

Local authority spending on adult social care

Cairneagle has surveyed 81 local authorities regarding their provision of adult social care. Our findings reveal the current state of the market.

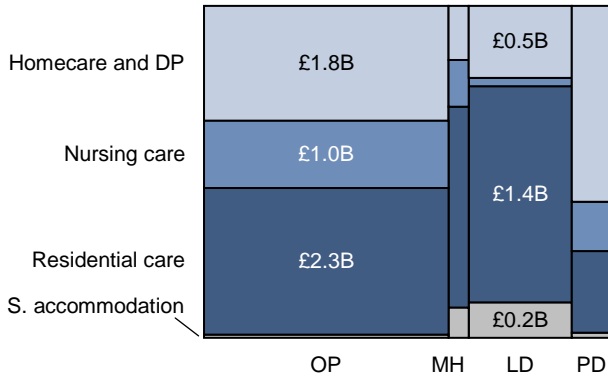
The ongoing trend for LAs to contract out services has allowed the independent market to show modest growth. Right now the industry is highly fragmented, and the race to be one of the leading companies over the next five years is still wide open.

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- Local authorities cut overall spending on social care for older people despite the needs of a growing and aging population
- The market for independent provision of homecare continues to grow at 6% at the expense of nursing and residential care
- Increased share of spending on learning disabilities and mental health
- Individual budgets now account for over 9% of homecare market

Context: local authority adult social care is an £8bn market

1. Net current expenditure on adult social care 2008

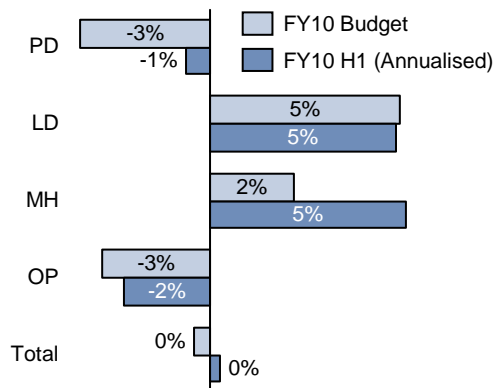


Note: Area represents expenditure
Source: The NHS Information Centre

- The survey covers local authority spending on older people (OP), learning disabilities (LD), physical disabilities (PD) and mental health (MH)
- Spending is broken down into: homecare, direct payments (DP), nursing care placements, residential care placements, supported accommodation, individual budgets (IB)
- The services are provided either by the local authorities (LAs) themselves or outsourced to independent providers
- The survey also covers the use of call monitoring (CM) and spot and block contracts

Total LA spending on social care for older people fell by 2% in H1

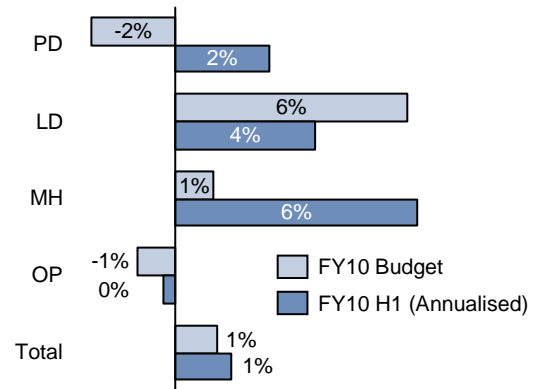
2. Expenditure growth by segment



- Just over 50% of local authorities cut their budgets and almost 60% cut spending in H1
- LAs budgeted for a 3% reduction in spend on older people
- Almost 20% of local authorities cut their spending on older people by more than 10%
- Spending on LD and MH is growing by 5%

Overall LA expenditure on independent providers grew by 1% in H1, but the older people segment declined

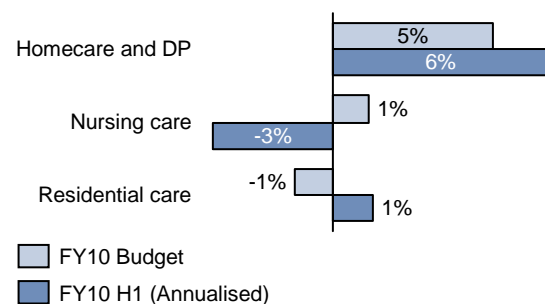
3. Expenditure growth on independents by segment



- While the total spend on independent providers grew in line with inflation in H1, the increasing demand for LD and MH has meant that expenditure on older people is falling
- Outsourced expenditure on older people declined in H1 by 0.3%, while the budgets for FY2010 imply a 1% decline
- Total expenditure on independents across all segments was slightly higher than budgeted for, and the 1% growth was above that of the total spend including LA-provided services

The independent homecare market is growing at 6% per year at the expense of nursing and residential homes

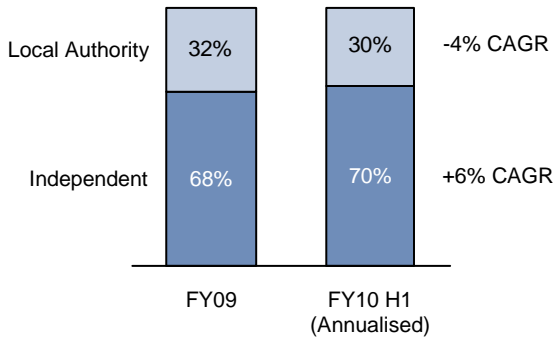
4. Growth in expenditure on independents



- In the first half of the year spending on independent providers of homecare increased by 6%, slightly above budget expectations
- This growth is coming at the expense of nursing and residential care, a continuation of a long-standing trend

LAs are continuing to outsource more of their homecare services

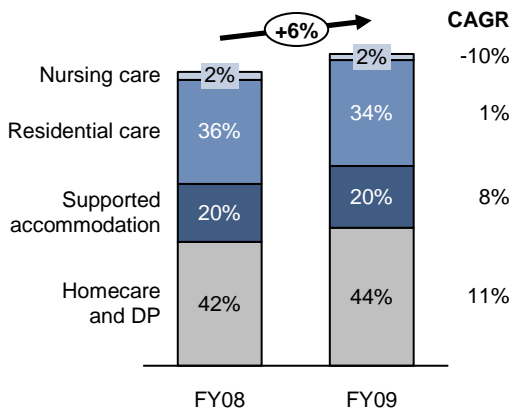
5. Expenditure on homecare and direct payments by provider



- There is a continued trend towards outsourcing in homecare and direct payments with expenditure on independents growing at 6% whilst expenditure on local authority provision declined by 4% in H1
- We expect this trend to continue for the next five years, after which the market will go ex-growth

The number of people with learning disabilities receiving LA funding is growing at 6%

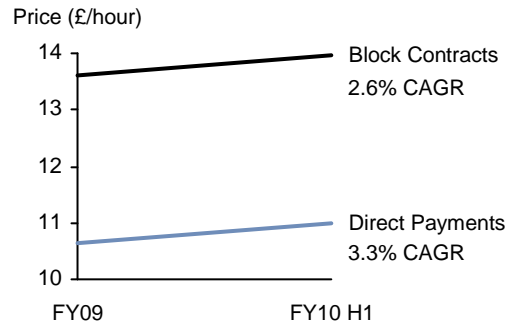
6. Number of adults with learning disabilities receiving care



- The number receiving care was up 6% in FY09
- There is a shift away from residential and nursing care to domiciliary care with the number receiving homecare and direct payments growing by 11%, the number in supported accommodation increasing by 8%
- With Government policy aiming to increase the share of spending on LD, close down LD institutions, and lower eligibility criteria, the growth in the LD homecare market is set to continue

The price of homecare services grew above the rate of inflation

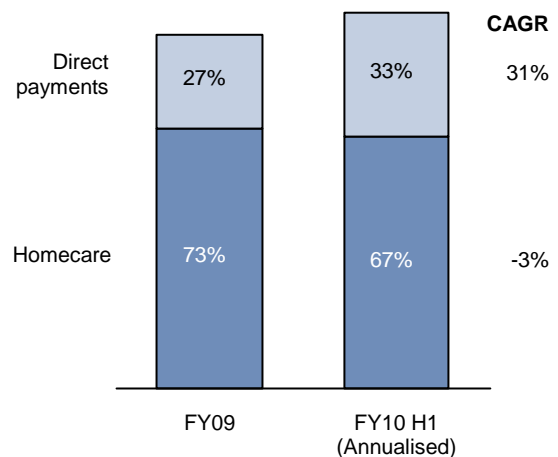
7. Average price of homecare services



- Direct payment prices are 21% lower than block contract homecare prices
- Historically prices increase in line with inflation however there are concerns over price squeezes as LA budgets come under pressure. Given the low inflation this year, pricing in FY10 increased in real terms
- However, the increased share of direct payments will have suppressed the average price growth across the market

H1 has witnessed a significant increase in the use of direct payments

8. Direct payment vs. homecare expenditure on independent providers

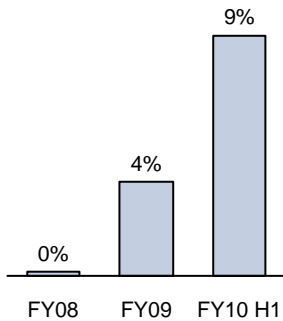


- In H1 10 expenditure on independent providers via direct payments grew by 31% whilst non-direct payment homecare expenditure shrank by 3%
- Given the low average pricing for DP, this will suppress margins
- This trend is negative for the larger companies who rely on winning large block contracts, and provides opportunities for more nimble operators with efficient sales targeting and marketing operations

- DP take-up is, unsurprisingly, lowest among older people, accounting for 9% of the volume relative to non-DP homcare
- Take-up is far higher among those with learning disabilities, mental health needs and physical disabilities as they have much larger budgets and a greater range of needs

The use of individual budgets grew by 160% relative to homcare, DP and supported accommodation

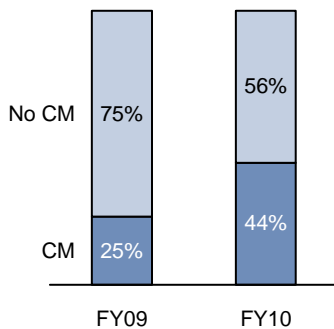
9. The number of people with individual budgets relative to the number receiving homcare, DP and supported accommodation



- The growth in the number of people with individual budgets has been well above expectations
- Uptake is lowest among older people at 9% relative to homcare, DP, and supported accommodation; and highest for those with physical disabilities at 13%
- Many companies do not have coherent offerings or marketing plans for people with individual budgets. Given the propensity for a large proportion of IBs to be spent on services other than traditional care, this poses a significant threat to the industry

The number of LAs using call monitoring increased by 66%

10. Implementation of call monitoring



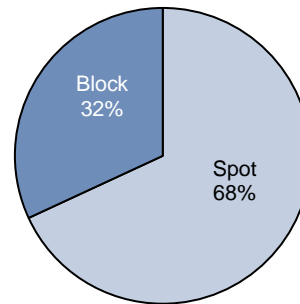
- The number of local authorities who have implemented call monitoring grew by 66% in FY10
- Of those local authorities currently implementing call monitoring, 83% of hours are provided under call monitoring
- Given that call monitoring makes the homcare service

more transparent, the increased use of call monitoring has the potential to suppress revenues as well as the appetite for carers to work

- Companies must ensure that procedures, IT systems, and carer training are all aligned to minimise the potential negative impacts

Block contracts account for only a third of the total hours provided

11. H1 FY10 homcare hours split between spot and block contracts



- Block contracts account for only a third of hours
- This ratio has changed little since FY09

About Cairneagle

Cairneagle is a London-based strategy consulting and venturing firm. We typically work with chairmen and chief executives across a wide variety of businesses supporting them in key strategic and investment decisions. We also work with Private Equity firms both originating deals and carrying out commercial due diligence. Our distinctive approach to consulting owes much to our involvement with ventures. In ventures, there is reward only for success. In consulting, making our clients successful is often explicitly part of how we are rewarded.

Please visit www.cairneagle.com to find out more about Cairneagle; or contact Matt Cooksley on 0207 036 9400 or matt.cooksley@cairneagle.com if you would like to discuss the content of this report or if you have any business issues on which you believe Cairneagle may be able to offer assistance.

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