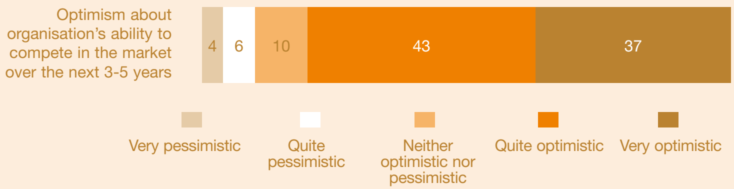


As a consequence of these market challenges, which of the following developments are you aware of?

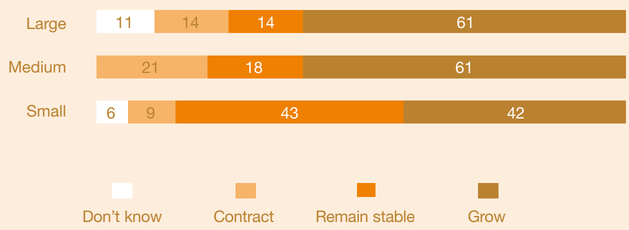


The future market

How optimistic or pessimistic are you about your organisations ability to compete in the elderly care market over the next 3-5 years?



Do you expect your organisation's turnover to grow, remain stable or contract over the next 3-5 years?



Elderly social care is a political and social issue that the new coalition government has started to address through the development of the National Market Development Forum, which brings together key providers and commissioners to work towards overcoming issues currently hindering the development of the market for personalisation. We wanted to understand providers' perspectives on the future of the elderly care market, to provide valuable insight and recommendations to the forum.

We first asked respondents to give us their views of how their organisation is likely to fare in the next 3-5 years. Interestingly, despite the challenges they are facing, providers feel optimistic about the future, with 37% of respondents very optimistic and 43% quite optimistic. Additionally, 61% of medium and large organisations, and 42% of small organisations expect their turnover to grow over the next 3-5 years.

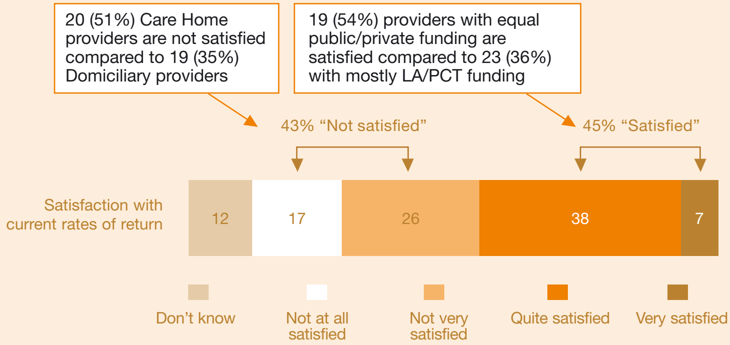
We also asked respondents to tell us about their current and future predictions on their ability to make profit in this market. Approximately half of the providers are satisfied with their current rate of return (45% satisfied, 43% not satisfied), although more care home providers (51% of care home providers compared to 35% of domiciliary providers) are not satisfied. Providers who had mixed private and public sources of funding are more likely to be satisfied with their rate of return (54% of equally funded compared to 36% of those who gain their funding from mostly public sources).

Moving forward, the highest proportion of providers expect rates of return to decrease over the next 3-5 years although more domiciliary providers (30%) expect an increase in rates of return than care home providers (23%).

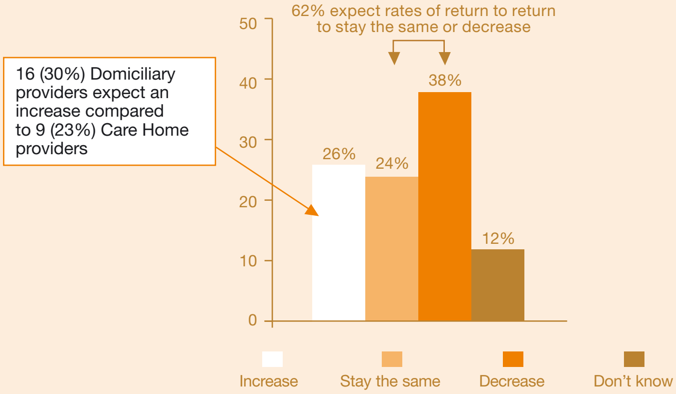
Given this generally positive outlook for their organisations, we asked respondents what they feel are the main market drivers for growth. Overwhelmingly, respondents cited the increase in demand for their services, driven by the ageing population.

> *Because people are living longer the Government are seriously putting care on the agenda so there will be more funding from local authorities to provide care.*

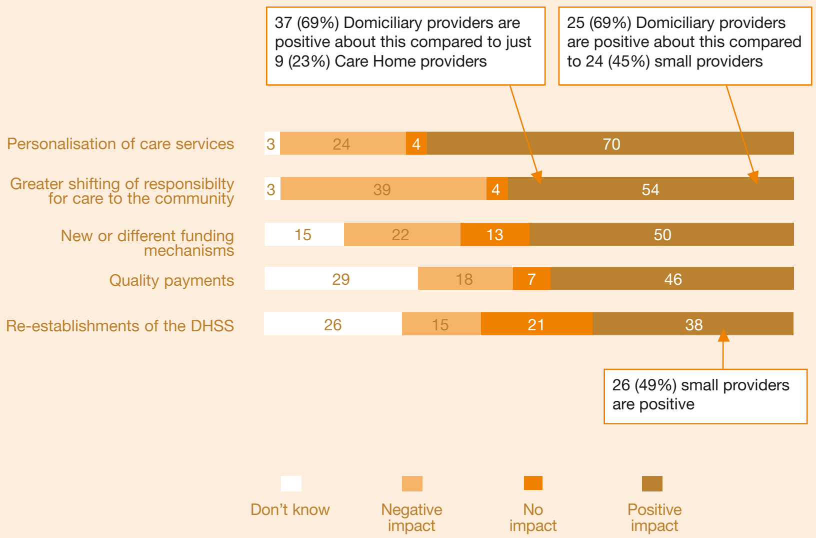
How satisfied or dissatisfied are you with current rates of return for organisations like yours in the elderly care market?



In the next 3-5 years, do you think rates of return for organisations like yours will increase, stay the same, or decrease?



Do you think the following policy developments will have a positive or negative impact on your part of the elderly care market?



We then asked respondents for their views on what policy developments they feel will have an impact on their part of the elderly care market. Personalisation of care services is seen as having the most positive impact (70%), with the greater shifting of responsibility for care to the community seen as having the most negative impact (39%), although the majority of respondents (54%) see it as having an overall positive impact on the market. There are, however, some differences in responses – 69% of large care providers feel that shifting greater responsibility for care to the community is positive compared to 45% of small providers. Interestingly, 49% of small providers are positive about the idea of re-establishing the DHSS.

> *I think if a national care service is enacted it will be positive, and also if there is broad political agreement on the way to fund elder care*

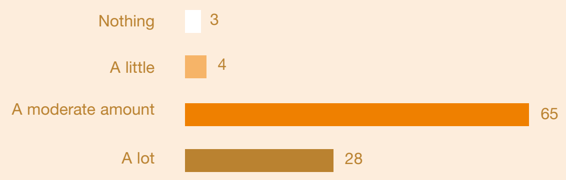
When asked an open question about their views on other policy developments that will impact their market, respondents had a wide range of views:

- Keeping people at home longer means additional costs for processing patients
- Additional costs from regulations such as the new ISA and CRB
- Measurements such as star systems lack reliability

However, respondents do not feel particularly knowledgeable about future policy direction for the market, with only 28% indicating that they know a lot about future policy and regulation, and the majority (65%) claiming to know a moderate amount.

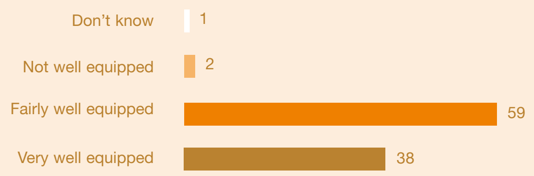
There is significant positivity about individual organisations compared to the collective view of the market outlook. Much of this appears to be driven by the personalisation agenda and the ability of businesses to adapt to deliver an excellent service to the consumer. Despite this, the financial outlook for the sector is becoming more challenging with rates of return expected to be under pressure going forward and smaller operators expecting to suffer most in the market. What strategies are being developed in the light of this uncertain future and what do providers need to survive and prosper?

How much do you know about the likely direction of future policy and regulation of social care?

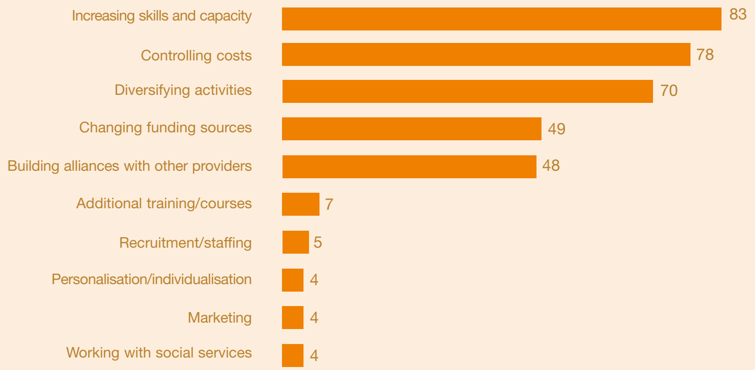


Responding to the challenges

How well equipped is your organisation to respond to the current and future challenges facing elderly care providers?



What types of action is your organisation currently planning or taking in response to these challenges?



In the final section of the survey we asked providers to share their thoughts on how they are changing their businesses to respond to these difficult market challenges, now and in the future.

The majority of respondents feel they are well equipped to meet the current and future challenges of the market (59% fairly well equipped and 38% very well equipped).

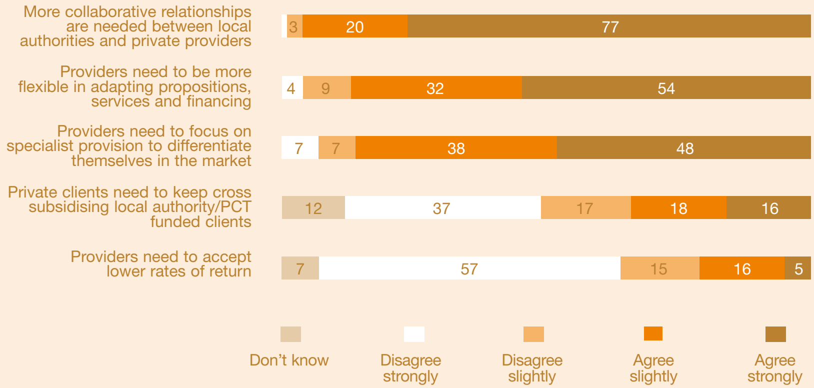
94% are taking action in response to market challenges, with the majority of providers focusing on increasing skills and capacity (83%), controlling costs (78%) and diversifying their activities (70%) to combat the market conditions.

Respondents also recognise the need to work more collaboratively with commissioners and private providers (97%) and adapt their propositions, services and financing (86%). A large majority (86%) indicate they believe that in order to differentiate themselves in the market, they will need to focus on specialist provision.

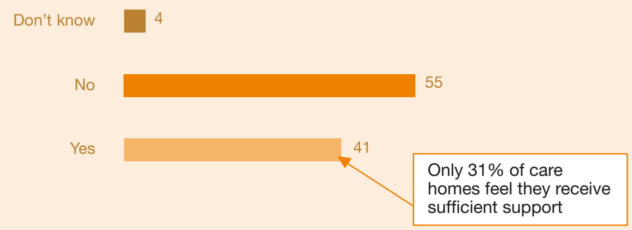
When probed further around what else they can do to address the current and future challenges, respondents highlighted the need to have a stronger voice in the market to ensure that they are influencing future policy directions.

> *Stick together and create a common voice, the companies need to work together and have one voice.*

To what extent do you agree or disagree with the following statements about how providers should address the current and future challenges for the elderly care market?



Do you feel your organisation has had sufficient support to help it respond to the challenges?



If 'yes' where has your organisation accessed this support from?

In addition to asking about the actions they are taking, we also asked what help they need to continue to be successful. Overall, providers feel that they do not receive sufficient support in responding to market challenges (55%), and care homes in particular feel unsupported (only 31% say they receive sufficient support).

Of those that felt they do get sufficient support, local authorities are by far the most common source (48%).

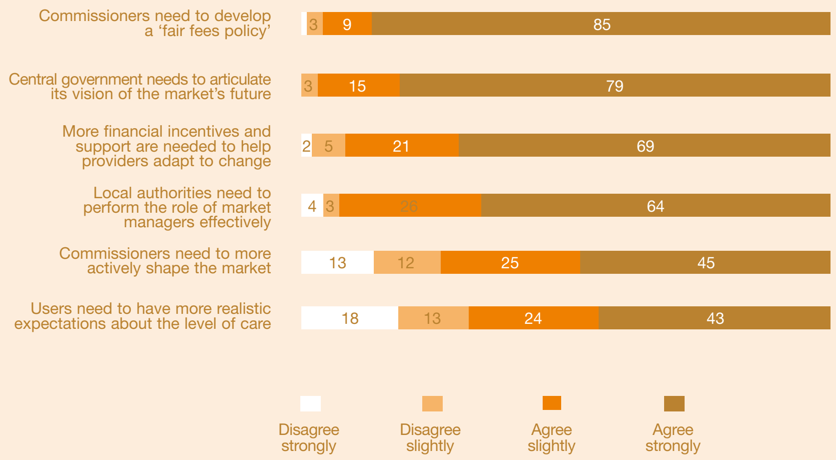
> *"The people who make these changes need to come and see these elderly people, and see how much care they actually require, and then perhaps they'll see that there's no way we can reduce the staffing levels. To maintain the level of care the impact of this negative funding needs to be addressed."*

Providers also say there needs to be more central and co-ordinated control of the market. An overwhelming majority (94%) feel that a fair fees policy is needed, 94% want central government to articulate its vision of the elderly care market's future and 90% of respondents want more financial incentives and support to adapt to the market changes.

When asked if there was any other support they need to cope with the changing market, funding was highlighted as a big concern.

Flexibility, diversification and collaboration are going to be key success factors in the market going forward. These need to be supported by a clear central government strategy for a long term funding solution for the sector coupled with a cross-party understanding of what constitutes fair-fees. With these pillars in place, the sector will be better equipped to further develop around the consumer without impacting quality and maintaining the overall attractiveness of the market from an operator's point of view.

To what extent do you agree or disagree with the following statements about how to support providers in addressing the current and future challenges for the elderly care market?



Conclusion

If the goal for the elderly social care market is to ‘Put People First’, understanding the views of care providers and the market as a whole, as well as the challenges and barriers, is vital to achieving better outcomes. The findings from our research go some way to contributing insight from a usually unheard, yet highly important stakeholder, in the elderly social care market.

The survey demonstrates high levels of confidence and optimism from providers in the market, yet highlights some hefty challenges and barriers which must be overcome.

As a result of personalisation, providers have a new ‘purchaser’ to consider – the ‘certainty’ afforded by local authority block contracts is no longer available to providers and places an additional pressure on providers to offer customised packages of care when many businesses are finding the economic climate difficult. The sector is rapidly lurching towards a funding crisis as a consequence of over provision in relation to the current funded market.

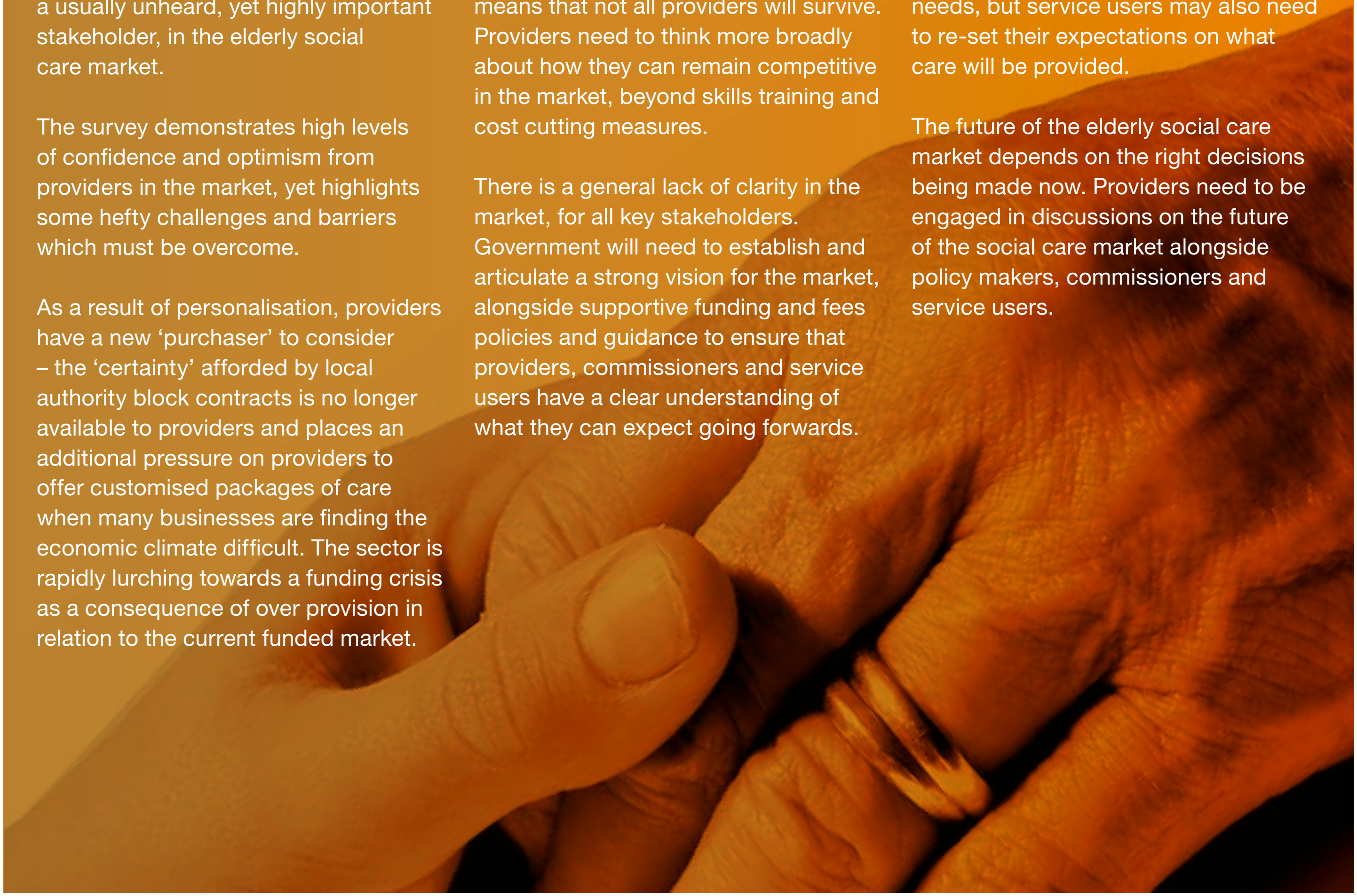
The cuts in spending are also leading to widely differing levels of care being provided, as local authority commissioners are focused on securing the lowest price.

There is likely to be greater consolidation in the market, which means that not all providers will survive. Providers need to think more broadly about how they can remain competitive in the market, beyond skills training and cost cutting measures.

There is a general lack of clarity in the market, for all key stakeholders. Government will need to establish and articulate a strong vision for the market, alongside supportive funding and fees policies and guidance to ensure that providers, commissioners and service users have a clear understanding of what they can expect going forwards.

As demand grows with the ageing population, a clear pressure for providers will be to continue to deliver quality care with ever increasing costs and lower fees. Providers recognise that they will need to move away from the traditional operating model and shape and flex their services to meet needs, but service users may also need to re-set their expectations on what care will be provided.

The future of the elderly social care market depends on the right decisions being made now. Providers need to be engaged in discussions on the future of the social care market alongside policy makers, commissioners and service users.



About the survey

This research was conducted in May 2010 under the strict confidentiality guidelines of the Market Research Society Code of Conduct by Opinion Leader, a research based consultancy offering a range of qualitative, quantitative, deliberative and collaborative methods.

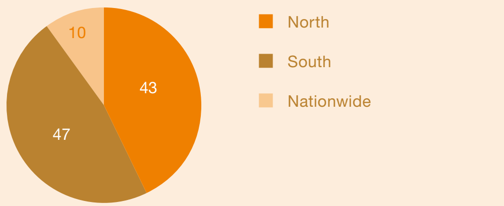
117 respondents, primarily Chief Executive or Directors, participated in a telephone interview. Respondents represented both domiciliary (46%) and care home (33%) providers. The survey included a balance of small (45%), medium (24%) and large (31%) providers from across England (South 47%, North 43%, nationwide 10%).

We also asked survey respondents where the majority of their funding came from, 55% are mostly PCT/local authority funded, 30% are funded equally from public and private sources, 13% are funded from private sources and 2% from other funding sources Not all charts show a result of 100%. This is due to rounding errors.

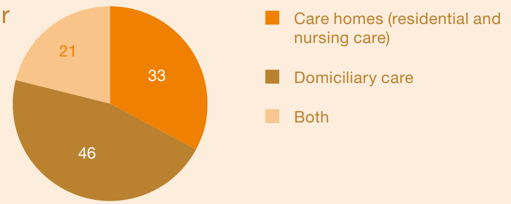
More information about Opinion Leader can be found at: www.opinionleader.co.uk

Size	Definition
Small	• Care Home only providers with less than 5 units per group, Domiciliary only providers who answered ‘Less than 1000 hours per week’ • Providers of both Care Home and Domiciliary services with less than 5 units per group who also answered ‘Less than 1000 hours per week’
Medium	• Care Home only providers with 5-19 units per group, Domiciliary only providers who answered ‘1000-2000 hours per week’ • Providers of both Care Home and Domiciliary services with 5-19 units per group who also answered ‘1000-2000 hours per week’
Large	• All providers who have more than 20 units per group or who answered ‘more than 2000 hours per week’

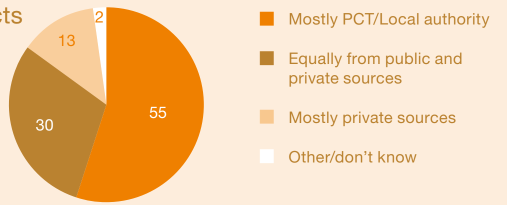
What geographical area or areas do you serve?



What type of care does your organisation provide?



Which statement best reflects your funding sources?



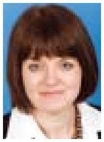
About PricewaterhouseCoopers

PricewaterhouseCoopers' Government & Public Sector practice has been working with social care organisations locally, regionally, nationally and internationally for many years. We work with care providers, local authorities and PCTs, to offer advice and assistance on improving quality and outcomes, managing demand and budgets, and driving efficiencies, using strategies that add value and are practical to implement.

Our people combine deep specialist expertise with a genuine understanding of the care sector. The Public Sector Research Centre is PricewaterhouseCoopers' online community for insight and research into the most pressing issues and challenges facing government and public sector organisations, today and in the future.

To register for this free resource please visit www.psrc-pwc.com

About the authors



Amanda Kelly
0161 245 2530
amanda.j.kelly@uk.pwc.com

Amanda Kelly is a Partner in PwC and is the firm's national lead on adult and children's social care. She has provided consultancy support across the sector for the last 18 years and until recently she was a Non Executive Director for one of the largest not for profit residential and domiciliary companies in the North West. She is a member of the National Care Forum and is currently jointly leading an innovative project on the development of an optimal care model for adult and children's social care across health, education and local government.

Andrew McKechnie
020 7212 6327
andrew.mckechnie@uk.pwc.com

Andrew McKechnie is a Director in PwC and leads the Healthcare Strategy practice which focuses on advising private and public sector clients on a range strategic issues across all health and social care markets. Andrew provides strategy and market advice to healthcare investors, operators and central and regional government. Most recently, Andrew led the strategic review of Four Seasons Healthcare as part of its financial restructuring and is currently working with other large care providers assessing how to best address the funding crisis.

Join the debate. www.psrc-pwc.com

The Public Sector Research Centre is PricewaterhouseCoopers' online community for insight and research into the most pressing issues and challenges facing government and public sector organisations, today and in the future.

The PSRC enables the collaborative exchange of ideas between policy makers, opinion formers, market experts, academics and practitioners internationally.

To register for this free resource please visit www.psrc-pwc.com