The Care Collapse:

The imminent crisis in residential care and its impact on the NHS

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Introduction

The private residential care sector is at the heart of Britain's health and care system. It is where we house and care for some of our most vulnerable citizens, many of whom suffer from long term medical conditions such as dementia and diabetes. It is already home to over 425,000 people,[1] and to one in six people aged over 85.[2] The need for this vital part of our health and care infrastructure will only increase with the projected rapid growth in the very old and frail: between 2010 and 2035, the number of people aged over 85 will more than double, from 1.4 million to 3.5million.[3]

Yet this vital sector faces a potentially fatal crisis. Local authority spending on social care for older people has fallen in real terms by 17% since 2009/10.[4] Increasingly, local authority fees are failing to cover providers' operational costs: industry research shows that, for the last three years, there was a shortfall against cost of provision in the average weekly fee paid by local authorities for publicly supported residents of between £31-£50 per resident, per week.[5]

Our economic analysis examined the future of residential care home services in England. It has revealed the scale of the crisis and the potent potential impact on the NHS: within five years, care homes will be underfunded by £1.1 billion per year for the level of need that is being demanded by a growing aged population.

A third of the coming funding gap – £382 million – will be the result of the introduction of the National Living Wage. The wage is a significant and welcome step in recognising the skill and experience that so many care workers bring to their jobs. Yet this as yet unfunded commitment by the Government will require employers to meet these new payroll commitments and they fall disproportionately hard on the residential care sector.

Without action on the £1.1 billion funding gap, it becomes increasingly likely care operators will be forced to close their doors. Our modelling shows if nothing in the funding regime changes within five years, there will be a projected loss of 37,000 care beds as funding fails to meet demand. This is greater in scale than the Southern Cross care homes collapse in 2011, which affected 31,000 older people.[6]

Those vulnerable residents left abandoned by Southern Cross were all taken up by other private sector providers. However, four years on and with the sector under immense financial strain, the likelihood is this time there will be no private provider of last resort.


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Our economic analysis modelled the cost to the NHS of the projected loss of 37,000 beds in the residential care sector in 2020/21:

- If 50% of lost care home beds flow through to hospitals the cost would be £1.5 billion per year from 2020/21
- If 75% of lost care home beds flow through to hospitals the cost would be £2.25 billion per year from 2020/21
- If 100% of lost care home beds flow through to hospitals the cost would be £3 billion per year from 2020/21

Given the perilous state of the industry, there is no private sector provider with the capacity to respond at scale and at pace to the coming loss of 37,000 beds. Consequently we believe the worst outcome is the most likely: that the vast majority of care home residents will flow through to general hospital wards – costing the NHS £3 billion a year.

This interim report charts the challenges faced by the residential care sector and begins to scope some of the potential responses. There is no doubt that fundamental systemic reform is needed to deliver the 'at scale' personalised, holistic and well-funded care that we all will need. Policy, commissioning and provider options will be examined in detail in the forthcoming full report, setting out a way forward for kind, compassionate and respectful care, with the residential care sector at the heart of the transformation process.

1. The crisis: residential care at the cliff edge

With a third of babies born in 2013 set to live to 100,[7] the residential care sector will play an increasingly important role in supporting the wellbeing of an ageing population. It is already home to over 425,000 people,[8] and to one in six people aged over 85.[9] Yet this cornerstone of the health and care system is in crisis and at the 'cliff edge' of viability. Years of stagnating investment and rising demand are placing unsustainable pressures on the sector. Hospitals and NHS services will be impacted if these unsustainable pressures force care homes to close their doors.

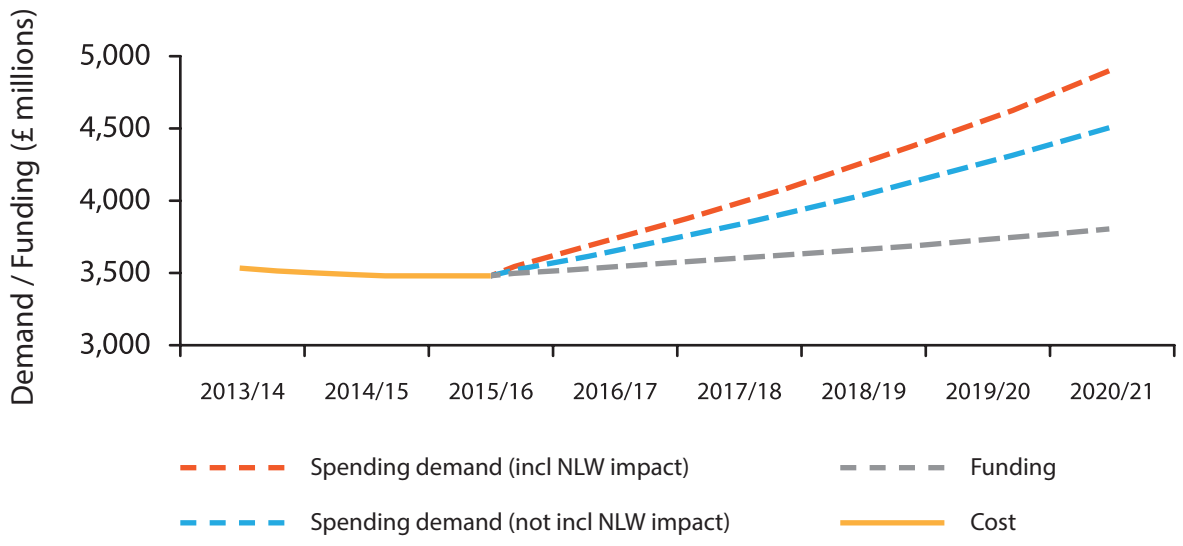
Economic analysis commissioned for this study examined the future of residential care home services in England. It modelled future service demand up to 2020/21, driven by an ageing population and the rising prevalence of long term medical conditions such as dementia, diabetes and depression. The demand assumptions err on the side of caution, and the funding forecast is optimistic; nonetheless, the modelling outputs show the current model of residential care home services to be unsustainable. Appendix 1 outlines the full modelling methodology.

£1.1 billion funding gap

The key findings of our economic analysis include:

- By 2020/21, there will be a funding gap of £1.1 billion
- By 2020/21, there will be a 23% shortfall between funding and demand pressures for that year
- A 15% rise in demand for residential care for older people between 2015-16 and 2020-21
- A 29% increase in the cost of providing that care from 2015-16 to 2020-21

Figure 1: Projected funding gap – Residential care for older people in England



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National Living Wage commitment: £382 million - a third of the funding gap

It is against this backdrop that the new National Living Wage (NLW) will be introduced. The care sector will be particularly affected by the new pay scale.

Our economic analysis found that a third of the funding gap – £382 million – will be the result of the introduction of the National Living Wage. This unfunded commitment by the Government will require employers to meet these new payroll commitments and they fall disproportionately hard on the residential care sector. According to The Resolution Foundation, between 700,000 and 1 million frontline care workers (around 50-60% of the total) will benefit directly from this wage increase.[10] As a labour intensive industry, wage increases have a disproportionate effect. In a joint letter to the Chancellor in August 2015, the five biggest residential care providers in the UK warned that the introduction of the NLW put the sector at risk of "catastrophic collapse".[11] This letter noted that labour costs represent around 60% of the cost of care for most patients – although this can rise to 80% in complex cases.[12]

A £1.1 billion gap between the funding available and the cost of actual demand clearly jeopardises the operational viability of current residential care home providers.

37,000 care home beds at risk - £3 billion extra needed for NHS

If the residential care sector were to provide only the amount of care forecast to be funded in 2020/21, the sector would need to reduce the number of annual care home bed days by 13.5 million. This is equivalent to a reduction of around 37,000 beds. A loss on this scale has parallels with the Southern Cross care homes collapse in 2011. Four years on, under even greater strain, there is a very high risk that providers would not have the capacity to step in to offer continuity of care to residents caught in the collapse of multiple providers. It appears – given the strains on current providers such that most make substantial losses on every publicly funded person they care for – there will be no private funder of last resort in the coming crisis.

There is every likelihood that these residents will flow back into the NHS and the general hospital population. Our economic analysis modelled the cost to the NHS to provide support for frail and aged people who no longer have a home in the residential care sector for three scenarios:

- If 50% of lost care home beds flow through to hospitals (and 50% of residents are rehoused with other care providers or make other arrangements) the cost would be £1.5 billion per year from 2020/21
- If 75% of lost care home beds flow through to hospitals (and 25% of residents are rehoused with other care providers or make other arrangements) the cost would be £2.25 billion per year from 2020/21
- If 100% of lost care home beds flow through to hospitals the cost would be £3 billion per year from 2020/21

We already know that, for these residents who suddenly find themselves homeless, going home or living with extended family is not an appropriate outcome. These residents are frail, vulnerable and, since most are suffering from multiple illnesses, they are in need of care and permanent medical supervision – in 90% of local authorities, only those with "substantial" or "critical" needs are now able to secure publicly funded care services.[13] Should nothing change in the current funding provision to bridge the £1.1 billion funding gap, within five years we expect the loss of 37,000 beds.

Given the perilous state of the industry, we believe the most likely outcome is the vast majority of care home residents flowing through to hospitals. This would require the NHS to find £3 billion per year by 2020/21 to support frail and aged people who no longer have a home in the residential care sector, and who do not belong – nor wish to be – in a hospital.


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2. How did we get here?

The crisis in the residential care system is the end result of years of underfunding coupled with two major trends. The first is a rise in demand, and the second is a change in its nature – from episodic care to long term and chronic condition care. The health and care systems were designed at a time when life expectancy and duration of illness was much shorter than it is today. They are not well equipped to respond to the current long term care needs.

Rising demand: ageing population

Health improvements and advances in medical care, along with the demographic ageing of the Baby Boom generation, have combined to produce a rapidly ageing population.

- The population aged 65+ has grown by 47% since mid-1974 to make up nearly 18% of the total population in 2014[14]
- By 2050, the proportion of people in the UK aged 65+ will rise to 25%[15]
- Between 2010 and 2035, the number of people aged over 85 will more than double – from 1.4 million to 3.5million[16]

Reflecting these demographics, Age UK's September 2014 'Care in Crisis' briefing found the number of people using local authority-supported residential care homes rose by over 20% between 2005/6 and 2012/13, from 135,000 to 164,000.[17] The economic analysis commissioned for this report forecasts a further 15% rise in demand for residential care between 2015/16 and 2020/21.

Long term conditions and increasing acuity

A significant rise in long term conditions is linked to the ageing population. As noted by the National Audit Office, "the prevalence of most long-term conditions and disabilities, including dementia, diabetes and cancer, rises with age".[18] By 2040, almost a quarter of people aged over 65 will be cancer survivors[19] and the number of people diagnosed with dementia is set to double to over a million in the next 30 years.[20]

Around 70% of the total health and care spend is England is now used to care for people with long term conditions – this means 30% of the population is accounting for 70% of total health and care spend.[21] The number of people with multiple long term conditions is set to almost double from 1.9 million in 2008 to 3 million in 2020.[22]

Increased life expectancy therefore not only means rising demand for basic domiciliary and residential care services. It also means increased incidence of long term conditions, which generate further care needs.

Decreasing funding, decreasing spending

This rising demand comes at a time of declining funding for care. The social care sector has been under severe financial pressure for several years, as it has not been protected from cuts in the same way as the NHS. Financial support to local authorities from the Government has decreased by 40% over the current spending review period.[23] Local authority spending on social care for older people fell in real terms by 17% since 2009/10.[24]

The outcome has been that the number of people aged over 65 who receive publicly funded social care has fallen by 27% from 2005/06 to 2012/13.[25] In 90% of local authorities, only those with "substantial" or "critical" needs are now able to secure publicly funded services.[26] In January 2015, the head of the Local Government Authority characterised the social care funding situation in Wales and England as "ridiculous".[27]

One consequence of this falling funding is that the fees paid by local authorities to care providers have failed to rise in line with the inflation of care costs.

The squeeze on fees

A 2013 Association of Directors of Adult Social Services (ADASS) survey found that 45% of councils did not increase their payment to older people's care homes in line with inflation for the year 2013/14, and 65% had not increased their rates for home care[28]

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More recently, research by LaingBuission found the average uplift in fees paid to residential care providers by local authorities for 2015/16 was 1.9%, well below the figure of 2.5% it estimated as the cost of care home cost inflation.[29] LaingBuisson has also previously found that over 70% of the residents in each of the three largest residential care home providers have their care costs paid for from the public finances.[30] This makes these people especially vulnerable to the continuing pressure on local government budgets.

Increasingly, local authority fees are failing to cover providers' operational costs. Further research from LaingBuisson has found the average weekly fee paid by local authorities in England for older people's residential care (including for those with dementia) to be less than the 'fair' fee for basic residential care.

- For the period October 2014 to September 2015, the shortfall was calculated at £42 per resident per week[31]
- For October 2013 to March 2014, £31 per resident per week[32]
- For October 2012 to March 2013, £50 per resident per week[33]

This is starting to feed through into care home viability: over the period October 2014 to March 2015, there was a net loss of 3,000 beds in care homes across the UK.[34] Concern about care provider viability can perhaps be seen in a power granted to the Care Quality Commission (CQC) under the Care Act 2014. It can request major care providers draw up a 'Risk Mitigation Plan' if concerns are raised about the provider's sustainability.[35]

The conclusion has to be drawn that the funding available to care providers to deal with an ageing, increasingly acute patient base is inadequate. As Age UK concluded in their 2014 'Care in Crisis' briefing, "efficiency savings cannot make good the reduction in funding that has occurred since 2010/11, let alone address the increased socio-demographic pressure on services".[36] The lack of funding also represents a barrier to the sector taking its proper place at the heart of an integrated health and social care system.

A problem acknowledged for many years – but not addressed

Concerns over funding for social care, and the sector's viability, are not new. In July 2010, the government created an independent commission to review future funding of care and support. Chaired by economist Andrew Dilnot, it reported a year later.

The commission's overall conclusion was clear: "The current social care system is inadequately funded. People are not receiving the care and support that they need and the quality of services is likely to suffer as a result".[37] The commissioners added that "our system of funding of care and support is not fit for purpose, and has desperately needed reform for many years", and stated the government "must" devote greater resources to adult social care.[38]

The report made a number of specific suggestions, including:

- A 'cap' on the amount any individual should contribute to his or her care
- A rise in the means-tested threshold at which individuals became eligible for state help with care costs

The government broadly accepted the report's recommendations, with the cap and change in threshold forming part of planned changes under phase two of the Care Act 2014. The intention was for both changes to come into force in April 2016. Yet in July 2015, the government announced a delay until 2020.[39]

The decision followed a letter to Secretary of State for Health Jeremy Hunt MP from the Chair of the Local Government Association (LGA) Community Wellbeing Board urging a delay. Councillor Izzi Seccombe explained the Association backed the proposed changes but concluded: "It would be deeply damaging to press ahead with a costly and ambitious reform programme if the very foundations of the system we are reforming cannot be sustained."[40]

Again, this speaks to the urgent need to fundamentally review and change the care system.

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3. Agents of integration: residential care and the transformation of health and care

The funding crisis we outline here demands urgent action. Continuing to do nothing is simply not an option when:

- The residential care home sector is facing a £1.1 billion funding gap within five years
- Residential care is required to pay the National Living Wage, necessitating care homes find an extra £382 million by 2020/21
- Chronic underfunding makes closure of care homes a real possibility
- Were homes to close, there would be a loss of up to 37,000 beds
- The NHS would need to find £3 billion to care for older people no longer homed within resident care

The problem is clear. The solution has many facets. There is a need for fundamental reform across the system. A piecemeal approach is no longer an option when faced with this imminent and explosive crisis.

In the second phase of our work, we will explore the need for new approaches to commissioning that overcome the artificial barriers between health and care, joining up the full suite of services needed by an individual to keep them healthy, happy and independent. We will explore how devolution can have transformative power to enable local health and care officials to fully 'own' and thereby radically improve the wellbeing of their citizens. And we will set out how the residential care system, as a set of organisations with huge experience and expertise, has been overlooked as a partner in the integration of care. As integrated care organisations, care homes could and should become agents of early intervention and chronic condition management, preventing the escalation of conditions and individuals funnelling into the acute sector and swamping A&E units and local general hospitals. Residential care homes could radically contain costs and this, as we will argue, can provide the source for much needed further additional funding for the sector.

The funding crisis affecting residential care is clear. The sector's role in developing a new approach to person-centred integrated care has been less well explored. We will redress that in our final report.

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Appendix 1: assumptions underpinning economic modelling

This appendix sets out the assumptions used in our independent economic analysis gauging future demand and funding trends. This analysis applies to England only.

- **Demand growth:** We have assumed the change in activity through to 2020/21 is driven by two factors. These are the ageing population, and linked to this the rising prevalence of long term conditions (weighted to those conditions typically linked to care home admissions such as dementia and stroke):
  * Population: Office for National Statistics (ONS) trend-based population projections for England by age have been used to project the population distribution by age, and how this changes up to 2020/21
  * Long term conditions: For two South London CCGs we obtained person-level Quality and Outcomes Framework disease prevalence, and used this to create an age-based segmentation of the target conditions (dementia, stroke etc.). This was then extrapolated to the national level and forecast to 2020/21 using the ONS age-based projections.

- **Cost inflation:** Care home operating costs for a 'typical' home have been provided by residential care home providers. These have been used to segment the costs of a typical home by staff and non-staff costs.
  * Staff costs: Have been inflated in line with Consumer Price Index (CPI) forecasts (published by the Bank of England). On top of this baseline, we have modelled the impact of the National Living Wage, which we have assumed to be at a rate of £7.20 per hour in 2016/17 rising to a target of £9.00 per hour in 2020/21. We have used costings data from providers to understand the distribution of workers aged 24 or below (i.e. below the threshold of the NLW), and projected this forward to 2020/21.
  * Non-staff costs: Have been inflated in line with CPI forecasts (published by the Bank of England).

- **Funding projections:** We have used the latest modelling for funding projections for adult social care from the Local Government Association (LGA), and assumed the percentage changes to funding from this also apply to residential care for older people.

- **Data:** National data on older people's residential care has been used from The Health & Social Care Information Centre (HSCIC) for years 2010/11–2013/14. This is in the form of activity (measured in 'person weeks'), cost and unit cost. We have assumed the local authorities have managed a balanced budget in 2014/15 and 2015/16 (in line with the funding projections), and then modelled the split between demand and funding from 2016/17 onwards.

The model forecasts an increase in the overall activity in the residential care sector for older people. The unit of measurement is taken as the 'person week', and we can see from the table below this is forecast to grow from 6.3 million person weeks in 2015/16 to 7.3 million person weeks in 2020/21. This represents an increase of 15%.

Figure 2: Projected activity – Residential care for older people in England

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Projected activity (person weeks, millions)	6.3	6.5	6.7	6.9	7.1	7.3
Projected activity (annual % change)		2.5%	2.8%	3.0%	3.2%	3.2%


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If this level of activity is compounded with our cost inflation factors (including the impact of the National Living Wage), we then forecast the cost of older people's residential care home admissions to be just under £4.9 billion in 2020/21 in the 'do nothing' case. This is a 29% increase in the cost from 2015/16. A significant component of this cost pressure is the introduction of the NLW, the impact of which is estimated to be £382 million in 2020/21 for the older people's residential care sector.

Figure 3: Projected cost – Residential care for older people in England

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Projected cost (£000s)	3,494,896	3,720,839	3,972,252	4,251,250	4,561,249	4,899,837
Projected cost (annual % change)		6.5%	6.8%	7.0%	7.3%	7.4%

The next stage in our analysis maps the projected spend demand against the projected funding. A gap opens up in 2016/17, and continues to widen year on year through to 2020/21, where it is over £1.1 billion (a 23% shortfall between revenue and spending pressures for that year).

Figure 4: Projected funding gap – Residential care for older people in England

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Projected funding gap (£millions)	-	177	370	583	823	1109

To reiterate therefore, on the assumptions we have made, we have a projected funding gap of £1.1bn by 2020/21 (a 23% shortfall between revenue and spending pressures) for older people's residential care in England. Of this gap, £382m can be attributed to the introduction of the National Living Wage. These figures highlight the extreme financial crisis facing the social care sector, and suggest that funding may present a significant obstacle to the sector playing its fullest possible part in a more integrated health and social care system. This would ultimately be to the detriment of service users.


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Appendix 2: National Living Wage

The National Minimum Wage (NMW), as of 1st October 2015, is £6.70 per hour for all workers over the age of 21.[41] However, it was announced in the 2015 Budget that, as of 1st April 2016, the National Minimum Wage will be supplanted for workers over 25 by the new National Living Wage (NLW), which constitutes a 'premium' for older workers, designed to reward their greater experience.

This premium has initially been set by the Government at 50 pence, so the National Living Wage will initially be worth £7.20 per hour in April 2016 – equivalent to an increase of around 7.5% on the NMW as of October 2015. The level of this premium (and so the effective NLW) as of April 2017 will be set on the basis of the October 2016 recommendations of the Low Pay Commission, but the Government is targeting a rise in this wage to £9.00 per hour or higher by 2020.

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Appendix 3: cost to the NHS in England of loss of residential care beds

We examined the cost to the NHS caused by the potential loss of 37,000 beds in the residential care sector.

In the case where the system were to lose 37,000 beds from the care home sector and in a 1:1 shift from care home bed to NHS hospital bed for the same length of stay the costs to the NHS would be:

37,000 beds	Beds that NHS hospitals would have to provide if care home operators were to exit the market
95% occupancy	Maximum feasible bed occupancy
= 12,829,750 bed days	
£225 per bed day 2015	Average cost per bed day in acute NHS hospitals for longer staying patients who are medically stable and ready for discharge
0.9% annual net cost inflation	Net cost inflation based on CPI after delivering 1.5% year-on-year productivity improvements (like NHS)
£235 per bed day 2020	
X 12,829,750 bed days	
= Additional cost £3.0bn in 2020	Money needed to be found by the NHS to provide care in a hospital setting

Endnotes

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About IHP

The authors would like to thank Dr Oliver Bernath and Kahfeel Hussain from Integrated Health Partners (IHP). IHP is a specialist healthcare consulting firm with focus on health analytics and integrated care. As such, IHP has expertise in health and social care integration and economic assessments of care model changes.

About ResPublica

The ResPublica Trust (ResPublica) is an independent non-partisan think tank. Through our research, policy innovation and programmes, we seek to establish a new economic, social and cultural settlement. In order to heal the long-term rifts in our country, we aim to combat the concentration of wealth and power by distributing ownership and agency to all, and by re-instilling culture and virtue across our economy and society.

ISBN number is 978-1-908027-54-2

Interim Report

Society

The UK has one of the most centralised states in the developed world and one of the most disaffected and politically passive populations in Europe. We hold our leaders in contempt, but despair of doing anything for ourselves or our community. The dysfunction at the highest level of society stems from the collapse of our social and personal foundation. There is little doubt that we are becoming an increasingly fragmented and individualist society and this has deep and damaging consequences for our families, our communities and our nation state.

Starting from the bottom up, the collapse of the extended family and the ongoing break-up of its nuclear foundation impacts on all, but disproportionally so on the poor and on their offspring. Too many children at the bottom of our society are effectively un-parented as too much is carried by lone parents who are trying to do more and more with less and less. We know that the poorer you are, the less connected with your wider society you tend to be. Lacking in both bridging and bonding capital and bereft of the institutions and structures that could help them, too many poorer families and communities are facing seemingly insurmountable problems alone, unadvised and without proper aid.

Based on the principle of subsidiarity, we believe that power should be devolved to the lowest appropriate level. Public services and neighbourhoods should be governed and shaped from the 'bottom up', by families and the communities. These neighbourhoods need to be served by a range of providers that incorporate and empower communities. Moving away from a top-down siloed approach to service delivery, such activity should be driven by a holistic vision, which integrates need in order to ascertain and address the most consequent factors that limit and prevent human flourishing. Local and social value must play a central role in meeting the growing, complex and unaddressed needs of communities across the UK.

The needs of the bottom should shape provision and decision at the top. To deliver on this, we need a renewal and reform of our major governing institutions. We need acknowledgement of the fact that the state is not an end in itself, but only one means by which to achieve a greater end: a flourishing society. Civil society and intermediary institutions, such as schools, faith groups and businesses, are also crucial means to achieving this outcome. We also need new purpose and new vision to create new institutions which restore the organic and shared society that has served Britain so well over the centuries.