1
Agency use as a percentage of staff cost falls year on year

2
Average Weekly fees increase by 6.7%

3
Food and property costs per bed continue to rise

Knight Frank

2021 UK Care Homes Trading Performance Review

knightfrank.co.uk/research

INTRODUCTION

The 2020/21 financial year is likely to have absorbed the majority of the shock created by the emergence of Covid-19 and has certainly presented the sector with a mountain of challenges

Following on from such an unprecedented year stemming from the global pandemic, trading and performance data is crucial, now more than ever, in assessing the state of the healthcare sector. Knight Frank would therefore like to thank all of the operators who have taken part in our 10th annual Healthcare Trading Performance Survey.

The 2020/21 financial year is likely to have absorbed the majority of the shock created by the emergence of Covid-19 and has certainly presented the sector with a mountain of challenges.

As a result, despite maintaining its usual structure and metrics reported, this year's report will also raise the question of the sector's resilience and ability to adapt following external shocks.

The sample

This year the sample represents just over 1/5 of the care market. Whilst this is a significant portion of the sector, consistency and accuracy are key factors to consider whilst assessing the sample.

Figure 1 shows the regional composition of the sample in comparison to the total UK market. The chart suggests that the sample is quite closely correlated with the exception of Northern Ireland and Wales, where the sample is slightly underweight.

In addition to verifying the regional split we have also addressed the issue of consistency. Each year there may be some variation in the participants by way of operators who are unable to contribute, as well as those who are contributing for the first time. Table 1 shows our consistency check of this year's key metrics based on a like-for-like sample, effectively checking whether year-on-year changes are consistent or distorted by changing operator composition. Again, as metrics such as fees, occupancy and staff costs are consistent with the like-for-like sample, we can be comfortable in the accuracy of the trends presented.

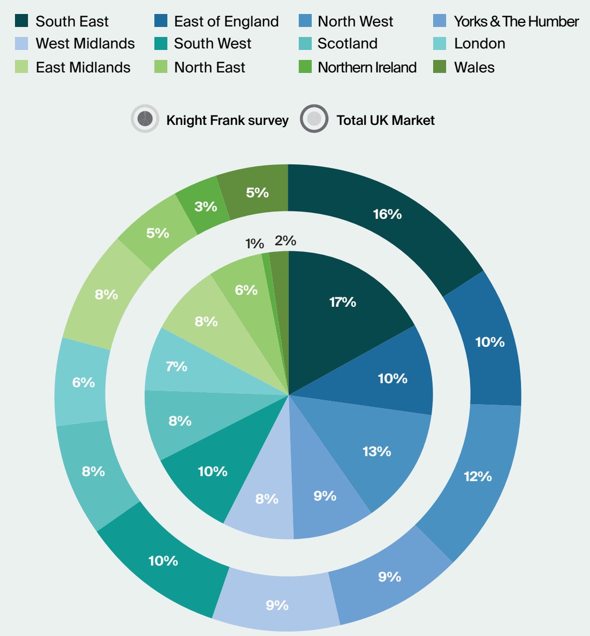
Figure 3 shows further composition analysis, with Nursing accounting for a majority of the care type, funding split fairly even amongst Private Pay and Local Authority and homes over 20 years old contributing to more than half of the index.

TABLE 1 | FY 2020/21 key metric YoY percentage change

	2021	2021 (Like for like operator composition)
Average Weekly Fee	▲ 6.8%	▲ 6.4%
Occupancy	▼ 9.7%	▼ 10.0%
Staff	▲ 4.2%	▲ 4.9%

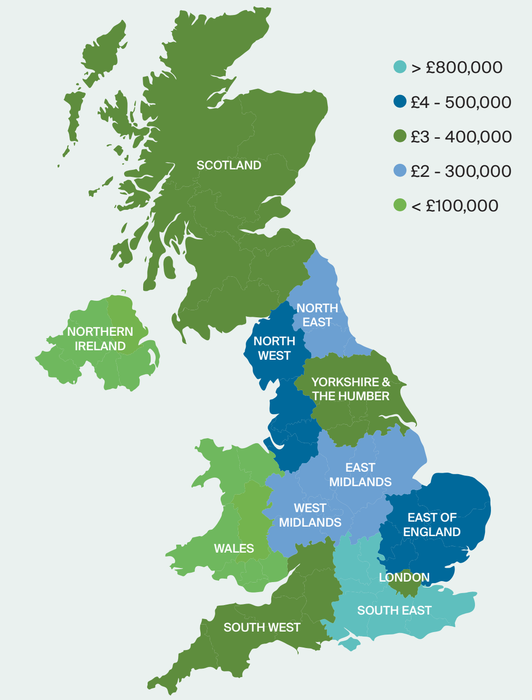
Source: Knight Frank

FIG 1 | Regional share – Knight Frank survey vs Total UK stock



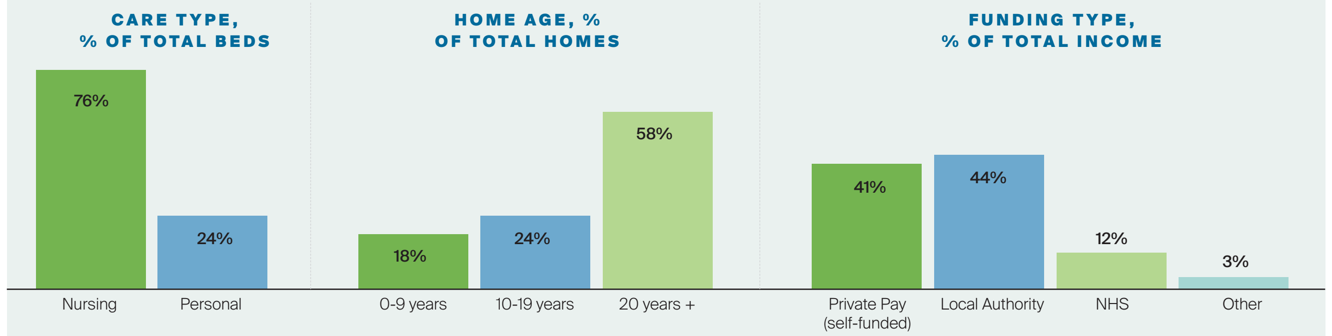
Source: Knight Frank, Tomorrow's Guides

FIG 2 | Income split heat map



Source: Knight Frank

FIG 3 | Sample characteristics



2021 RESULTS AT A GLANCE

FINANCIAL YEAR 2020/21

	All Care	Personal	Nursing
OCCUPANCY	79.4% ▼	80.6% ▼	78.8% ▼
AVERAGE WEEKLY FEES	£949 ▲	£816 ▲	£1022 ▲
STAFF COSTS (% OF INCOME)	60.2% ▲	58.8% ▲	60.6% ▲
EBITDARM (% OF INCOME)	26.2% ▼	25.5% ▼	26.4% ▲

THE SURVEY IN NUMBERS

98k Care Beds

1/5 of UK care home market

79% of the corporate group market

67 Counties and island dependencies

781 UK towns and cities

OCCUPANCY

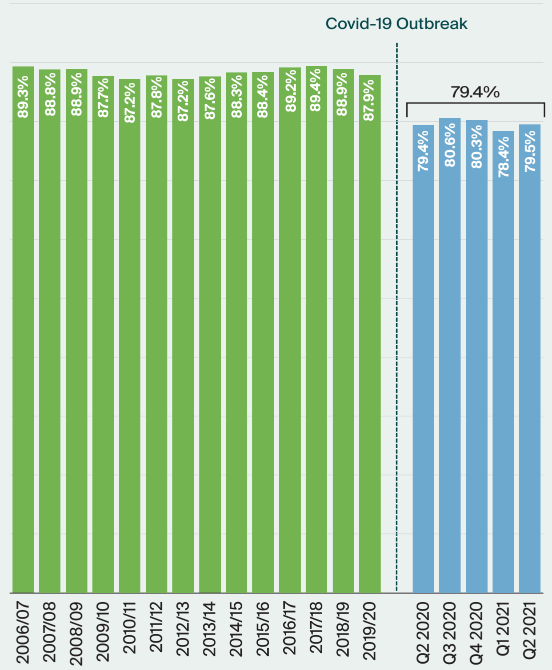
Operators are now generally reporting a slow recovery and with a backlog of potential residents we are confident that this upward trend will continue

Average occupancy is down year-on-year from 87.9% to 79.4%. Figure 4 highlights the quarterly changes in occupancy that we have tracked since the outbreak of Covid-19 which sit in line with our overall occupancy findings for FY 2020/21. The reported fall in occupancy is very much expected, and a likely result of the pandemic's effect on the sector amplifying the usual issue of care home mortality rates. At the time of writing, whilst occupancy is still some way from the pre-pandemic levels in the high eighties, operators are now generally reporting a slow recovery and with a backlog of potential residents we are confident that this upward trend will continue.

Regionally there have been some trend variations with regards to occupancy changes. London saw the biggest occupancy decline relative to last year's levels suffering a 15% fall as per Figure 5. Whilst Scottish occupancies proved to be the most resilient with a 5.9% reduction on the year.

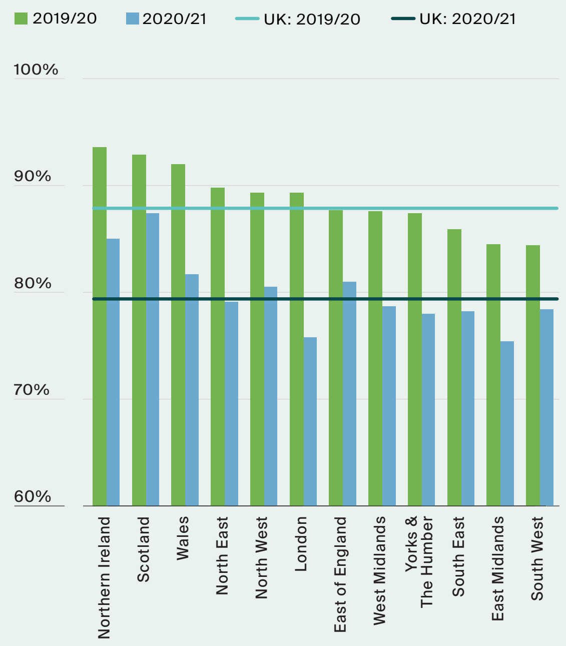
The South East as a region accounted for 21% of all Covid-19 related care home deaths in England. From Figure 6, we can see the impact of Covid-19 deaths on overall reported care home deaths in the featured English regions. Across England, Covid-19 deaths accounted for 24% of all care home deaths, with the lowest and highest percentages relative to all deaths in the South West at 19% and the North East at 29% respectively. The closeness in the percentages of Covid-19 care home deaths relative to all care home deaths across regions when compared to the respective fall in occupancies suggests that these occupancy changes are less likely to be solely a result of the Covid-19 related deaths, and more so a result of restrictions on home admissions in combination with the expected mortality rates.

FIG 4 | UK care home occupancy rate



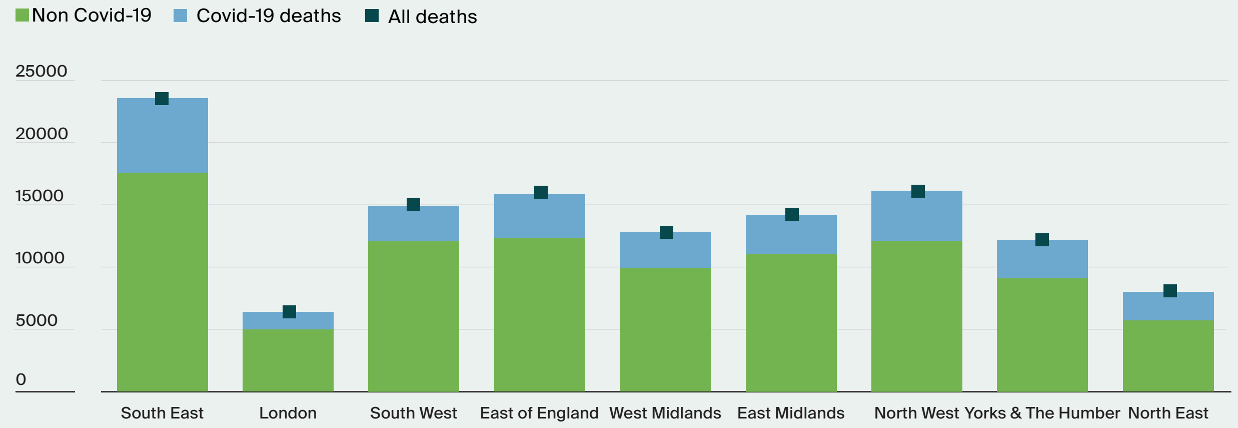
Source: Knight Frank

FIG 5 | Average occupancy by region, 2020/21 financial year vs financial year 2019/20



Source: Knight Frank

FIG 6 | Care Home Covid-19 Vs All Deaths



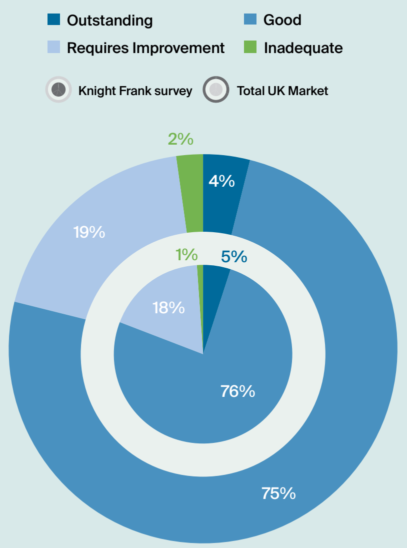
Source: ONS, General Register Office

CARE STANDARDS

Care Quality Commission ratings of the sample show minimal variation to the overall market. Figure 7 shows the index's consistency with the market stating 5% of homes are rated Outstanding, 76% Good, 18% Requires Improvement and 1% Inadequate.

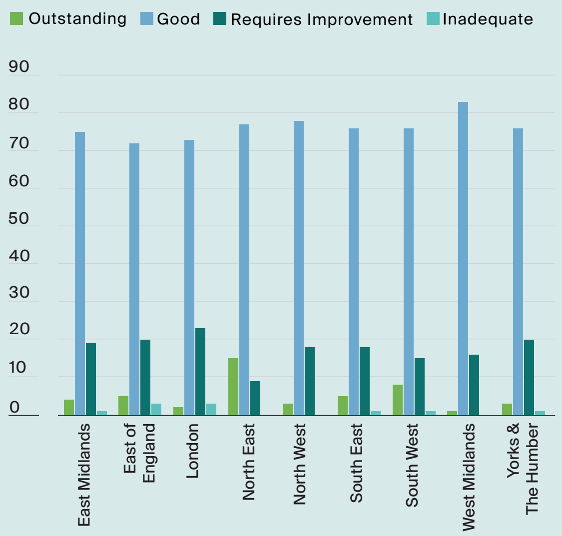
Figure 8 provides a more granular view in terms of ratings regionally, suggesting a broadly consistent trend across all regions with the exception of the North East, where 15% of sample homes were rated Outstanding and 0% Inadequate.

FIG 7 | Sample CQC Ratings comparison with Total Market



Source: Knight Frank, Care Quality Commission

FIG 8 | Sample CQC Ratings comparison with Total Market

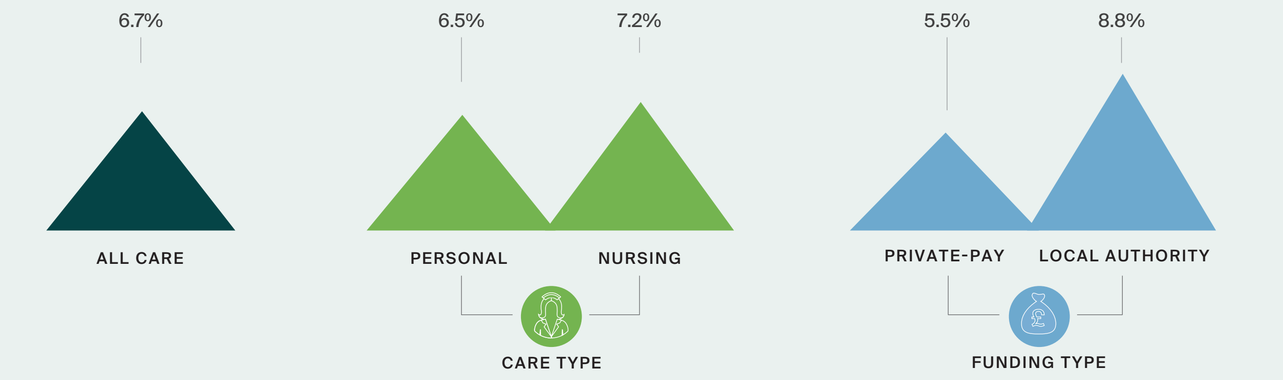


Source: Knight Frank, Care Quality Commission

FEES AND FUNDING OF CARE

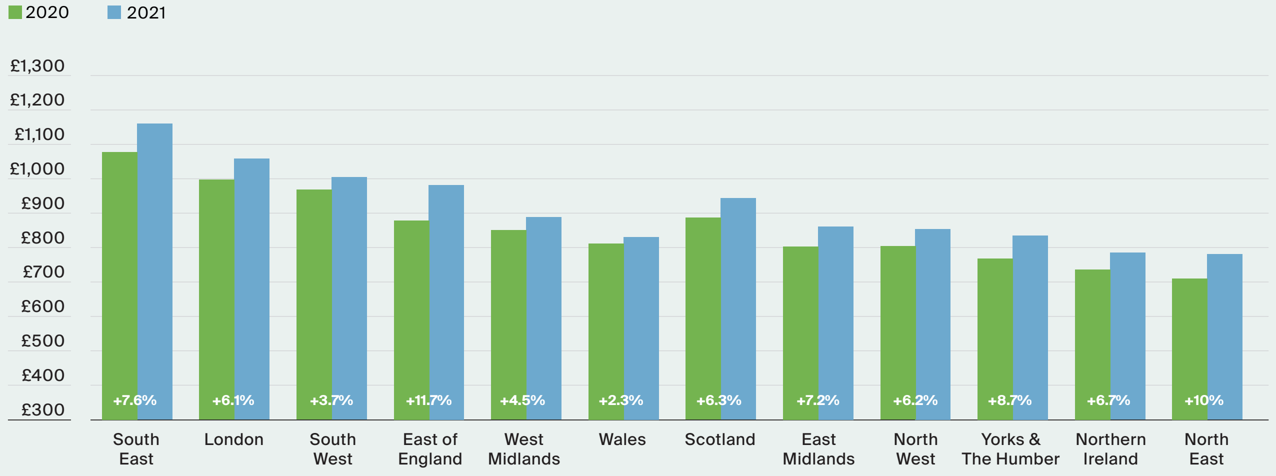
Whilst both the Local Authority and Private Pay markets have experienced uplifts in their fee levels, local authority fees have seen stronger increases jumping by 8.8%

FIG 9 | Average weekly fee uplifts, financial year 2020/21



Source: Knight Frank

FIG 10 | Average weekly fee by region



Source: Knight Frank

Average weekly fees have increased 6.7% on the year. Whilst both the Local Authority and Private Pay markets have experienced uplifts in their fee levels, Local Authority fees have seen stronger increases jumping by 8.8%. This rise in Local Authority fees is a likely combination of general annual fee growth and the unconditional payment support provided by the government in response to the pandemic.

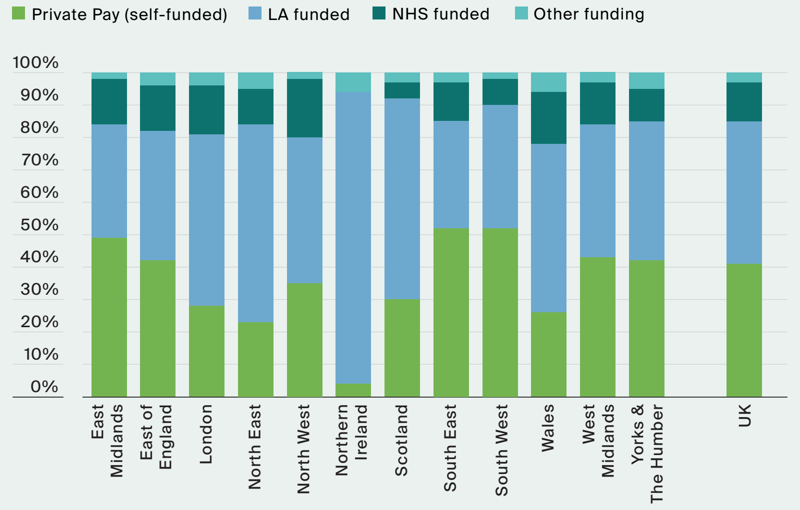
The region with the largest uplift as per Figure 10 was the East of England, where average weekly fees increased by 11.7%. In contrast, Wales posted the lowest rise with fees growing by 2.3% on the year.

Funding

Funding splits regionally are consistent with Figure 11 showing the regional composition trends in line with the total market. Northern Ireland stands out as an exception to this, presenting a heavy reliance on Local Authority funding.

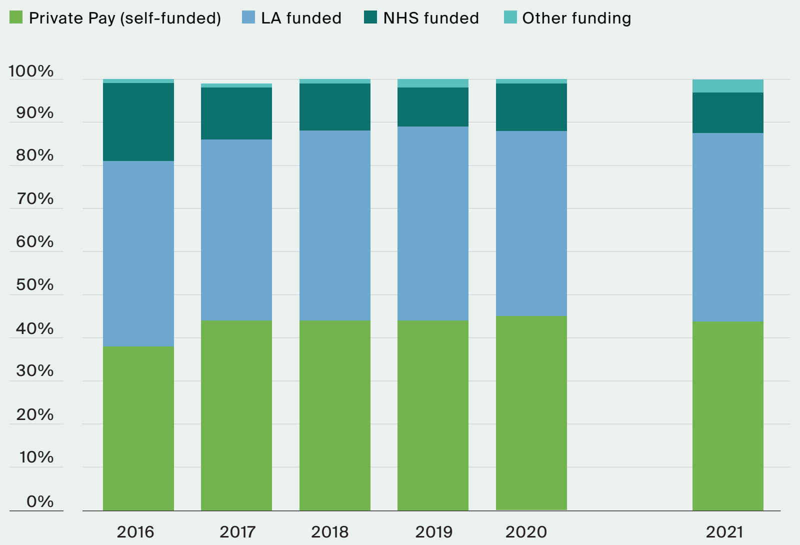
Whilst overall the fairly even share between Private Pay and Local Authority remain, Figure 12 shows the evolution of funding since 2016 highlighting the slow shift from a sector that had previously placed heavier reliance on Local Authority funding to one, whereby Private Pay reliance is equally as strong.

FIG 11 | 2021 Funding split by region



Source: Knight Frank

FIG 12 | Evolution of funding



Source: Knight Frank

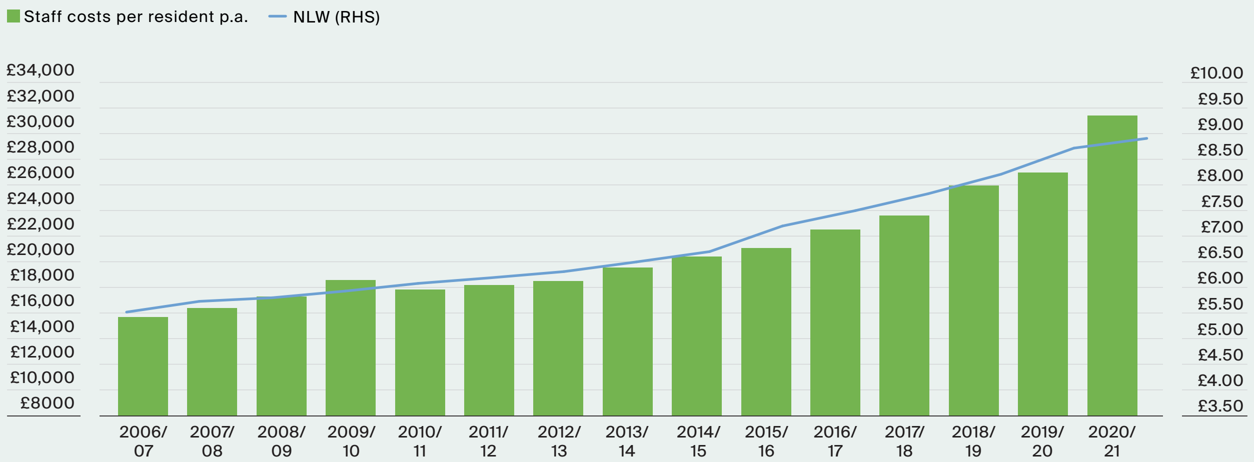
COSTS

As in previous years, this year's survey has highlighted a growth in nurse and carer wages

Staff costs per resident are up on the year, rising by a significant 16.5% to £31,402 as shown in Figure 13. However, it is useful to consider the underlying circumstances. The most notable is that while there has indeed been an increase in staff costs, our usual assessment of costs per resident is skewed by the almost 10% occupancy dip reported this year. This drop, although reducing the number of residents, has not necessarily reduced the number of staff on the payroll of homes which continue to contribute to cost. This can be seen in the ratios presented in Table 2. We have therefore run the same staff cost per bed assessment with a total bed sampled figure across this year and last. This is useful in understanding the impact of occupancy changes in the initial calculation. The result was an overall increase of 6.9%, which represents a variance in the two annual changes of 9.6% as per Table 3.

We can further analyse this situation through understanding the change in staff costs as a percentage of income shown in Figure 14. This rose to 60.2% from 57.8% representing a 4.15% relative increase on the year. This figure sits consistently with the 4.9% calculated with our like for like sample. This also shows continuity with the figure of 61.3% we reported for Q2 2020 with the lower figure suggesting a slow journey to normality.

FIG 13 | UK staff costs vs National Living Wage (NLW)



Source: Knight Frank

TABLE 2 | Staff costs per bed sampled

2020 STAFF COST PER BED SAMPLED	2021 STAFF COST PER BED SAMPLED	CHANGE	CHANGE IN STAFF COST PER RESIDENT	VARIANCE
£23,317.49	£24,923.92	6.9%	16.5%	9.6%

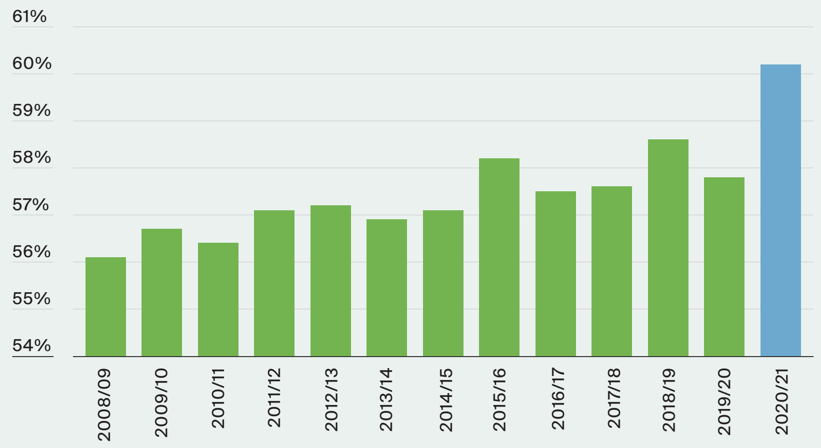
Source: Knight Frank

TABLE 3 | Staff to Resident ratio

	2020		2021	
	RESIDENT : STAFF	STAFF : RESIDENT	RESIDENT : STAFF	STAFF : RESIDENT
Nursing Care	1.2	0.8	1.2	0.9
Personal Care	1.7	0.6	1.4	0.7
All care	1.3	0.8	1.2	0.8

Source: Knight Frank *Includes all nurses and carers. Part-time staff calculated as half a staff member

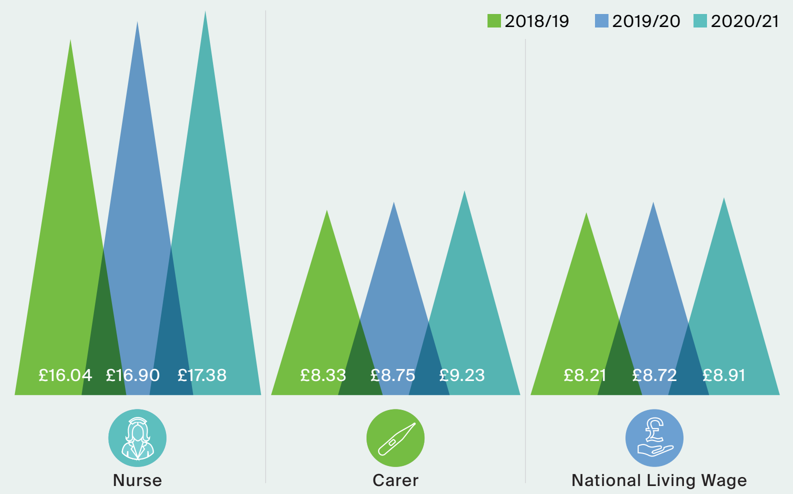
FIG 14 | Staff costs as % of income, since 2008/09



Source: Knight Frank

The National Living Wage is now £8.91 for over 25s

FIG 15 | Average care home wage rates and National Living Wage, per hour

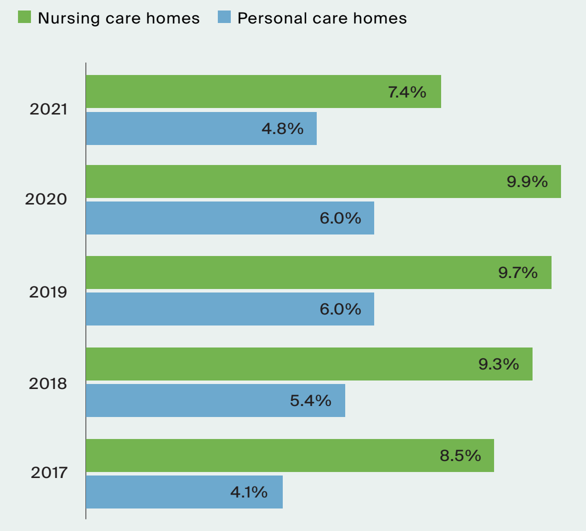


Source: Knight Frank

As in previous years, this year's survey has highlighted a growth in nurse and carer wages. From Figure 15 we can see that average nurse wages per hour are £17.38 up 2.9% from last year whilst average career wages per hour are up 5.4% at £9.23. Both have grown at a higher rate on the year than the 2.2% growth in the National Living Wage per hour which currently sits at £8.91.

Agency use as a percentage of staff cost has fallen to 6.8%. In terms of care type, Figure 16 shows a fall to 7.4% from 9.9% within Nursing Care and a fall to 4.9% from 6% in Personal Care for the year. This is likely to be an artificial impact of the pandemic on the sector and resultant reduction in occupancy levels, as well as the logistics around both permanent and temporary staff entering care homes during lockdown periods.

FIG 16 | Agency staff costs as % of total staff costs



Source: Knight Frank

Fees vs Cost vs RPI

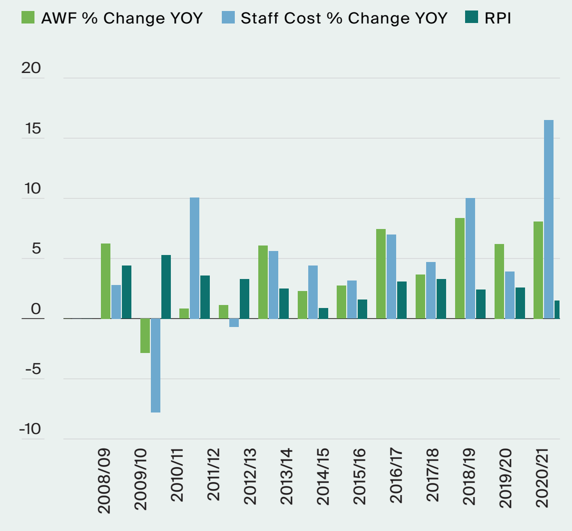
Despite fluctuations in year-on-year increases over the given period, Figure 17 highlights 2014 as the point whereby average weekly fees and staffing costs began to steadily outpace RPI inflation.

Figure 18 in following looks at the year-on-year changes presented in Figure 17 and indexes them over the period of 2009 to 2021. The results show that fees have grown 60.4% in comparison to 75.9% in staff costs, with RPI lagging both at 40.4% over the same period. The overall rise in staff costs is driven by significant increases in several years in addition to this year's larger than normal increase per occupied bed. However, drilling down into a more granular view of the period highlighted between 2016 and 2021, we can see the divergence between Private Pay and Local Authority fee increases in terms of their tracking of staff cost increases. From Figure 19 we can see that Private Pay fees increased by 33.2%, whilst Local Authority fees increased by 26.6% in comparison to the 39.5% rise in staff costs over the period in question.

Property & Food Costs

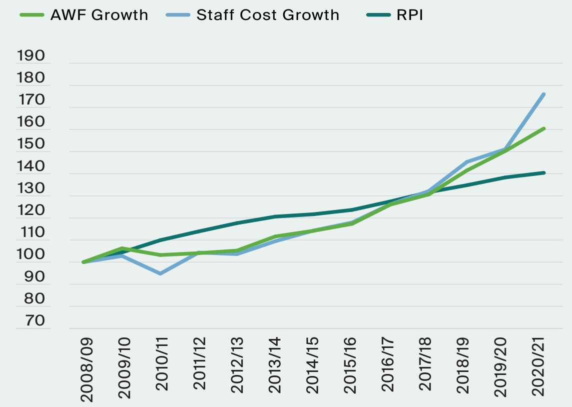
Figures 20 & 21 show the continued upward trend in property and food costs respectively with property costs per bed rising to £2,615 representing a 9% increase on the year and food per resident increasing 5.2% to £1,713. The graphs also show that from 2018 to 2021 property costs and food costs have experienced cumulative rises of 30.4% and 17.2%.

FIG 17 | Fee & Staff costs Year-on-Year change



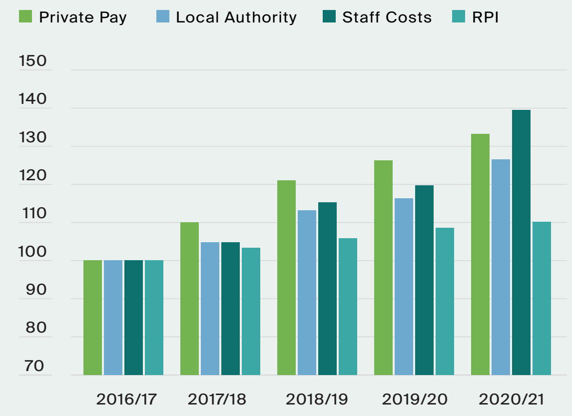
Source: Knight Frank

FIG 18 | Fee & Staff costs indexed



Source: Knight Frank

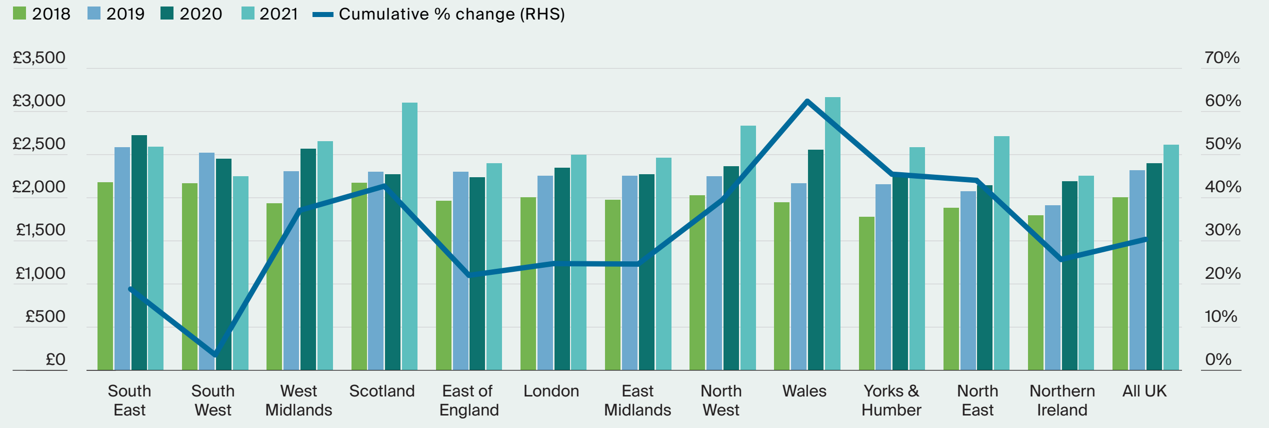
FIG 19 | Fee & Staff costs indexed (2017-2021)



Source: Knight Frank

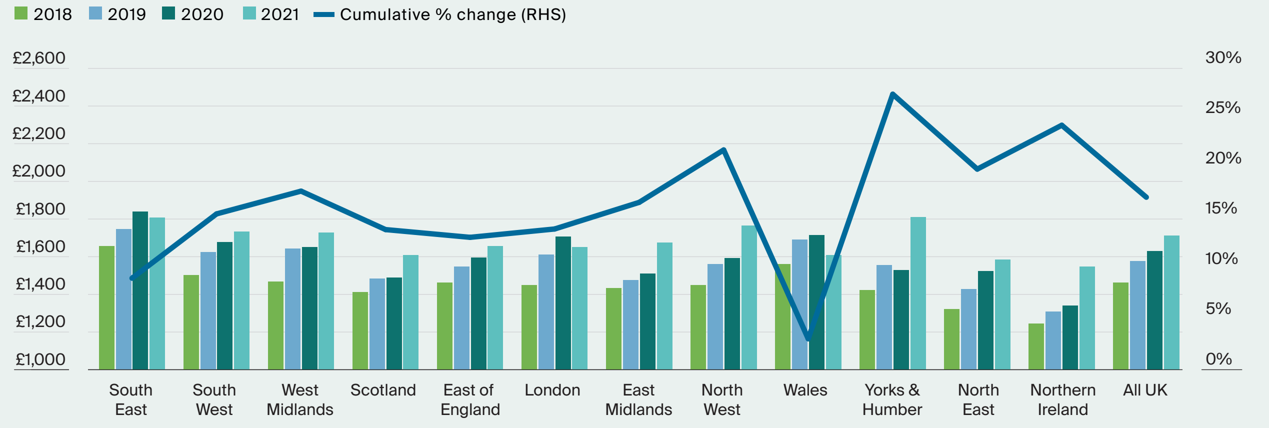
CARE HOMES TRADING PERFORMANCE 2021

FIG 20 | Property costs per bed (2018-2021)



Source: Knight Frank

FIG 21 | Food costs per resident (2018-2021)



Source: Knight Frank

Capital Expenditure

Capital expenditure this financial year, whilst down, has been primarily driven by maintenance as opposed to refurbishment. However, it is important to note that as per Table 4, this shift is not down to increased maintenance spends per bed and is rather an effect of reduced refurbishment spends due to the difficulty in access and pressures on tradespeople. This is also a contributing factor to the overall fall in capital expenditure per bed.

TABLE 4 | Capex spends per bed

	2020	2021
Refurbishment Capex per bed	£1,848	£576
Maintenance Capex per bed	£932	£926
All Capex per bed	£1,699	£1,083

Source: Knight Frank

RENT COVER

Across rented homes, although rent covers have dipped slightly, they have tracked previous years all care statistics quite closely. Table 5 highlights the biggest decline in rent cover from 1.66 to 1.39 present within the Personal Care class.

TABLE 5 | Rent cover

	NURSING	PERSONAL	ALL CARE
2019	1.5	1.6	1.5
2020	1.6	1.7	1.6
2021	1.5	1.4	1.5

Source: Knight Frank

PROFITABILITY

Overall, EBITDARM as a percentage of income has fallen slightly from last year's level of 26.8% to 26.2%

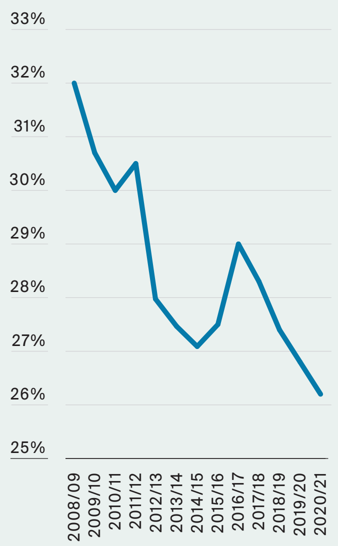
Overall, EBITDARM (Earnings Before Interest Tax Depreciation Amortization Rent and Management fees) as a percentage of income has fallen slightly from last year's level of 26.8% to 26.2%. This can be seen in Figure 22 and is likely to be a result of the impact of Covid-19 filtering through into operators' accounts in addition to falling occupancies and rising costs. Whilst these factors have contributed to the decline in EBITDARM, consideration should be given to the extent to which government intervention has supported profitability of operators over the last year. Looking forward, as nationwide restrictions have now been eased and occupancy levels begin to sure up, we can remain confident in the profitability of the sector.

Figure 23 shows a close split of homes operating within 10% to 40% EBITDARM margins with 11% achieving EBITDARM margins of over 40% of income and 7% falling into the loss-making band. These statistics vary slightly from last year whereby 5% of homes were loss making and the standout margin band was 20% to 30%.

The North East as a region stands out in Figure 24 with a personal care EBITDARM margin of 32.6% of income, which is a strong statistic given the circumstances over the past year. However, taking into account all homes, care and funding type in the sample as per Figure 25 there is an overall downward trend with the exception of Nursing Care where the margin has improved by 0.1% on the previous year. It is important to note however, that despite the general fall, EBITDARM margins remain at a better than expected level and in some cases, like Private Pay homes which achieved margins at 36.2% of income, extremely positive despite the headwinds.

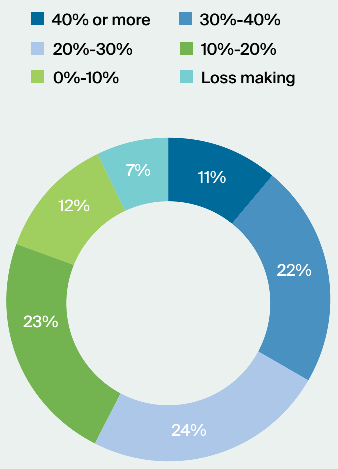
In terms of profitability relative to care standards, Table 6 states that homes with an Inadequate rating traded at a margin of 19.1% in comparison to homes with an Outstanding rating which trade at 31.4% margin. This is expected however, due to the restrictions imposed on Inadequate homes such as embargo's and demand for outstanding homes. The standout statistic in Table 7 is the evident economies of scale present in homes between the size of 60 to 100 beds. Homes within this size band are operating at margins around 28% with EBITDARM margins falling significantly outside of this size band.

FIG 22 | EBITDARM as % of income, since 2008/09



Source: Knight Frank

FIG 23 | Distribution of EBITDARM margins, 2020-21



Source: Knight Frank

TABLE 6 | EBITDARM margin per CQC band

CQC RATING	EBITDARM (% OF INCOME)
Outstanding	31.4%
Good	27.8%
Requires improvement	21.6%
Inadequate	19.1%

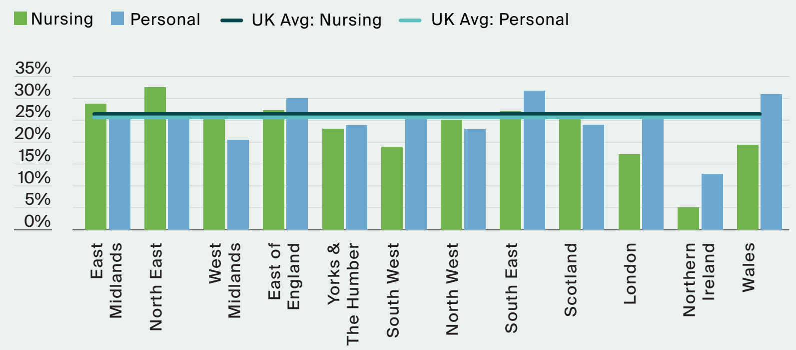
Source: Knight Frank

TABLE 7 | EBITDARM margin per size band

SIZE BAND	EBITDARM (% OF INCOME)
1-39 beds	20.7%
40-59 beds	24.5%
60-79 beds	28.7%
80-99 beds	28.0%
100+ beds	26.6%

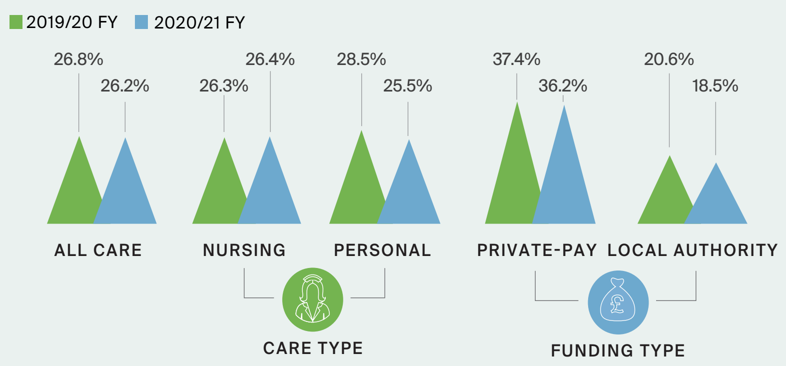
Source: Knight Frank

FIG 24 | EBITDARM as % of income, by region and care type 2020/21



Source: Knight Frank

FIG 25 | EBITDARM margins, 2019/20 2020/21



Source: Knight Frank

LOOKING AHEAD

Overall, the statistics presented in this year's survey are a collective testament to the robustness and resilience of the healthcare sector. A good example is the ability to control falling EBITDARM margins amongst a substantial occupancy dip as well as rising costs. However, despite this the statistics also raise several questions.

For example, to what extent has government support such as the Adult Social Care Infection Control Fund, been instrumental in supporting the bottom line of operators?

With more support announced by way of national insurance contribution increases and a newly announced winter package for adult social care it will be important to understand the future of government support, how operators account for this and to what extent it will impact long-term profitability trends as well as sector funding composition.

When will occupancy reach pre-pandemic levels and how will agency costs feature relative to total staffing costs at the time?

Lastly, profitability metrics also raise caution to the quality of current supply with 58% of the sample over the age of 20 years and margins falling from 31.4% in newer homes to 25.2% older stock. The case for high-quality stock is further supported.

FORWARD VIEW

Julian Evans FRICS
Head of Healthcare

This year's trading performance survey has highlighted the continued resilience and robustness of the UK care sector.

Following on from an extremely difficult and uncertain period for operational business, the results of the survey have demonstrated the sector's ability to absorb external shocks. A major testament to this is the EBITDARM margins shown in the report. Whilst the figures are down year-on-year, an All Care EBITDARM (as a percentage of income) of 26.2% still suggests strong trading given the circumstances faced by operators. Operators are now likely to have greater confidence in their own abilities to combat future headwinds as well as taking forward looking approaches in preparation for any future shocks.

Most importantly, whilst the statistics pay testament to the sector's resilience, they also highlight the collaborative efforts of operators, their teams, and the UK government in becoming a pillar for the sector to lean on.

Going forward, with a year to date transaction volume of circa £1.28bn suggesting improved investor sentiment, as well as positivity around occupancy levels, the timing of reduced government intervention will certainly be a topic to consider during the journey to normality. It is for this reason that this year's dataset has been of such high importance, due to the need for a clear understanding of the current state of UK Healthcare.

I would like to thank the operators that have once again participated and provided their data for the purposes of our annual trading performance review, as well as the new operators contributing for the first time. Because of you all, we are able to continue to provide valuable data and insight to the sector.

Front Cover: Eastcote Park, Solihull, West Midlands, Cinnamon Care

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