Nursing home closures: effects on capacity and reasons for closure

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Abstract

Objectives: to identify the rate of closure of nursing homes for older people, the types of homes closing and the reasons for closure.

Design: mixed method study including a census and telephone survey of registration and inspection units and interviews with independent providers.

Participants: 81 of 96 health authority and joint registration and inspection unit managers in England completed the census and 39 managers participated in a further telephone survey. Twenty-five independent providers were interviewed.

Results: closures resulted in a net loss of 6% of nursing homes and 4.9% of nursing places during 2000–2001. Smaller homes were more likely to close and were increasingly seen as unviable. The majority of closed homes were reported to have provided good quality care. Shortages of nursing staff were of widespread concern. The dominant combination of factors identified by providers was low fees and concerns about the cost implications of the new care standards. Changes in demand were reflected in the placement of high dependency residents in residential rather than nursing homes.

Conclusions: in the absence of policy interventions capacity will continue to reduce, with smaller homes most likely to disappear. There is an urgent need to address the supply and efficient use of nursing staff skills in care homes. While fee levels are the primary concern the effect of the proposed care standards was clearly having an effect. Even with subsequent amendment to these standards, unless authorities use capacity funding to raise fees and improve expectations, providers are likely to continue to exit the market.

Keywords: nursing homes, long-term care, older people, nursing home closures

Introduction

In his review of long-term trends affecting the NHS, Wanless [1] identified the key role of care home provision and concerns about the fall in the number of places in recent years. Considerable public concern about care home closures has also been voiced in the media [2–4]. Is the rise in closures simply a market response to the move to community-based care or are there potential concerns about future supply? This is an important question since insufficient supply of nursing home places is likely to increase delayed discharges from hospital as patients wait for places to become available. Moreover, home closures, particularly those due to business failure, are likely to lead to the involuntary relocation of older people without adequate preparation. The literature suggests that this may lead to higher levels of mortality and decline in health status [5].

Press coverage has suggested that homeowners feel they are receiving inadequate fees for the services they provide at present, while the introduction of national care standards will have further cost implications for many homes [6–8]. However, the picture seems to be mixed geographically, and much of the discussion is based on anecdotal evidence.

Method

Three approaches were used in order to identify both underlying pressures on homes and key issues that led to individual closures, from the perspectives of those responsible for de-registering homes and providers themselves. The results of the full study are reported elsewhere [9, 10].

First, a national postal survey of all registration and inspection units in England was conducted in April 2001 to identify new registrations, rates of closures and overall levels of capacity in the periods 31 March–31 March for 1999–2000 and 2000–2001, and area factors affecting closures in their locality. Eighty-one of the 96 inspection
units responsible for registering and inspecting nursing homes responded (86%). There was good regional coverage with respondent areas representing at least 75% of the units in all regions.

Second, those inspection units that took part in a nationally representative survey of care homes in 1996 [11] were asked in a telephone survey to identify the characteristics and reasons for closure of the two most recent closures in their area and to identify the current status of homes surveyed in 1996, including the date and reason for any closures. Of the 44 inspection units covering the 21 local authorities included in the 1996 survey, 39 (89%) participated in the follow-up telephone interview. Twenty of these were responsible for registering and inspecting nursing homes. These interviews provided details about 69 homes that had closed within the previous two years, 28 of which were nursing and seven dual registered. The inspection unit managers also identified providers of homes that had recently closed who might be willing to be contacted.

Third, interviews were conducted with independent providers of homes that had closed, to explore their views about why their homes had closed and factors that might have prevented closure. Pre-coded and open-ended questions were used and interviews audiotaped. Five in-depth interviews and a further 20 structured interviews were conducted. Eight providers had closed nursing homes and four had closed dual registered homes. The sample included 25 providers from each region and represented all types of independent ownership, voluntary and private, from large chains to single home organisations.

Results

National survey

In respondent areas, 225 nursing and dual registered homes closed during 2000–2001. This represented 4.8% of nursing homes, similar to national rates reported for 1999–2000 [12]. Historically this annual loss is very high: between 1998–1999 and 1999–2000 the rates of closure of nursing homes increased by nearly 50% [13]. The picture varied regionally, with 7% of nursing homes closing in the south of the country, compared with 3% in the West Midlands and Eastern regions (see Figure 1).

Only 59 new nursing homes opened in respondent areas in 2000–2001, and homes were more likely to change from nursing to residential (51 cases) than from residential to nursing (one case). The overall effect on capacity was a reduction of 6% in the number of nursing homes and 3% in the number of dual registered homes. Overall, the number of nursing places in nursing and dual registered homes dropped by 4.9%. Should this rate continue there would be an overall reduction in places of 20% within 5 years.

There was considerable regional variation in the net loss of places (see Figure 2), but there was a much less clear north south divide than for rates of closure. Trent region
showed the largest reduction in capacity (10%). However, analyses of regional, and even local authority variations are relatively crude. In practice, there can be variations in levels of supply within authorities. For example, one inspection unit identified within its boundaries that there was an oversupply of homes and places in coastal areas, and a shortage of nursing places within a city.

Inspection unit managers were asked which of a list of factors were relevant to closures in their areas and to identify any other influences on closures. Table 1 shows the factors associated with nursing home closures.

The factor most frequently cited, by 81% of health authority inspection unit managers, was a lack of qualified nursing staff. Problems recruiting basic care staff were also relevant in nearly half of the areas, and a number of respondents linked this to the introduction of the National Minimum Wage. People could now earn the same wages doing much less demanding jobs than care work. As would be expected, inspection units in the Southeast were most likely to identify high wage levels as a problem. A shortage of managers was identified as an additional problem by a number of respondents. A number of inspectors were concerned about the competency of homes to provide adequate quality of care when faced by both staff recruitment problems and increasingly dependent residents.

There was also widespread concern about local authority pricing policies, with nearly three-quarters of respondents identifying these as relevant. Moreover, in over two-fifths of cases authorities were reported to have overt policies of placing residents, who would previously have been placed in nursing homes, in residential care at an enhanced ‘high dependency’ fee. Thus, nursing homes were facing both low prices and reduced demand.

Of all the closures during the previous year, 58% of nursing and dual registered homes had closed due to business reasons, compared with 46% of residential homes. Business reasons included financing problems, low occupancy and staff recruitment. Of the homes that closed, 8% of nursing and 14% of residential homes had closed as a result of enforcement action.

**Characteristics of sample of closures**

The average size of the 28 most recently closed nursing homes was 24 places, compared with 35 nationally [14].

Moreover, nationally 25% of nursing homes are part of chains of three or more [15], whereas in our sample this applied to just three out of the 28 nursing homes. Table 2 shows the inspectors’ opinion of the quality of care provided by the homes prior to closure. Sixty per cent were rated as at least ‘OK’, with three of the closed nursing homes regarded as ‘excellent’. However, one of the dual registered homes had closed because the registration had been cancelled and compliance notices were outstanding for a further four nursing homes. Closures can happen very quickly, either as the result of an emergency enforcement or as a result of financial pressures. Of the recently closed nursing homes, three gave inspection units less than a week’s notice.

Registration and inspection unit managers were asked open-ended questions about the factors that lay behind, and the primary cause of, the two most recent closures, and responses were then post-coded into 15 categories. The most frequently cited factors were financial reasons and providers being unable or unwilling to meet the new National Minimum Standards [16], both identified in about a third of cases. The most frequently cited primary cause was financial, identified for nine out of the 35 nursing and dual registered homes.

The financial reasons described ranged from the specific to the general: the bank was about to foreclose or the business ‘went bust’, a home was no longer viable (including explanations relating to the size of home); the owner was over-committed or ran out of money; or the bank refused a loan. Other reasons cited were also linked with financial viability. For example, low occupancy rate, a factor likely to reduce income, was

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### Table 1. Unit managers’ assessment of the quality of care provided by nursing and dual registered homes prior to closure

<table>
<thead>
<tr>
<th>Quality of care</th>
<th>No</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Good</td>
<td>10</td>
<td>29</td>
</tr>
<tr>
<td>OK</td>
<td>8</td>
<td>23</td>
</tr>
<tr>
<td>Fair</td>
<td>8</td>
<td>23</td>
</tr>
<tr>
<td>Poor</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

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### Table 2. Units identifying issues associated with closures in their area

<table>
<thead>
<tr>
<th>Issues associated with closure</th>
<th>Nursing homes/places</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Number of units</td>
<td>78</td>
</tr>
<tr>
<td>Supply</td>
<td></td>
</tr>
<tr>
<td>Oversupply of homes</td>
<td>16</td>
</tr>
<tr>
<td>Growth in alternative types of provision</td>
<td>9</td>
</tr>
<tr>
<td>Demand</td>
<td></td>
</tr>
<tr>
<td>Lower demand for self-funded places</td>
<td>4</td>
</tr>
<tr>
<td>Lower demand for publicly-funded places</td>
<td>13</td>
</tr>
<tr>
<td>LA use of residential places for high dependency residents</td>
<td>32</td>
</tr>
<tr>
<td>Pricing and contracting</td>
<td></td>
</tr>
<tr>
<td>Local authority pricing policies</td>
<td>56</td>
</tr>
<tr>
<td>Local authority contracting arrangements</td>
<td>15</td>
</tr>
<tr>
<td>Inputs</td>
<td></td>
</tr>
<tr>
<td>Problems recruiting basic care staff</td>
<td>35</td>
</tr>
<tr>
<td>Problems recruiting nursing care staff</td>
<td>63</td>
</tr>
<tr>
<td>Local wages rates</td>
<td>36</td>
</tr>
<tr>
<td>High property values</td>
<td>26</td>
</tr>
<tr>
<td>Care standards</td>
<td></td>
</tr>
<tr>
<td>Poor quality homes</td>
<td>17</td>
</tr>
<tr>
<td>Concerns about care standards</td>
<td>37</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
</tr>
</tbody>
</table>

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...
identified for three homes, and four respondents cited low local authority fees.

In discussing the reasons behind these home closures, inspectors identified two links between care standards and fees. The first was a vicious cycle where low fees resulted in under-investment, which resulted in deteriorating fabric of the home, which resulted in lower demand for places, which resulted in lower income. The other was a lack of funds to invest in bringing homes up to the new National Minimum Standards.

Provider views

From the perspective of providers, the combination of historically low fees, low expectations about future fees and the level of investment needed to raise homes up to the new standards were critical:

‘...unless they [local authorities] were prepared to pay a proper fee and you were very sure you were going to have a continuing contract at a proper price, you couldn’t take on a large debt like that and service it’ (independent provider).

Property prices were particularly relevant to the type of home least likely to meet the new care standards: converted private dwellings. Often the building was worth more than the business as a going concern, and the rise in property prices allowed people who had long wanted to leave, to exit the market.

A quarter of the providers felt that the closure was inevitable and that nothing could have been done to prevent it. The most frequently cited change that would have prevented closure was raising fees. On average, providers felt that a 20% increase was required. Improved levels of occupancy were identified, although in most cases the issue was around future streams of income, rather than occupied places, so this could have been addressed by arrangements such as block contracts, where the purchaser bears the cost of empty places. However, for the most part providers in the sample did not identify contractual arrangements as an important factor.

Discussion

Although the nursing home sector exhibited the most marked reduction in capacity, many of the results and much of the discussion below applies equally to residential care homes [9].

Nursing homes care for very physically and mentally impaired older people. Most nursing homes were closing due to business reasons. Compared with the lengthy consultation and preparation process that is usual in the closure of local authority care homes, business closures can happen in a matter of days or weeks. Thus current nursing home closures are characterised by the very conditions likely to lead to increased mortality and loss of health status among residents [5].

The evidence suggests that, in many areas of the country, market pressures are resulting in a loss of capacity that goes well beyond adjustments reflecting the move to maintain people in their own homes for as long as possible. Given the national shortage of nurses, it is not surprising that a lack of qualified nursing staff was the factor most frequently cited by inspection unit managers. It could be argued that regulations that require waking nursing staff to be on the premises 24 hours per day mean that a substantial proportion of qualified nurse time is spent on tasks that do not require their specific skills. The introduction of the single care home registration [17], if administered appropriately, provides an opportunity to address such inefficient use of nursing skills.

Shortages of basic care staff were also identified as an important issue. The introduction of the National Minimum Wäge has brought wages in the care sector in line with much less stressful and demanding work. In the absence of a marked increase in care staff wages, something that homes can ill afford at present, this is a permanent change in the relationship between labour market sectors, rather than a one-off effect.

Local authority prices were identified as important in the national survey, but were not identified by inspectors as the principal cause for the sample of recent closures. This is probably because local authorities tend to pay the same rates to all homes in their authorities, so this was not seen as the reason why one home went out of business rather than another. However, financial reasons are clearly linked to fees, and low fee levels underlie many of the other issues. It is not possible for a home to pay attractive wages to care staff if it has insufficient income. It is not possible to build up reserves to invest in raising standards or to present a good case to investors if there are not reasonable rates of return at present or, crucially, expectations of good rates of return in the future.

Laing and Buisson [15] estimated that nearly 50% of homes in 2001 would not have met the new care standards required by 2007 if they had already been in force. Following continued concern about the ability of existing homes to meet these standards, amended standards were issued in August 2002 [18], which were to be treated as good practice for all homes, but would not be a requirement for homes that existed prior to April 2002. Critically, the amendment removed the requirement to have 80% of beds in single rooms. However, market forces will continue to put pressure on homes to meet this standard. Without improvements in fees and expectations, and while property prices remain high, the rational option for many providers, particularly those running smaller homes, will be to exit the market. This has implications for the choice of those residents who would prefer small-scale, homely environments.

The downward pressures on fees have been largely due to the increasing financial pressures on local authorities [19]. Recent government initiatives to address
delayed discharges from hospital and to better manage health and social care service delivery includes the agreement with the care industry described in Building Capacity and Partnership in Care [20]. The agreement acknowledges the importance of confidence in the future among providers of care homes and starts to address this issue. However, such confidence is fundamentally dependent on adequate levels of funding. The ‘cash for change’ programme resulted in an additional allocation to local authorities of £100 million in 2001-2002 and £200 million in 2002-2003 [21]. Further funding was to be transferred to local authorities to support the ‘Scandinavian’ incentive scheme by which authorities are charged for the cost of beds ‘needlessly blocked in hospitals through delayed discharges’ [22]. However, these are intended to increase capacity for all forms of support, not just care homes and do not represent ongoing financial commitment. The costs of nursing home care are driven by pay rather than price inflation, so any one-off increase in fees needs to be sustained by adequate future rises. This, together with the increased costs of regulation borne by the nursing home industry, suggests that we can still expect to see future closures and reductions in capacity, with consequent implications for resident health status, delayed discharges from hospital and consumer choice. We are currently carrying out exploratory case study research to investigate the effects of care home closures from the perspective of residents, their relatives, providers, care staff, and social services departments.

Key points
- Home closures were typically attributed to a range of factors acting in combination.
- Fee levels set by local authorities and problems recruiting nursing staff were the two most commonly identified factors that led to nursing home closures.
- For recently closed homes the most frequently cited factors by registration and inspection unit managers were financial reasons and providers being unwilling or unable to meet the new National Minimum Standards.
- Other factors which could lead to closure included lack of capital, low expectations about future fee levels, and rising house prices.
- In the absence of fee increases we can expect to see future reductions in capacity, particularly among smaller homes.
- There is an urgent need to address the supply and efficient use of nursing staff skills in care homes.

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References

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