Long-term Care Services

Situation of Long-Term Care Services in Spain

July 2010

PRICEWATERHOUSECOOPERS

Contents

Foreword

One of the greatest achievements of the second half of the 20th century was the increase in life expectancy of Europeans, brought about by the improved public health and welfare conditions. We can be proud of the fact that, over the last 50 years, our development model has enabled an increase in the number of people reaching old age and doing so in a situation of relative financial stability.

However, the increase in life expectancy coupled with a significant drop in the birth rate over the last 30 years has led to a rapid transition to an ageing population. According to demographic forecasts, this situation will persist over the next few decades. It is producing big changes for the different generations and for most areas of social and economic life.

Law 39/2006, 14 December on Personal Autonomy and Dependent Care represents the legislative response to the challenge of those individuals who are in a particularly vulnerable situation and require support to carry out the basic day-to-day tasks, to attain a greater level of personal autonomy and to be fully able to exercise their rights as citizens.

The long-term care benefits are channelled through the provision of services and financial assistance on a one-off basis. Priority is given to the provision of services which cover the needs of individuals with difficulties managing basic day-to-day tasks independently. These are provided by the various regional governments through public provision and the Social Security network by way of authorised public and private care homes and services.

If care cannot be provided through one of these services, a related financial allowance is granted to cover the expected cost of the anticipated services, which must be provided by an authorised body or care home.

Priority in accessing services is given according to the degree and level of care required in conjunction with the applicant's means. Until the network of services is fully implemented, individuals requiring long-term care who are not entitled to the services on the basis of the priority system, are entitled to the allowance mentioned above.

Recently, on 14 May 2010, the Spanish government approved a series of measures establishing a maximum 6-month time limit from issue of a ruling on the applications for long-term care to the award of the benefit. Retroactive payments were also eliminated, given that with the new time-frame there will no longer be any delays in receiving the services and allowances for which compensation is due.

Three years after the approval of the law, this document, based on an analysis of the publicly available information, and interviews with the main players in the industry, sets out the situation and concerns regarding long-term care for the elderly, one of the main factors contributing to the improvement in quality of life of people requiring long-term care.

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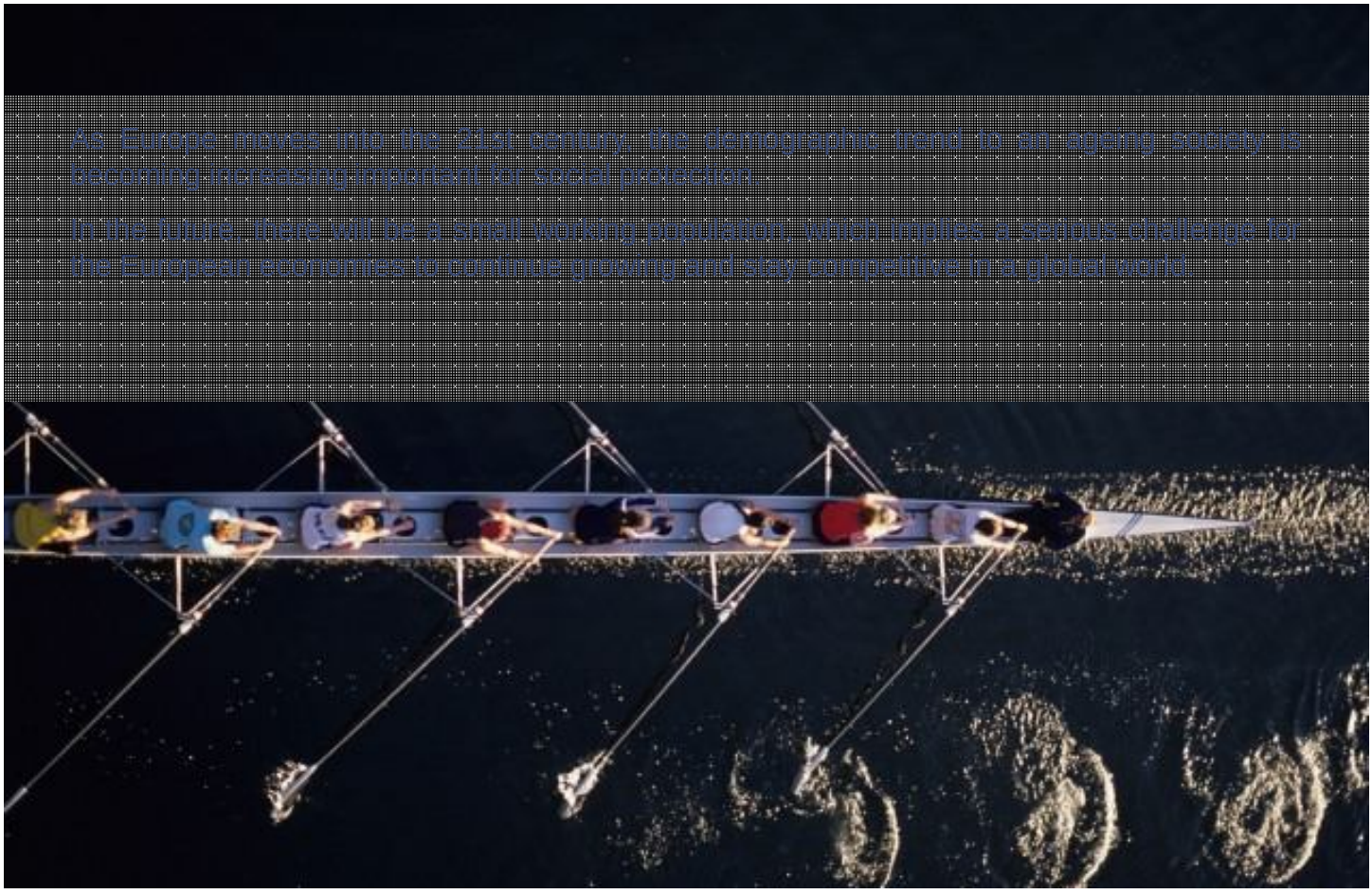
The phenomenon of ageing has become one of the principal socio-economic challenges of the 21st century



Section 1.1 Ageing of the population

The population of European countries is ageing. This is particularly marked in Spain, which is facing a significant challenge in this regard

According to data from Eurostat, the European Union statistics office, at the end of 2008 the number of elderly over 65 was already around 17% of the total EU population.

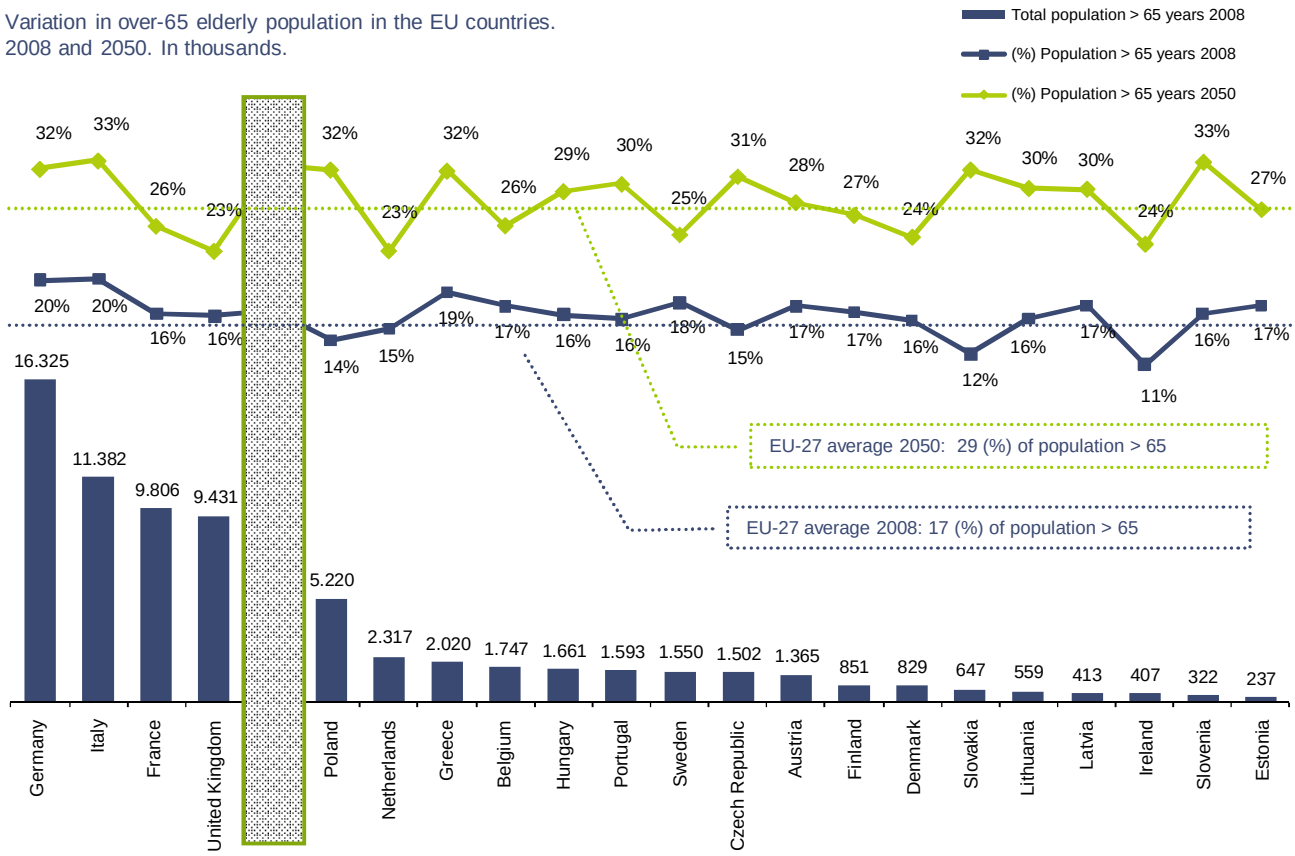
The latest available forecasts suggest that by 2050 this will have dramatically increased to reach around 29%. In forty years the number of over-65s will have doubled from the current number.

At this time it is estimated that in the European Union there are only two people of working age for each adult of 65 years or more.

However, the challenge and scope of ageing populations varies for each of the member countries. Spain stands out as one of the countries where it is most prominent, reaching rates of around 32% in 2050, only exceeded by Italy and Slovenia.

Graph 1.
Currently Spain has the fourth largest elderly population of the EU countries. It is forecast that by 2050 the percentage will increase by 76% and it will be one of the EU countries with the most elderly people.

Variation in over-65 elderly population in the EU countries. 2008 and 2050. In thousands.



Source: Eurostat. Consulted April 2009.

The phenomenon of ageing puts increased pressure on the healthcare and social service systems of the member states and produces a redistribution of resources.

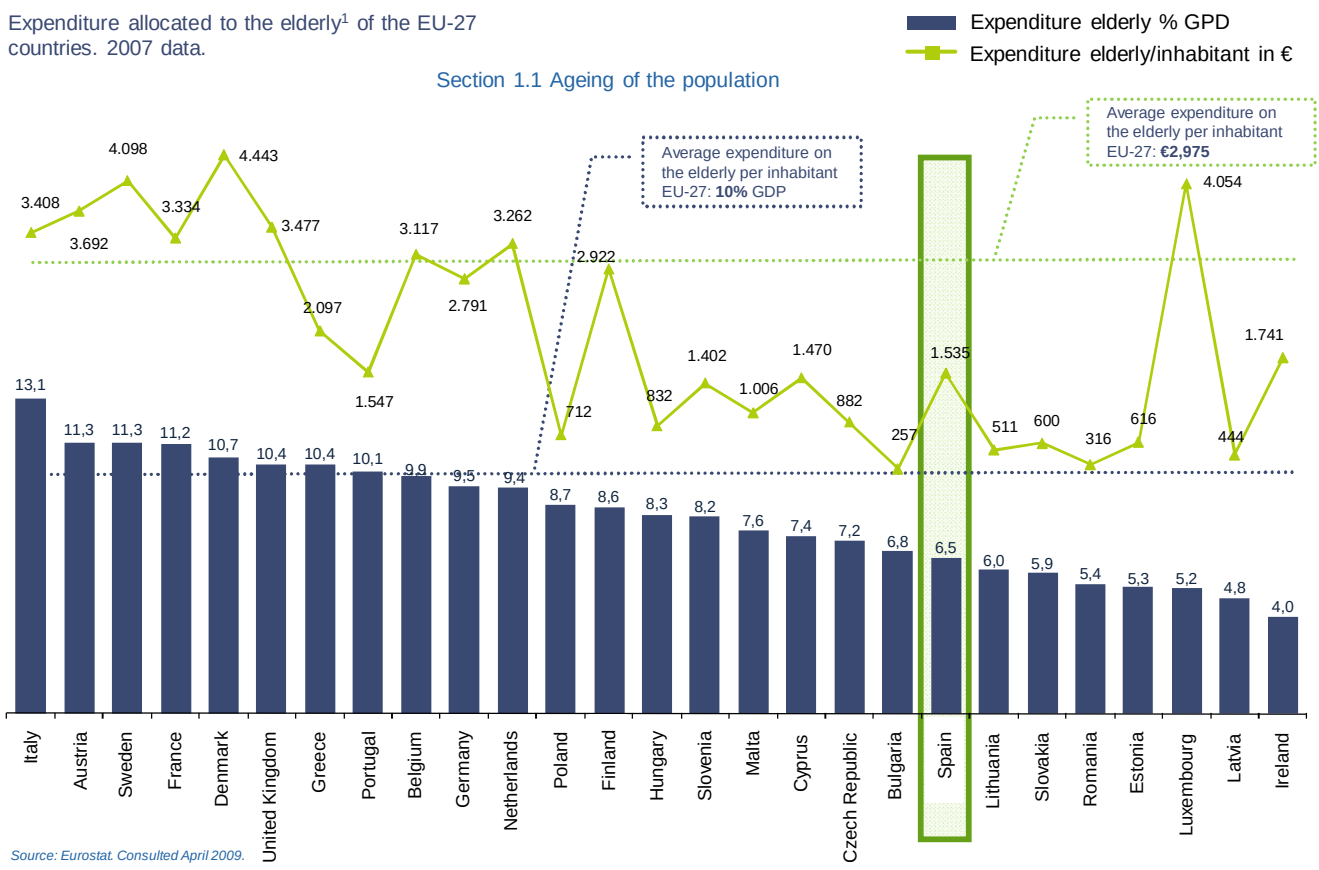
Currently, expenditure on the elderly in the European Union represents 10% of GDP, although it varies greatly, from around 4% for Ireland to 13% in Italy, which has the most resources allocated in relation to its GDP, followed by Austria (11.3%), Sweden (11.3%), France (11.2%), Denmark (10.7%), the UK (10.4%), Greece (10.4%) and Portugal (10.1%), all over 10%. Spain, with 6.5% of its GDP allocated to the elderly, is 3.5 points below the European average.

In a comparison of just the 15 European countries which have more developed models of social provision, Spain is among those at the bottom of the ranking in percentage terms, only above Luxemburg and Ireland.

Similarly, in terms of expenditure allocated to the elderly per inhabitant, Spain is the last in the ranking of 15 European countries. This represents an expenditure of €1,535 on the elderly per inhabitant in Spain, far below the European average of around €2,975, led by countries such as Denmark, Sweden or Luxembourg, with expenditure on the elderly of over €4,000 per inhabitant.

Graph 2.
Spain is among the countries with the lowest percentage of its GDP of expenditure on the elderly, 6.5% compared with the European average of 10%. Italy has the highest percentage, 13.1% of its GDP, which is more than double Spain.

Expenditure allocated to the elderly[1] of the EU-27 countries. 2007 data.



Source: Eurostat. Consulted April 2009.

(1) The expenditure allocated to the elderly includes the assignment of a pension when the retired person leaves the employment market and the provision of assets and services especially required according to the social or personal circumstances of the elderly people.

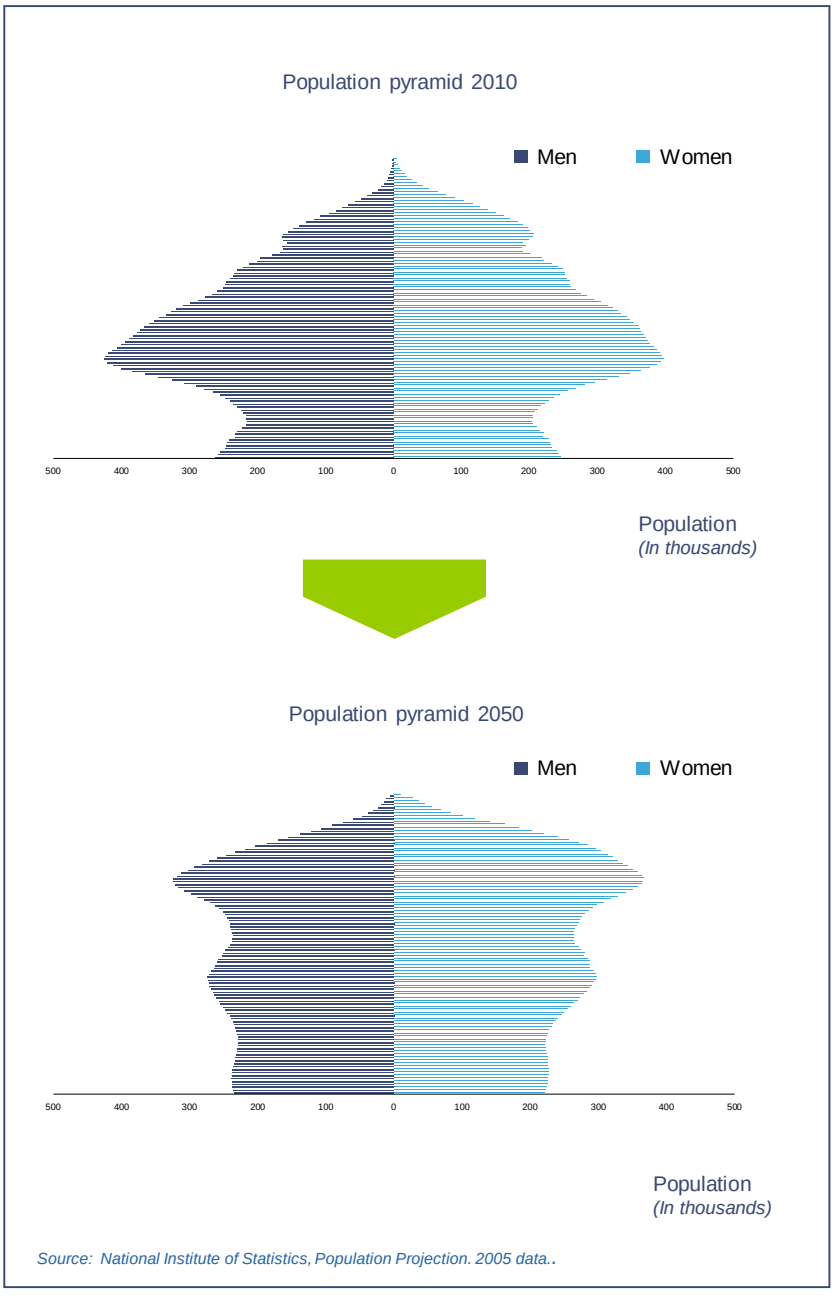
The progressive ageing of the population has become one of the main socio-economic challenges of the 21st century

The rapid ageing of the population in Spain comes about because it has one of lowest birth rates in the world. Also, women born in Spain currently have one of the longest European life expectancies, 84 years versus the European average of 79, while the men have life expectancy of 78 versus the European average of 71 years.

These changes to Spain's population pyramid position it as one of the European Union countries with the highest life expectancies, which will reach 87.9 for women and 81.4 for men over a period of four decades, according to the Eurostat forecasts.

The forecasts for demographic trends in Spain for the next few decades suggest a reversal of the population pyramid. It will widen at the top, which together with the birth rate trends will transform the age structure and composition of our population.

Graphs 3.4.
The baby boom of the 1970s and immigration are two of the factors in the trends in the population pyramid by 2050, where a large part of the population is over 65 years old. This change implies a significant increase in the dependency ratio.



Source: National Institute of Statistics, Population Projection. 2005 data..

The progressive ageing of the population has become one of the main socio-economic challenges of the 21st century

In the analysis of the geographical distribution of the population, we can see that the relative burden of the elderly population is not distributed equally throughout all the Spanish regions.

All the regions have a population of over 13% over-65s, except Ceuta and Melilla, the most atypical and youngest autonomous regions, with rates of 11.4% and 9.5% respectively.

Castilla-León and Galicia stand out as the oldest regions, with percentages of around 22%, five percentage points above Spain's average of 17%.

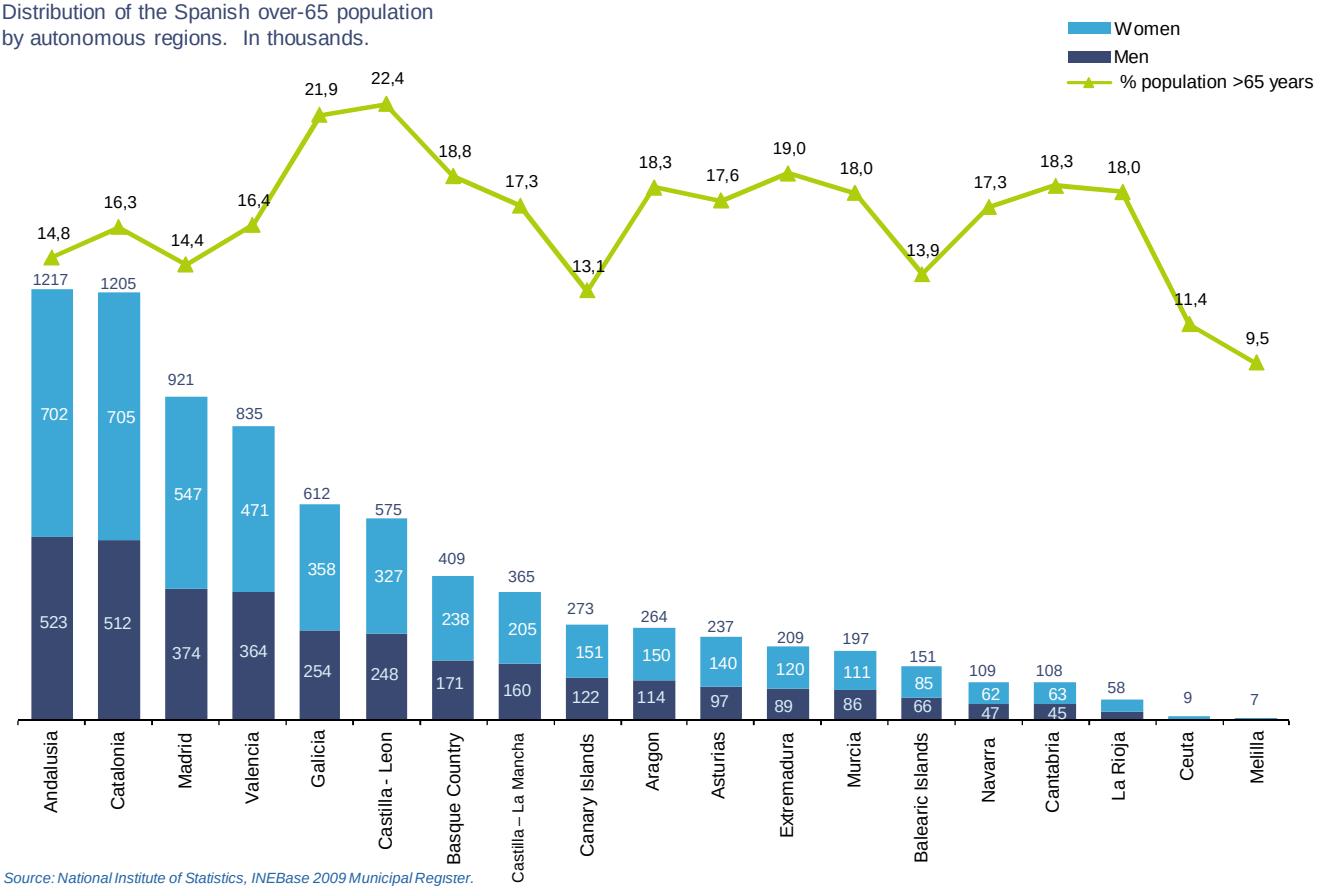
On the other hand, the autonomous regions with the greatest tourism, such as the Canary and Balearic Islands, together with Andalusia and Madrid, have somewhat lower percentages of 15%. The remaining regions range between 15% and 20%.

As shown in the graph below, there are more older women in all regions, with 1.36 women for every man over 65 years. Communities such as Madrid and Asturias are particularly significant in this regard, where the number of women over 65 is 45% greater than the number of men.

Graph 5.

The regions of Castilla-León and Galicia have the largest adult populations over 65, with rates of above 20% as opposed to the youngest autonomous regions, Ceuta and Melilla, with rates of 11.4% and 9.5% respectively.

Distribution of the Spanish over-65 population by autonomous regions. In thousands.



Source: National Institute of Statistics, INEBase 2009 Municipal Register.

The progressive ageing of the population has become one of the main socio-economic challenges of the 21st century

Section 1.2. Increase in the dependency ratio

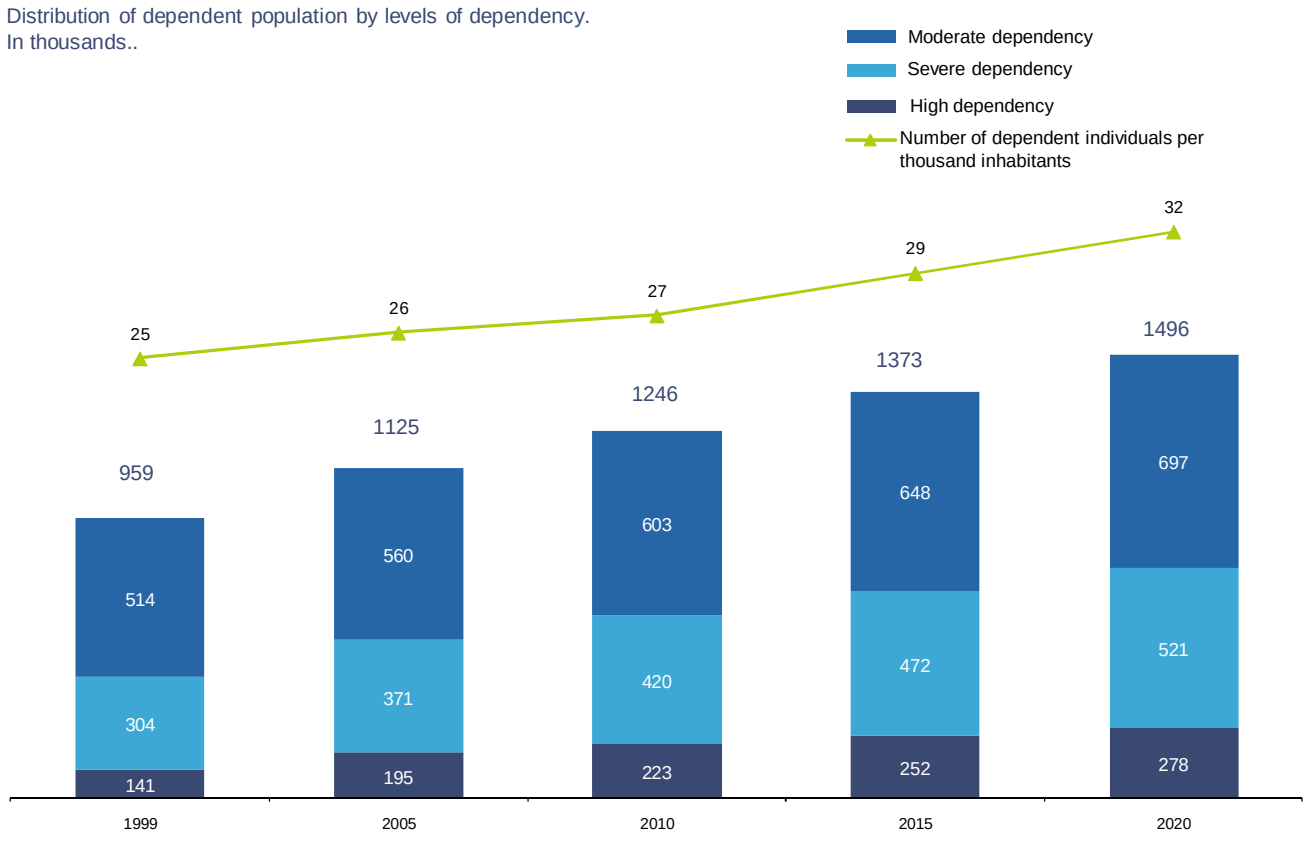
In 2010 there is an estimated dependent population of 1.2 million in Spain. This represents a ratio of 27 dependent people for every thousand inhabitants.

One factor consistently associated with ageing is the increase in the number of people in a situation of dependency. According to estimates in the White Paper on Care of people in a situation of dependency in Spain published in 2004 by the Spanish Institute for the Elderly and Social Services (IMSERSO), the dependent population in Spain in 2010 is around 1,246,429, a ratio of 27 dependent people for every thousand inhabitants. This implies an increase of 30% compared to the 1999 figures, which estimated the number of dependent people at 959 thousand (25 per thousand inhabitants).

In the analysis of distribution by type of dependence, we can see that one in two individuals are moderately dependent, while one in three show severe dependence, and 1 in 5 would be highly dependent.

The historical trend shows a shift in these proportions, whereby the proportion of highly dependent increases and those with moderate dependence diminishes. This trend is expected to continue over the next 10 years, and the number of dependent people is expected to reach one and a half million.

Graph 6.
According to the figures published in the White Paper on Care of people in a situation of dependency, there are 1.2 million dependent people living in Spain. Within 10 years, one and a half million dependents are forecast.



Source: White Paper on Care of people in a situation of dependency Spain 2004. National Institute of Statistics, INEBase 2009 Municipal Register.

The progressive ageing of the population has become one of the main socio-economic challenges of the 21st century

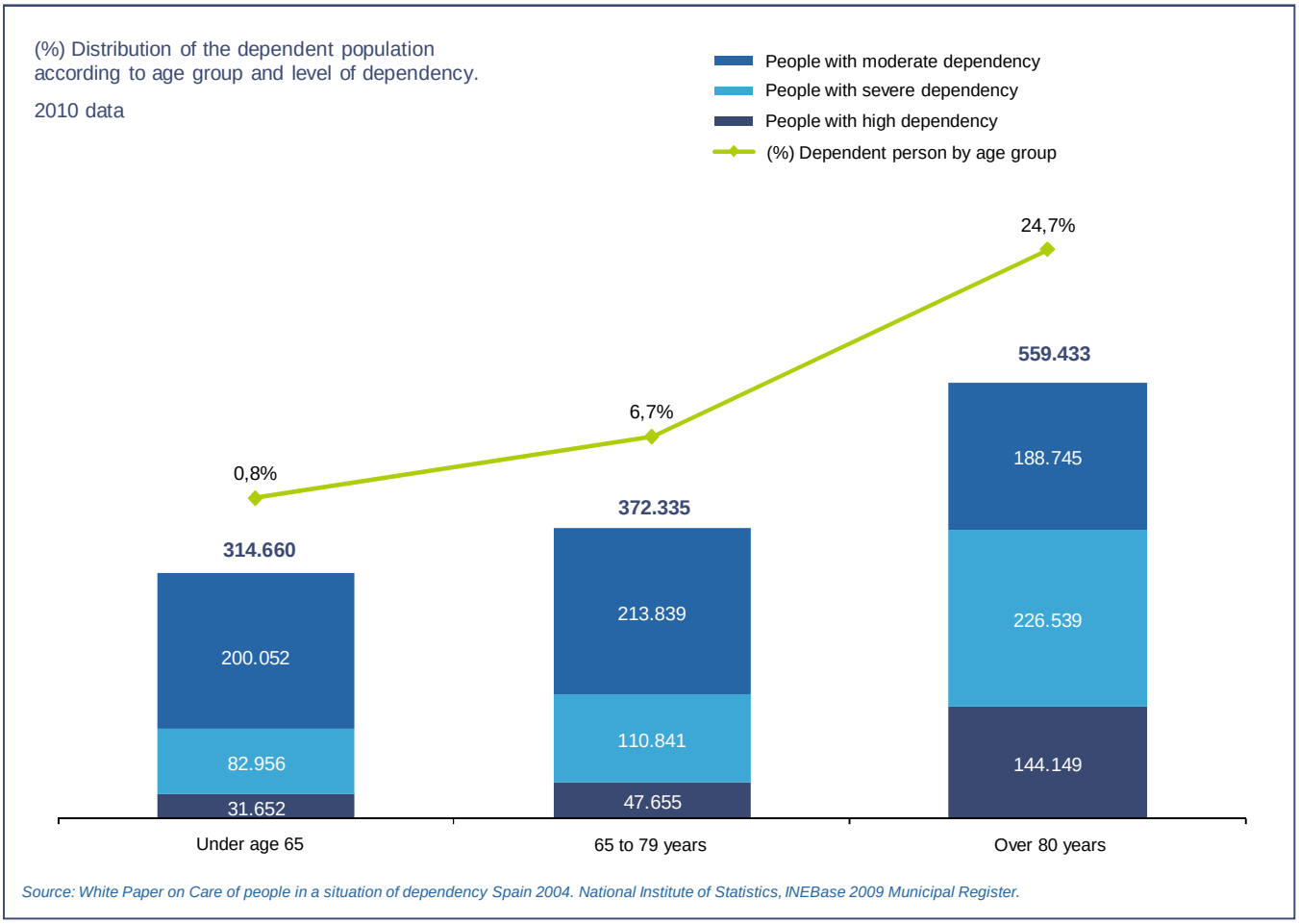
On analysing the levels of dependence in the various age groups, it appears that there is little dependency in the under-65 population, just 314,660 dependent people, which represents a ratio of 8 per thousand inhabitants.

In the next age bracket of between 65 and 79, we find that the number of dependent individuals increases to 372,355, representing 6.7% of the population of this group. However, the dependency ratio becomes most significant in the over-80 group where one in every four adults are dependent.

It is worth pointing out that the breakdown in levels of dependency does not stay constant, and while moderate dependence represents 65% of dependents under 65, for those over 80 this figure is reduced by half. The proportion of those with severe and high dependency also increases, with 40% and 26% respectively of the total number of dependents in this age group.

Interestingly, dependency rates by age are slightly higher in men up to 44 years and from 45 onwards this situation is reversed, the difference growing with increasing age.

Graph 7.
One in every four adults over age 80 is in a situation of dependency. This age group represents 45% of the total number of dependent people in Spain.



Source: White Paper on Care of people in a situation of dependency Spain 2004. National Institute of Statistics, INEBase 2009 Municipal Register.

The progressive ageing of the population has become one of the main socio-economic challenges of the 21st century

At this point in the analysis, we must point out that one of the disadvantages of taking the figures published by the White Paper as a sole reference is that they are largely based on out-of-date figures contained in the information from the Survey on Disabilities, Deficiencies and Health Status from 1999.

According to the White Paper estimates, in 2010 the number of dependents entitled to protection according to the schedule of implementation of the Law on Promotion of Personal Autonomy and Care for Dependent People would be around 642,180 (Grade III and Grade II). However, as discussed below, on 1 April 2010, 796,986 beneficiaries were entitled to benefits, 24% more than forecast.

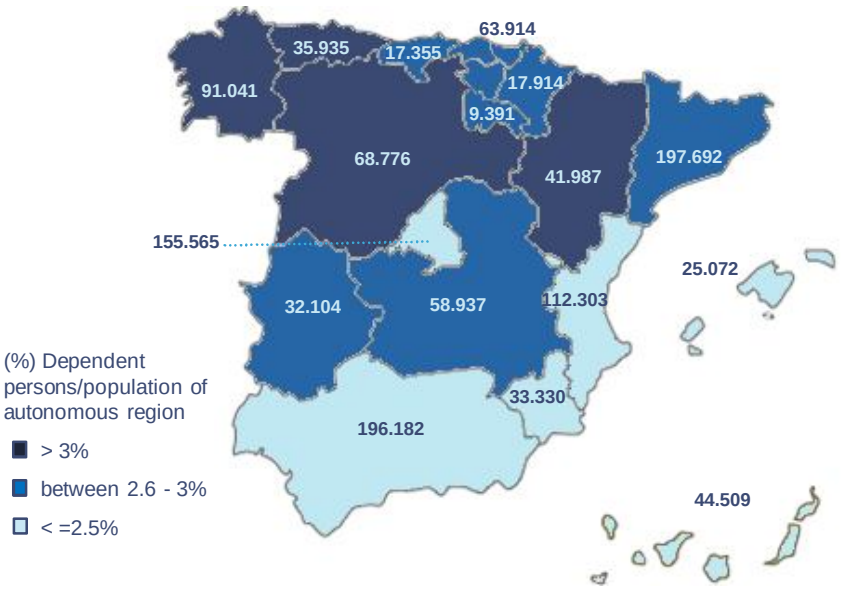
However, we can pick out some figures of interest that allow comparisons over time. In this case, we have used the ratios of dependents by age group to estimate the distribution of dependent persons throughout Spain.

The distribution of dependents per autonomous region is not homogenous. It is linked to factors such as population size and the number of elderly over 65 years, with rates ranging from 2% of the youngest autonomous regions and Melilla, Ceuta and Canary Islands to 3.4% in Asturias or 3.3% in Galicia.

In this regard it should be noted that Catalonia, Andalusia and Madrid are the regions with the highest number of dependents, with an estimated population of 197,692, 196,182 and 155,565 dependents respectively in 2009. 45.6% of the total dependent population in Spain is concentrated in just these three regions..

Graph 8.
Asturias and Galicia are the regions with the highest percentage of dependent people of their total population, followed by Aragón and Castilla - León. In absolute terms Catalonia is the region with the greatest dependent population, closely followed by Andalucía.

Number of dependent persons by Autonomous Region. 2009 Figures.



(%) Dependent persons in relation to the total population by autonomous region:

Asturias	3,4%
Galicia	3,3%
Aragon	3,2%
Castilla – Leon	3,1%
Cantabria	3,0%
La Rioja	3,0%
Basque Country	3,0%
Extremadura	3,0%
Castilla – La mancha a	2,9%
Navarra	2,9%
Catalonia	2,7%
SPAIN	2,7%
Madrid	2,5%
Andalusia	2,4%
Valencia	2,4%
Balearic Islands	2,3%
Murcia	2,3%
Canary Islands	2,1%
Ceuta	2,1%
Melilla	2,0%

Source: PwC based on Municipal Register (National Institute of Statistics) and White Paper on Care of people in a situation of dependency Spain 2004.

The Law on Promotion of Personal Autonomy and Care for Dependent People has helped to improve the quality of life of dependent people, but there is still some way to go.

Law 39/2006, of 14 December, on the Promotion of Personal Autonomy and Care for Dependent People, represents the legislative response to the challenge of meeting the needs of those who are in particularly vulnerable situations and require support to carry out the basic day-to-day tasks, to achieve greater personal autonomy and be able to fully exercise their rights as citizens.

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Section 2.1 The working of Law 39/2006

Law 39/2006 has been adopted to meet society's growing demand. It lays the foundations for the development of a model of comprehensive care for people in a situation of dependency.

With the aim of improving the quality of life of individuals reliant on care and their carers, in 2006 the Law on Promotion of Personal Autonomy and Care for Dependency was adopted and came into force on 1 January 2007.

It is a universal law establishing rights for all Spanish citizens who are in a situation of dependency and cannot care for themselves. With this law the Long-term care system has been created, formed by public authorities, national government, regional government and local corporations, who are assigned a set of responsibilities in social services.

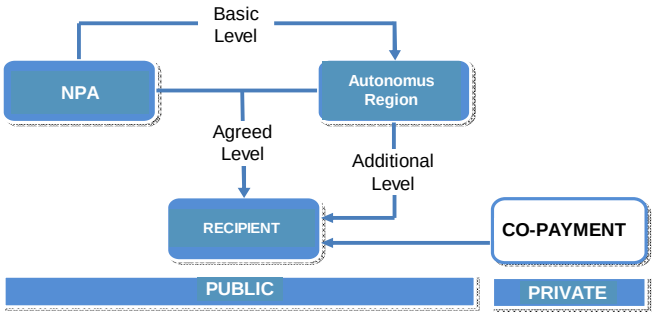
The recognition of the rights and benefits is being applied gradually and according to the following **schedule**.

YEARS	GRADE	LEVEL	CLASSIFICATION ACCORDING TO LAW
• 2007	• Grade III	• Level 2 and 1	• High dependency
• 2008 - 2009	• Grade II	• Level 2	• Severe dependency
• 2009 - 2010	• Grade II	• Level 1	• Severe dependency
• 2010 - 2011	• Grade I	• Level 2	• Moderate dependency
• 2011 - 2013	• Grade I	• Level 1	• Moderate dependency
• 2015	End of implementation of long-term care system		

Source: "Participation of the national government in the Long-term care system" Report

Until the care services are fully implemented, access to these is primarily subject to the degree and level of dependency and secondly to the applicant's financial means.

To provide sufficient resources to operate the Long-term care system, the law establishes a **specific model for funding by the National Public Administration and the Regional Governments**, which is structured on various levels:



- **BASIC LEVEL:** The National Government provides the autonomous region with a fixed payment for each citizen eligible for benefits who registers with the long-term care system. These payments are based on the degree and level of dependency of the applicant and are not specific to the type of benefit.
- **AGREED LEVEL:** The National Government provides the agreed level of protection taking into account various factors such as the dependent population, geographical spread, the islands, and returned emigrants, and other factors by autonomous region. The regional governments are required to contribute the same amount to the long-term care system as they receive from the national government at this level of financing.
- **ADDITIONAL LEVEL:** The Autonomous Region may provide additional protection.

The Council of the Long-term care system has recently agreed a **new basis for administrative cooperation and criteria for the allocation of benefits for 2010-2013.**

This new framework gives greater importance to the allocation of funds to actual care for dependent persons, whereas the criteria for distribution based on the potentially dependent population will lose its importance up to 2013, when it disappears completely. 56% of the money will be distributed according to the number of persons actually cared for, services provided and compliance with agreements. Until now, 80% was granted in line with the potentially dependent population and 20% in line with the people who had applied to enter the long-term care system.

In addition, the new framework will offset the cost of services in those regions where services are more expensive and also the unequal purchasing power of the beneficiaries.

The Law on Promotion of Personal Autonomy and Care for Dependent People has helped to improve the quality of life of dependent people, but there is still some way to go.

Section 2.2 Status of the process of provision of benefits

As established by law, dependency is *"a permanent state in which people who, for reasons connected with age, illness or disability, and related to the lack or loss of physical, mental, intellectual or sensory autonomy, find they require care by one or more persons or substantial help with basic day-to-day tasks, or in the case of people with intellectual disabilities or mental illness, other support for personal autonomy."*

From the date the Law on Promotion of Personal Autonomy and Care for Dependent People came into force until 1 April 2010, 1,417,824 applications were received in Spain. Having accounted for cancellations, deaths, grade or benefit reviews and adjusted figures, 1,258,567 applications were registered. This includes a 53% annual increase over the past two years, and an average of about 33,000 new applications per month.

Two of every three applications received were from women, with 807,092 applications made for benefits at 1 April 2010. It is worth highlighting that in the under-55 age groups, the applications are split evenly between men and women. Nevertheless after that age the trend is reversed, and from 80 years onwards, 3 out of 4 applications are from women.

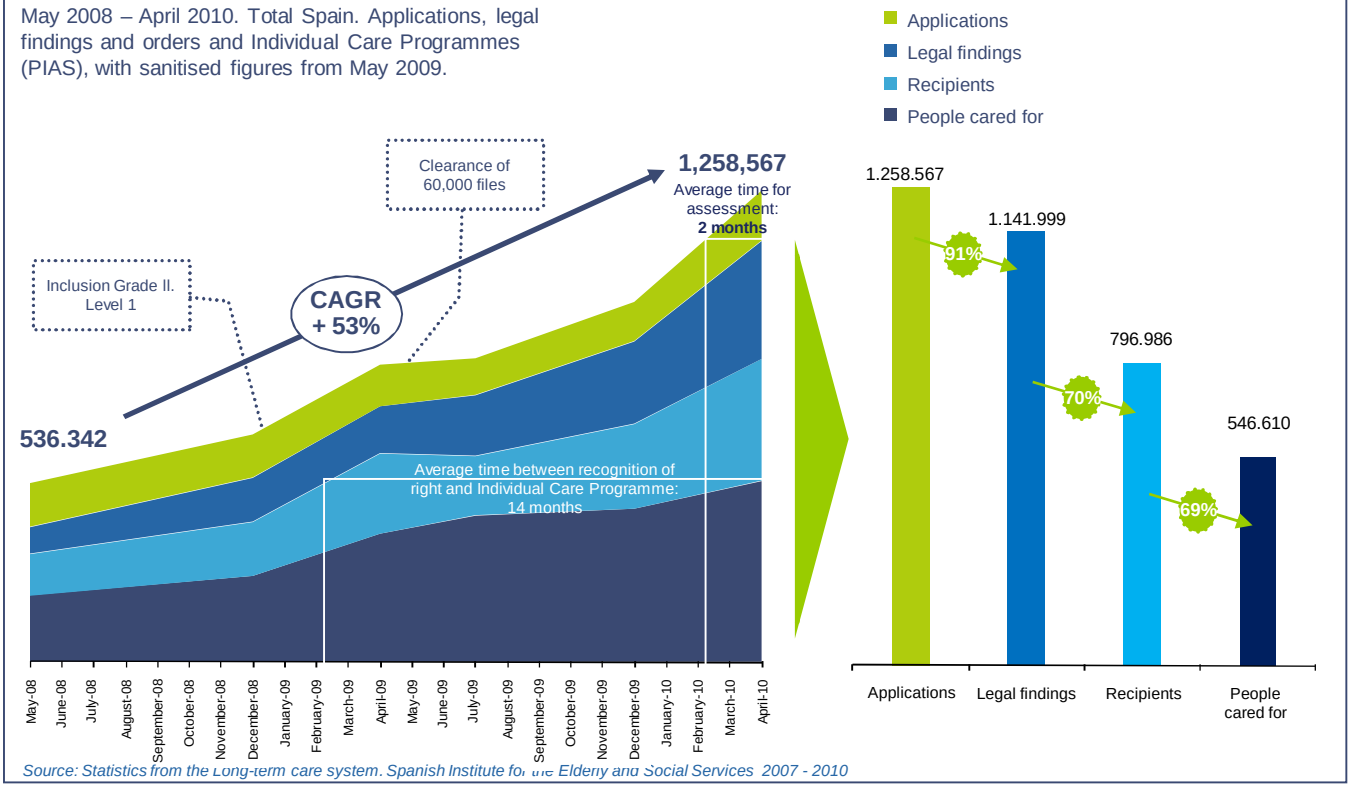
Of the total persons assessed, 70% have their right to benefits recognised under the long-term care system and more than half a million people currently receive benefits in Spain. This means a total of 637,736 benefits granted, with an average of 1.17 services per person.

However, there are a further 250,376 persons entitled to benefits but waiting to receive them, with an average waiting time of over 12 months. These are in addition to those whose case took well over the six-months target set by the Government to resolve.

Graph 9.

There are over half a million people currently receiving benefits in Spain. However, there are a further 250,376 people entitled to benefits but who are waiting to receive them.

May 2008 – April 2010. Total Spain. Applications, legal findings and orders and Individual Care Programmes (PIAS), with sanitised figures from May 2009.



Source: Statistics from the Long-term care system. Spanish Institute for the Elderly and Social Services 2007 - 2010

The Law on Promotion of Personal Autonomy and Care for Dependent People has helped to improve the quality of life of dependent people, but there is still some way to go.

Section 2.3 Distribution of the benefits

Of total benefits awarded, half are allowances for family care, for which the law provides on a one-off basis and subject to the appropriate conditions being satisfied in the household. This is based on the idea that a monetary compensation may be received in areas – particularly rural ones - where there are no services available.

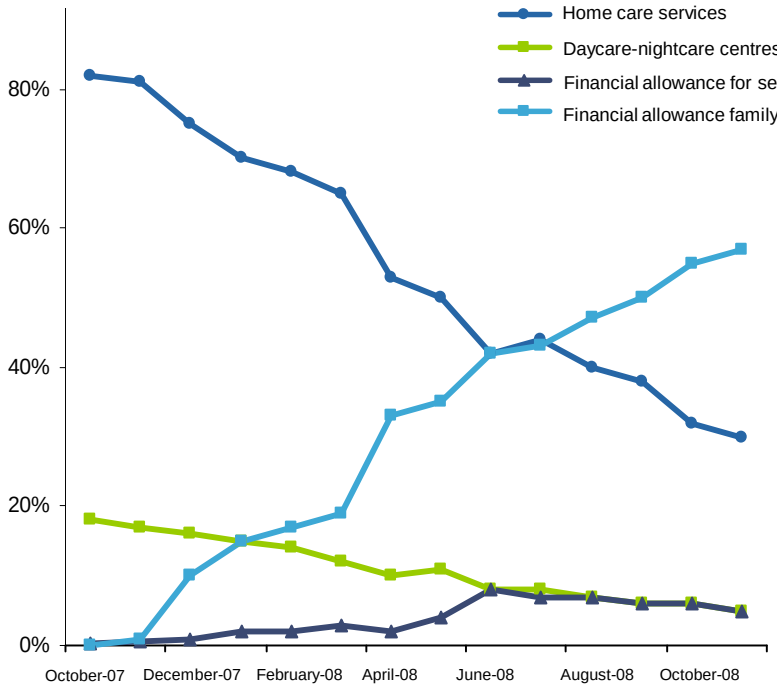
According to interviews with the key industry players, this situation is caused by two main factors. On the one hand, the elderly prefer to be cared for by their family, and secondly, given the shortage of supply of services and the Public Administration budgetary constraints the financial assistance is much cheaper than a care home or a professional caregiver.

According to the most recent Spanish Survey of Disabilities, Personal Autonomy and Dependence carried out by the National Institute of Statistics, the primary caregiver is a woman of between 45 and 64 years, and in 79% of cases the dependent person lives in the same household as the caregiver.

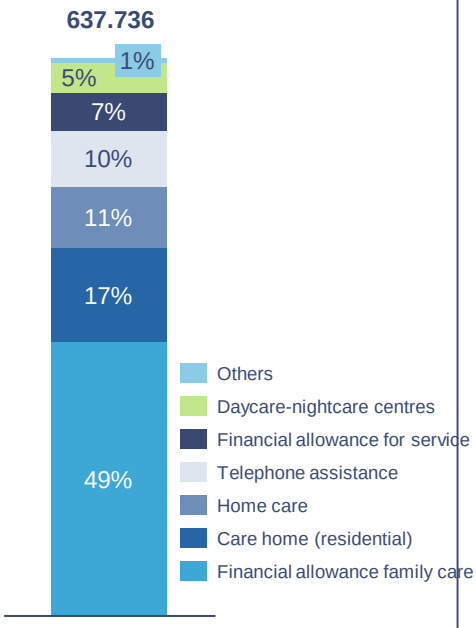
Here we must highlight that three out of four caregivers are over 45 years old and one in four caregivers are over 65. This explains why one in three caregivers finds it difficult to perform their duties, particularly due a lack of physical strength.

Graph 10. As the schedule for the implementation of the Law is progressively completed, the proportion of residential care decreases, mainly in favour of family care allowances. Despite the fact that the Law established the family care benefit on a one-time basis, at 1 April 2010 it represents almost half of the benefits.

Variation in the different benefits. (October 2007 – January 2009)
(The total % is calculated only taking into account the benefits in the graph)



Breakdown of benefits granted
(1 January 2007 to 1 April 2010)



Source: Statistics from the Long-term care system. Spanish Institute for the Elderly and Social Services 2007 – 2010. 1 abril 2010

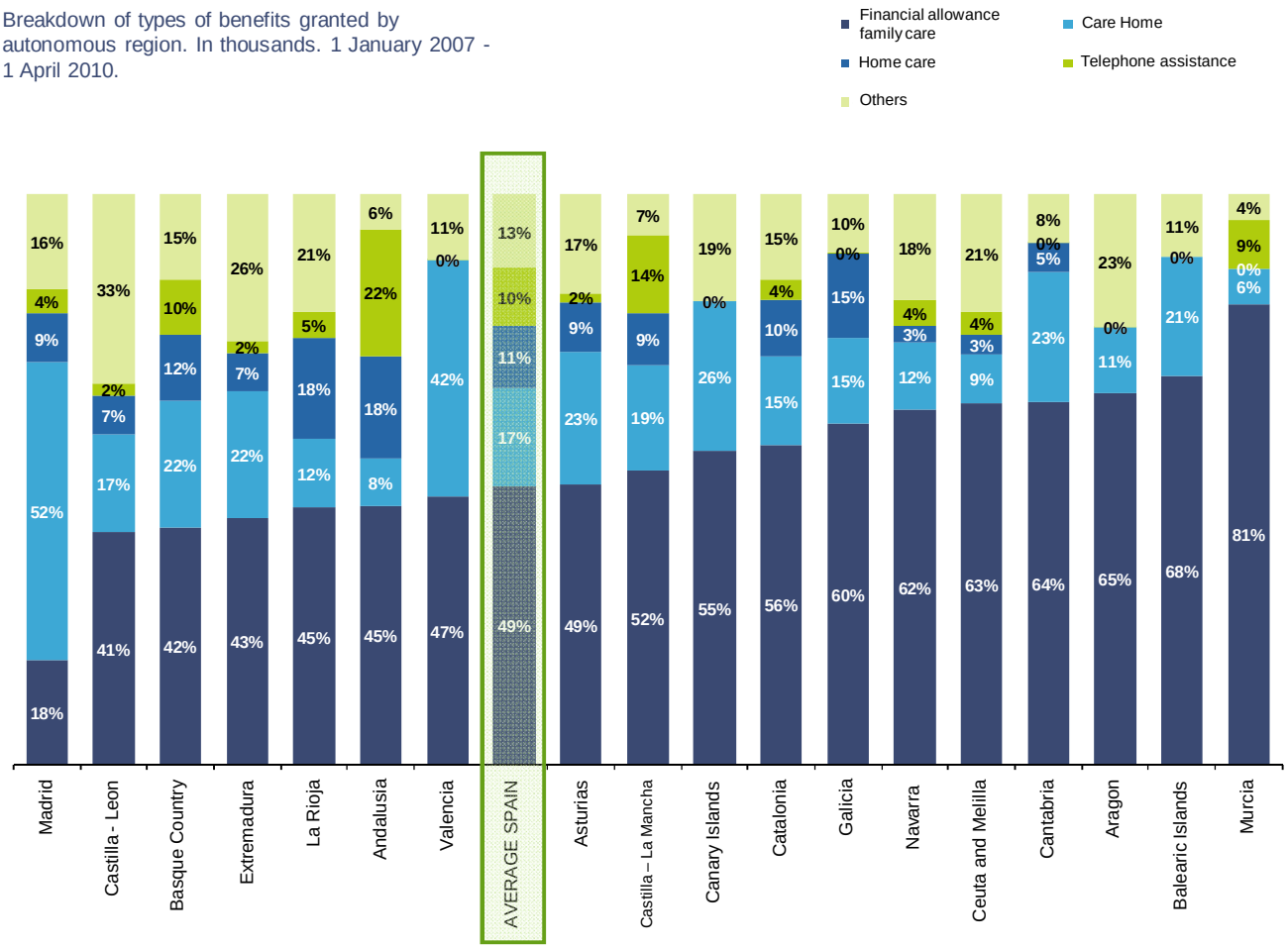
The Law on Promotion of Personal Autonomy and Care for Dependent People has helped to improve the quality of life of dependent people, but there is still some way to go.

In the analysis of the distribution of the benefits provided by autonomous region up to 1 April according to data from the long-term care system, Murcia is particularly noteworthy, with more than 80% of benefits in the form of family care, well above the national average, which is about 49%. Following Murcia, there are other regions such as the Balearic Islands (68%), Aragón (65%), Cantabria (64%), Ceuta and Melilla (63%), Navarra (62%) and Galicia (60%), where the allowances for family care amount to more than 60% of the total benefits paid.

By contrast, in regions such as Madrid, the relatively small proportion of these allowances as opposed to care home services is notable, where care homes represent more than half of benefits. This is the outcome of initiatives such as the *Plan de Velocidad* driven by the Madrid government through their Department of Family and Social Affairs. This was developed in response to the need to create high-quality beds for the care of elderly dependents as quickly as possible. Since the adoption of the plan in December 2001, 32 care homes have been created, with direct investment exceeding 245 million Euros, and which is expected to create an estimated 4,500 direct jobs.

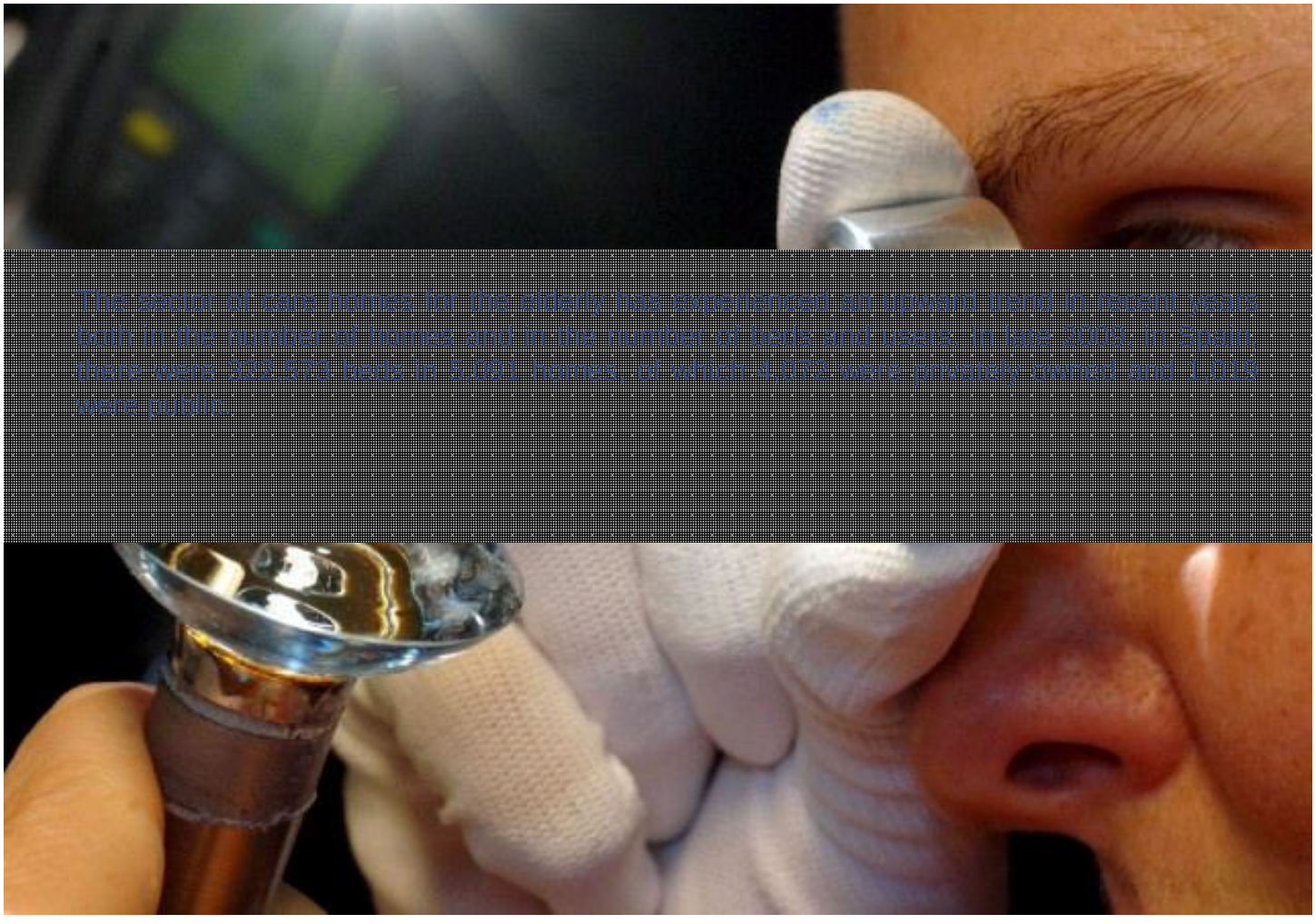
Graph 11.
Murcia stands out with more than 80% of benefits in the form of family care. Other regions such as the Balearic Islands, Aragón, Cantabria, Navarra, and Ceuta and Melilla, are also well above average, with over 60%.

Breakdown of types of benefits granted by autonomous region. In thousands. 1 January 2007 - 1 April 2010.



Source: Statistics from the Long-term care system. Spanish Institute for the Elderly and Social Services

The long-term care bed coverage ratio in Spain is below the WHO recommendations



The sector of care homes for the elderly has experienced an upward trend in recent years both in the number of homes and in the number of beds and users. In late 2008, in Spain there were 382,573 beds in 5,093 homes, of which 4,012 were privately owned and 1,013 were public.

Section 3.1 The growth of care homes and beds in Spain

There has been an upward trend in the number of beds and care homes in Spain, especially since the adoption of Law 36/2006

The Spanish Institute for the Elderly and Social Services defines care homes for the elderly as "centres that offer comprehensive care and permanent housing to persons over 60 years who, due to their social, economic, health or family circumstances cannot be cared for in their own homes and require these services".

According to the latest official data, in late 2009 Spain had approximately 322,573 care home beds of various types, sizes, services and qualities, which could be split between residential beds and nursing beds.

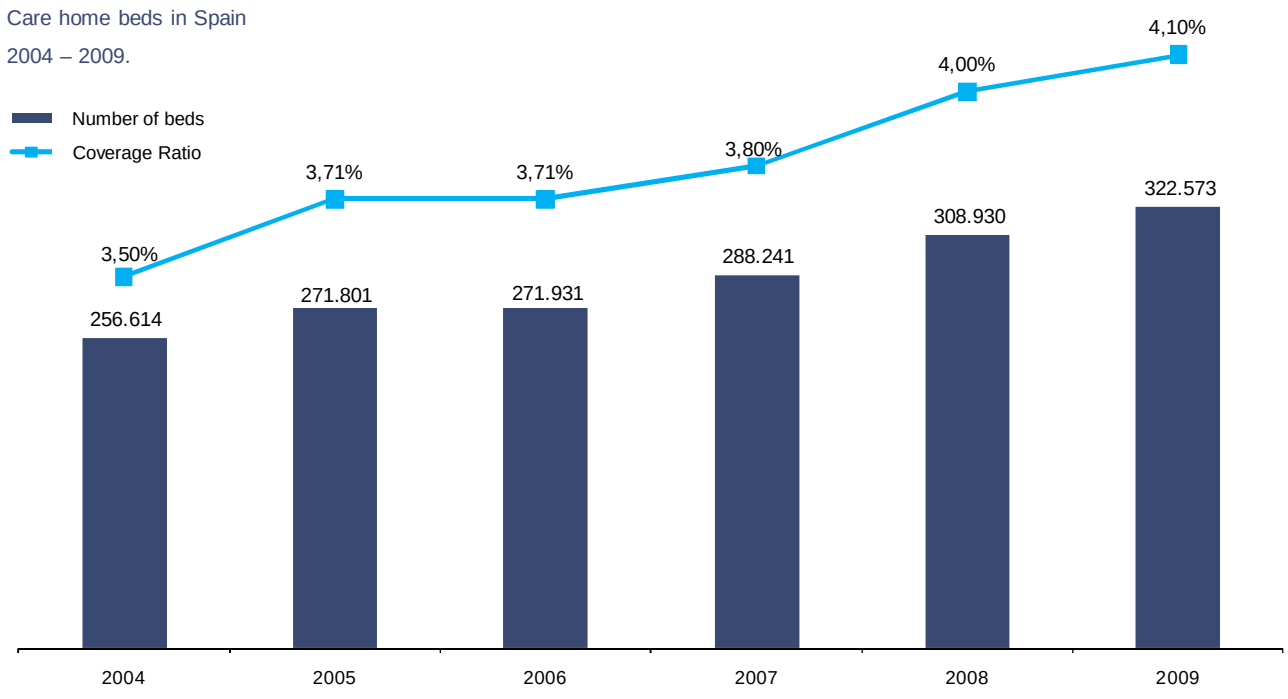
This represents an increase of 25% over a period of six years from 256,614 beds in 2004. The care home industry in Spain can no longer be considered as emerging and has entered a phase of maturity.

The care homes are mostly privately-owned and managed. Most homes are privately owned (3 out of 4) and private operators manage 75% of care home beds, including both private beds and beds under local authority agreements. Of the beds managed by the private sector, most are funded by contributions from users at market rates.

The analysis of historical trends shows the growth of privately-owned beds contracted by local authorities as a model of funding which has increased to represent one of every four beds.

In total, public funding covers around 50% of total beds, leaving the other 50% for private enterprise, which is a significant indicator of the effort that elderly people and their families have to make.

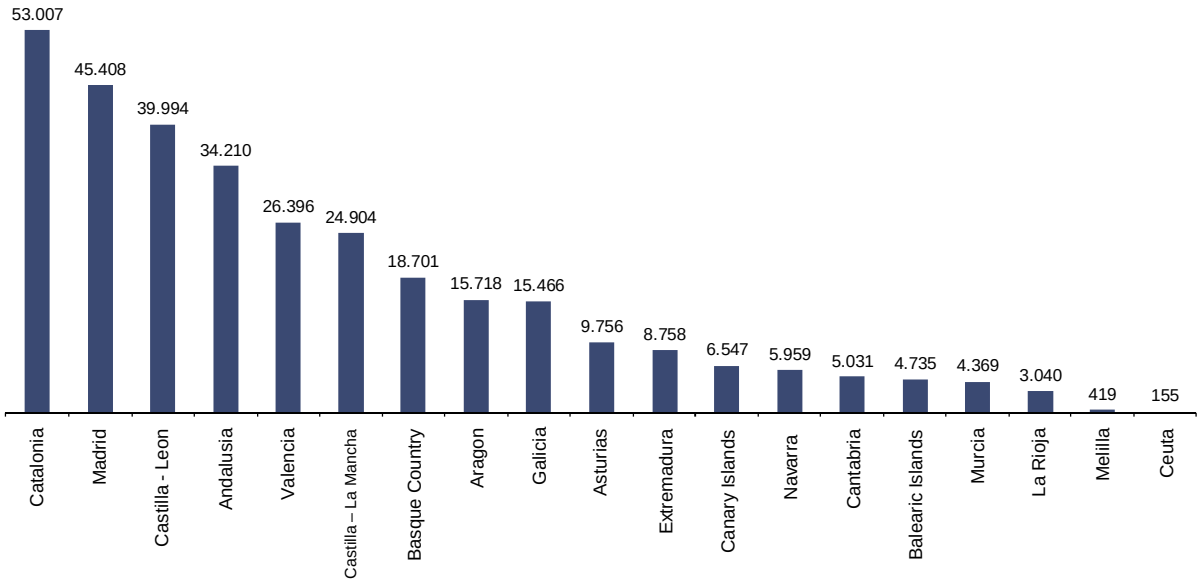
Graph 12. The number of care home beds in Spain, driven by the development of the Law on Promotion of Personal Autonomy and Care for Dependent People, has increased by 25% in the last 6 years, and at the end of 2009 already exceeded 320,000 beds.



Source: Statistics on care homes: distribution of care homes and beds by province, October 2009 data. Portal Mayores.

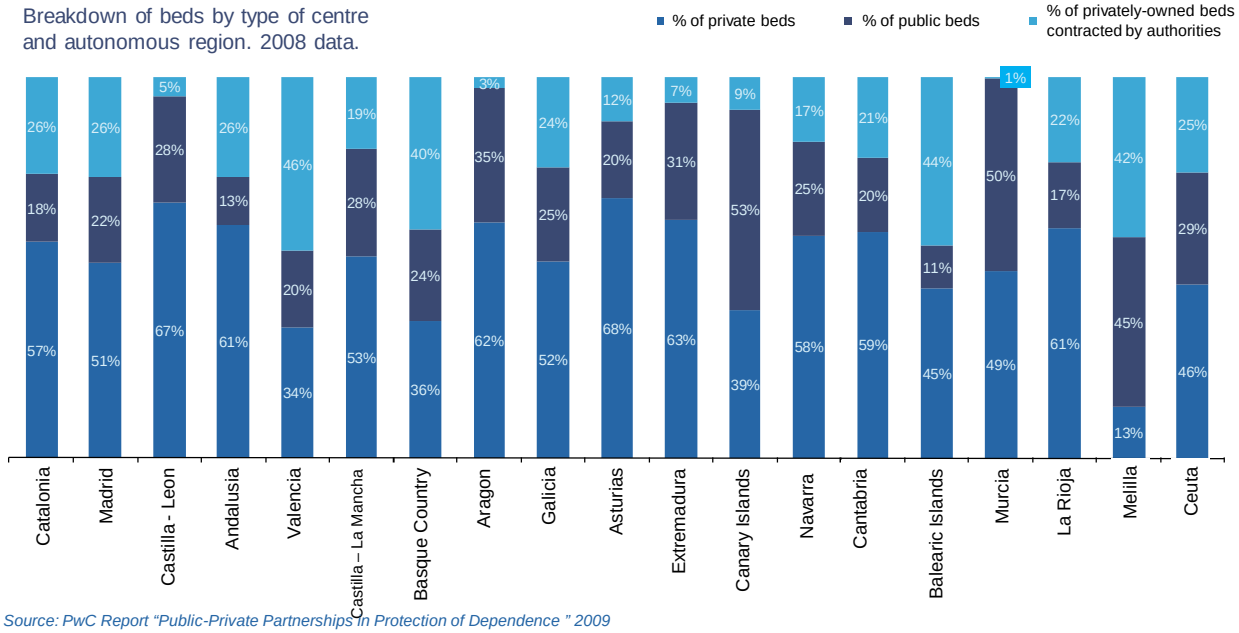
Graph 13.
Catalonia, Madrid and Castilla y Leon and Andalusia have the greatest number of beds. While the number of beds available varies considerably between the autonomous regions, most have a higher percentage of private beds. The regions of Canary Islands and Castilla-León stand out with over 65% private beds, as do regions such as the Balearic Islands, where the supply of private beds under local authority agreements is virtually non-existent.

Care home beds by autonomous region. 2009 data



Source: Statistics on care homes: distribution or care homes and beds by province, October 2009 data. Portal Mayores website.

Breakdown of beds by type of centre and autonomous region. 2008 data.



Source: PwC Report "Public-Private Partnerships in Protection of Dependence " 2009

According to the most recent figures from the Spanish Institute for the Elderly and Social Services, in Spain there are 5,278 residential homes, understood as various models of collective housing for the elderly: care homes, including mini-care homes; sheltered housing or apartments; dementia care homes (or sections within these centres); nursing homes (with an elderly section, if is differentiated), residential complexes and other collective centres.

The average number of beds per centre in Spain is around 64. One in two centres has fewer than 50 beds, one in four centres has between 50 and 99 beds, and one in five has over 100 beds.

These proportions vary little between publicly and privately owned centres.

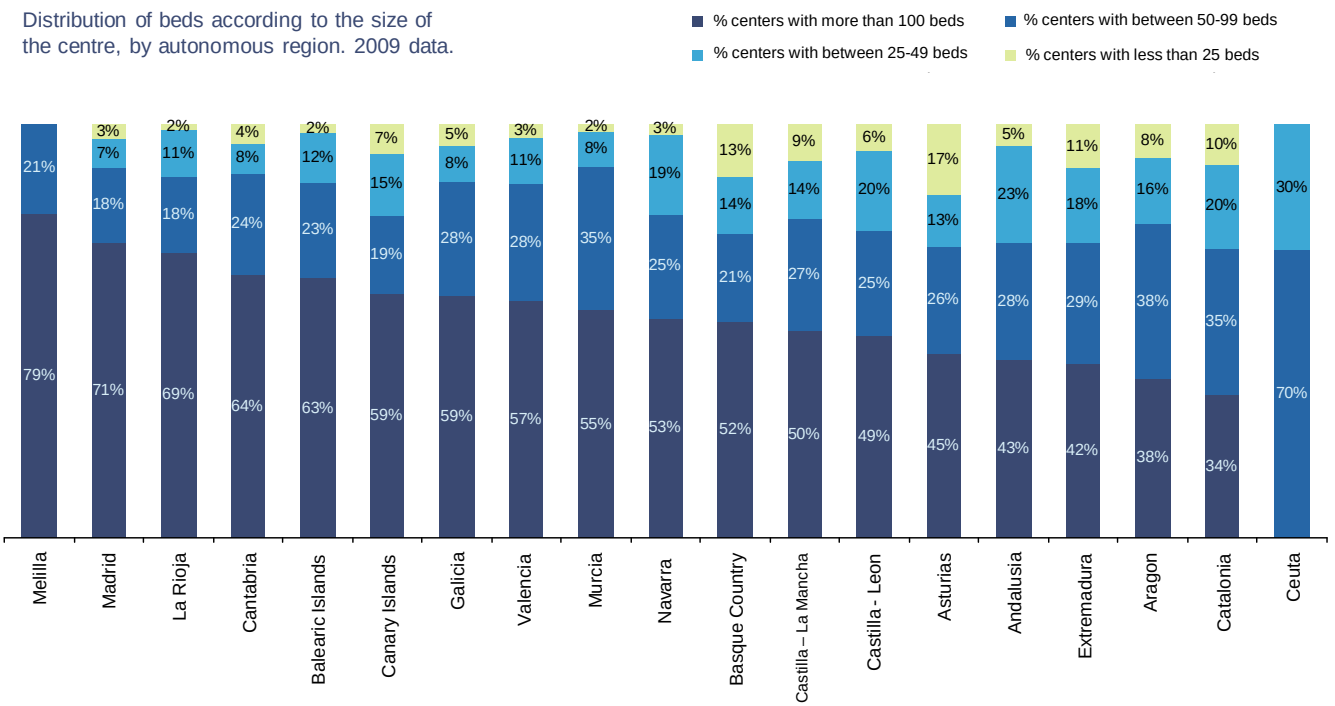
However, when viewed from the perspective of the distribution of beds, we note that the greatest number of beds are located in centres with more than 100 beds, representing 48% of beds in Spain.

Despite the existence of different criteria between the regions, significant differences were found in the distribution of beds by autonomous region.

If we exclude the cities of Ceuta and Melilla, because of the minimal number of beds, regions such as Madrid, La Rioja, Cantabria and the Balearic Islands stand out with over 60% of beds located in centres with over 100 beds. In these regions, the average size of centre is over 80 beds, and in fact in the case of Madrid there is an average of 99 beds per centre.

On the contrary, in Catalonia there are only 34% of beds in centres with more than 100 beds and it is the only region where this size of centre does not have the greatest number of beds, with an average centre size of 53 beds. Other regions with an average centre size of less than 55 beds are Castilla La Mancha, the Basque Country and Asturias.

Graph 14. EI
48% of beds in Spain are located in centres with more than 100 beds, representing 1 in 5 centres.



Source: Statistics on care homes: distribution of care homes and beds by province, October 2009 data. Portal Mayores.

According to the World Health Organisation, the optimal average number of residential beds for every 100 people over 65 (the coverage ratio) is five. According to the latest data published by the website *Portal Mayores* on October 2009, the average in Spain is projected to be 4.1%, an increase of four percentage points compared to 2005 data.

In Spain, only the regions of Castilla-León (7.0%), Castilla La Mancha (6.8%), Aragon (6.0%), Navarra (5.5%), Asturias (5.4%), Melilla (5.4%) and La Rioja (5.2%) meet these recommendations with ratios exceeding 5%.

Regions such as Ceuta (1.8%), Murcia (2.2%), Galicia (2.5%), Andalusia (2.8%), Valencia (3.2%) and Balearic Islands (3.2%) have the lowest ratios.

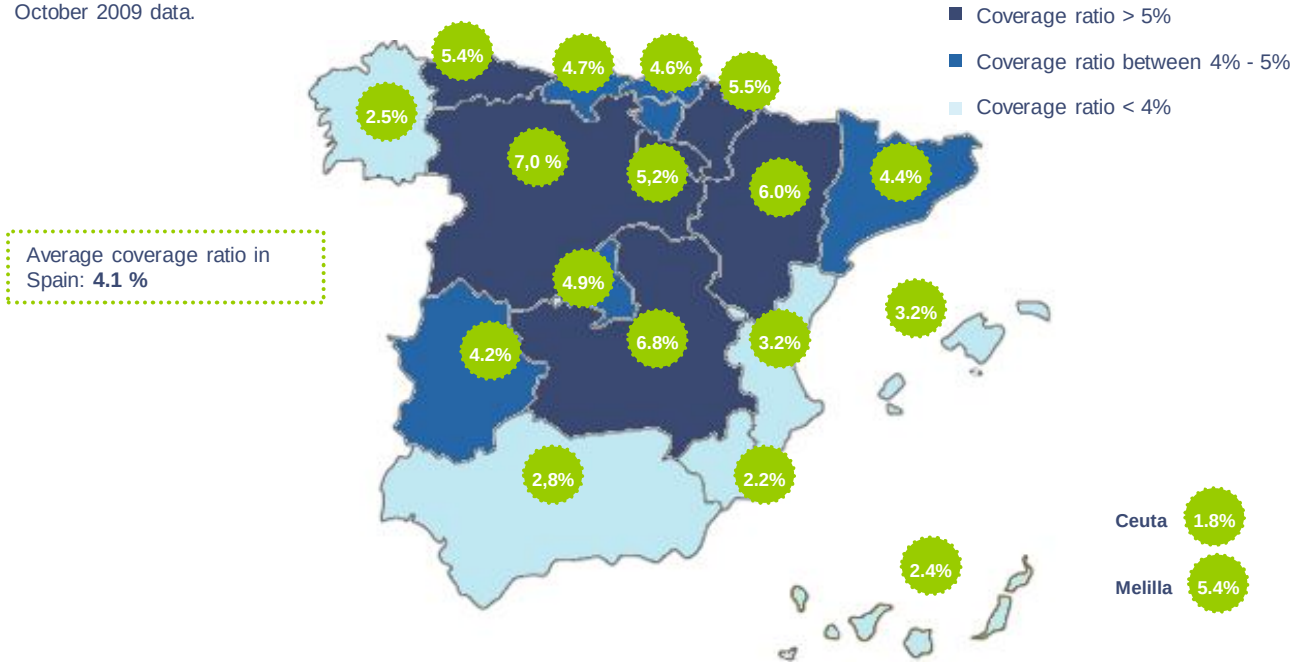
In the middle ground, and close to the recommendation, are the regions of Extremadura (4.2%), Catalonia (4.4%), the Basque Country (4.6%), Cantabria (4.7%) and Madrid (4.9%).

This implies that the potential growth of residential beds could be estimated at around 70,000 additional beds, and there is therefore a demand to be met

In addition to this, many of the current beds need to be converted as regulation for authorisation of care homes and their services is approved in the various regions. The authorisation is aimed at ensuring that the centres and services which form part of the system meet the quality requirements both of material resources and provision of services in terms of the training, qualifications and number of staff who provide these services, and accessibility of the centres, among other policy areas.

Graph 15.
The regions of Castilla-León (7.0%), Castilla La Mancha (6.8%), Aragon (6.0%), Navarra (5.5%), Asturias (5.4%), Melilla (5.4%) and La Rioja (5.2%) already exceed the WHO recommendations, with coverage ratios of over 5%.

Coverage ratio in Spain.
October 2009 data.



Source: Statistics on care homes: distribution of care homes and beds by province, October 2009 data. Portal Mayores.

The Law on Promotion of Personal Autonomy and Care for Dependent People has helped to improve the quality of life of dependent people, but there is still some way to go.

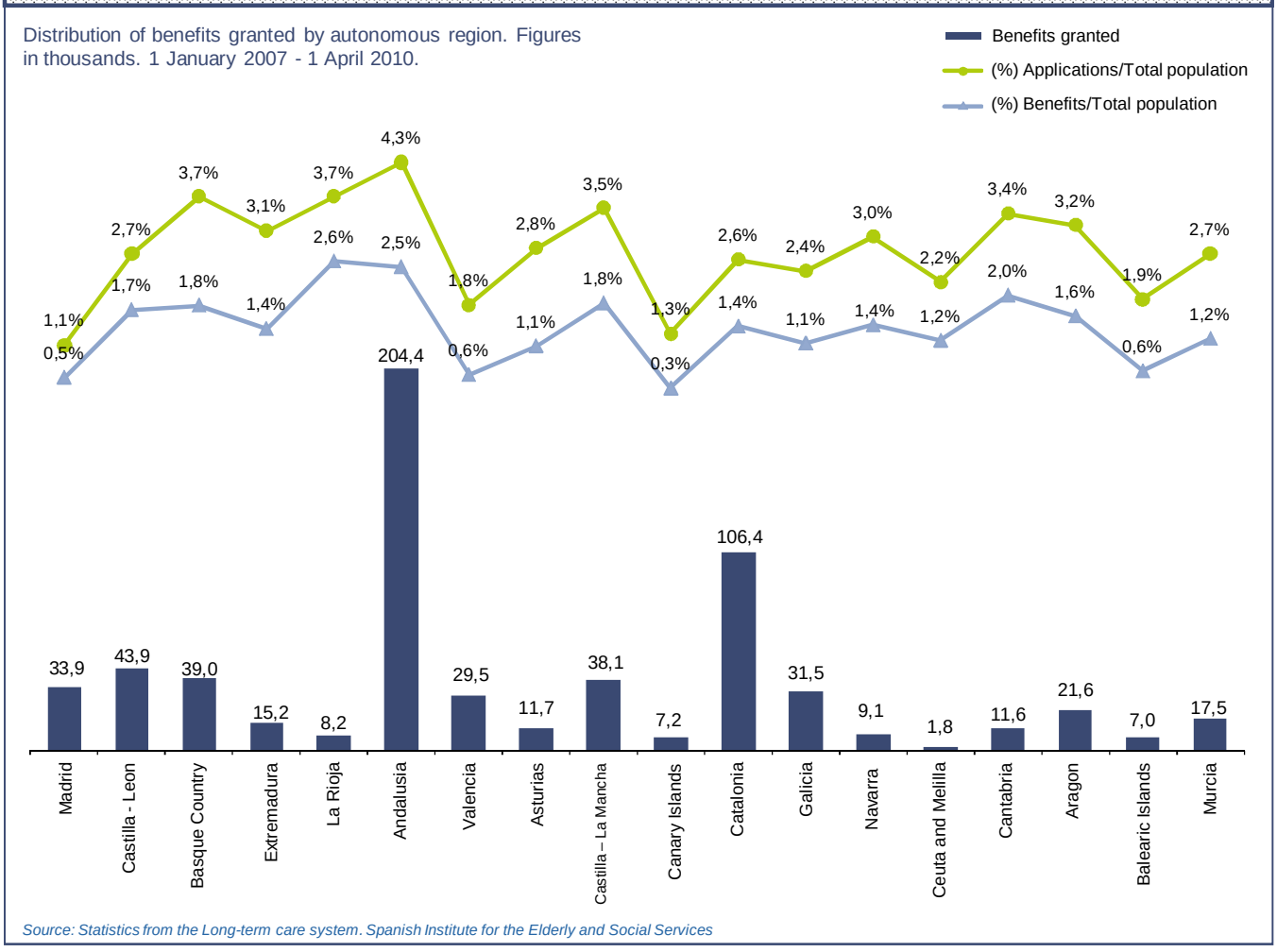
As shown in the graph below, the number of benefits provided by each region in relation to the total population of the region varies between 2.6% in La Rioja and 0.3% in the Canary Islands.

Without detriment to the differences in ageing rates of different regions, it is striking that while the regions of Andalusia and Catalonia (the top two regions in the number of elderly) have a very similar number of over 65s, almost double the number of benefits have been granted in Andalusia compared with Catalonia, which is not explained by differences in the type of benefits granted.

The figures for Madrid and Valencia (the next regions in numbers of elderly) are also worthy of note. While they have a ratio of elderly people similar to Andalusia, or even higher in the case of Valencia, only 0.5% and 0.6% of the total population in these regions have received benefits.

For Madrid, it should be noted that care home services, which are much more expensive than family care, represent more than half of benefits, thus the picture would change if we analysed these statistics in terms of the expenditure on the elderly.

Graph 12.
Andalusia is the region with the greatest number of benefits provided, and second when measured in relation to the population of the region, second only to La Rioja.



Source: Statistics from the Long-term care system. Spanish Institute for the Elderly and Social Services

Public financing of privately-owned beds is insufficient for the reality of the sector

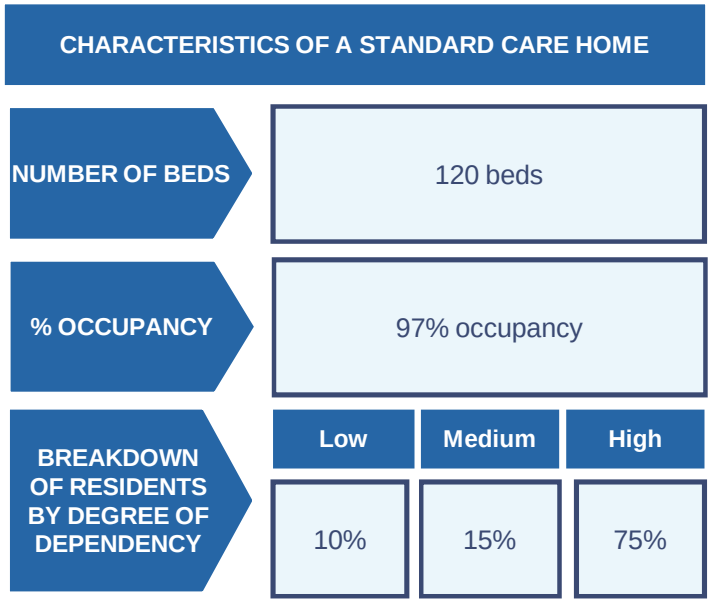
In this section we analyse the situation in the care home sector in Spain through the review of the cost model of a standard care home, identifying the key variables for the development of the model and the differences by autonomous region.

Section 4.1 Analysis of cost model

In this section we analyse the situation and outlook of the care home sector in Spain by reviewing the cost model, identifying the key variables for development of the model and the differences by autonomous region.

For this purpose, we defined the characteristics of a standard care home on the basis of publicly available data and the findings of the industry operators who took part in the study.

The standard care home is characterised by a capacity of 120 beds, split by level of dependence into 12 beds for low dependency, 18 places for medium dependency and 90 beds for high dependency, with an occupancy of 97%[1]



(1) 97% of beds filled is technically full occupancy

One of the main items of expenditure to be taken into account in the analysis is the cost of staff. For this purpose, we have estimated the ratios of direct care, indirect care and management services based on data provided by the sector, taking into account the staff requirements to provide a quality service in each of the regions of Spain.

	ASSUMPTION			COMMENTS
	Low	Medium	High	
DIRECT CARE RATIO	0.28	0.34	0.42	Includes the following occupational groups: Care assistant, Nurse coordinator, Nurses, Occupational therapists, Physiotherapists, Psychologists, Doctors, Activities/organisers and Social workers. Source: Data provided by the main players in the industry.
INDIRECT CARE RATIO	0.16			Includes the following occupational groups: Head housekeeper, Cleaning staff, Laundry staff, Chef and Kitchen Assistant Source: Data provided by the main players in the industry.
MANAGEMENT SERVICES RATIO	0.05			Includes the following occupational groups: Management staff, Administration staff, Reception staff and Maintenance staff. Source: Data provided by the main players in the industry.
HOURS / YEAR	Varies by region/ province according to applicable collective labour agreement			Source: Collective Agreements (national, regional and provincial) and wage scale adjustments.
SALARY COSTS	Varies by region/ province according to applicable collective labour agreement			Source: Collective Agreements (national, regional and provincial), wage scale adjustments, and wage increases given by the main operators above collective agreements

(1) In the case of Madrid, Guipúzcoa and Vizcaya, the 2008 wage scales have been adjusted with the regional CPI for 2008 and 2009.

There are currently eight different collective agreements in the care home sector in Spain. A national agreement which includes most of the autonomous regions, 5 regional agreements (Galicia, La Rioja, Madrid, Castilla La Mancha, Valencia) and two provincial agreements (Guipúzcoa and Vizcaya).

As shown below, there are significant differences in the number of hours worked per year, from 1,592 hours in the Guipúzcoa provincial agreements to 1,792 hours in the national agreement. It should also be noted that six of the eight agreements are extensions to agreements or are under negotiation.

After applying the direct care ratios and taking into account the number of hours stated in the national collective agreement as an example, to manage a centre of 120 beds with the specified characteristics in any of the areas where the national agreement is applicable, we would require 72.3 full time staff or FTEs (Full Time Equivalent), split into 47.6 FTEs for direct care, 18.8 FTEs for indirect care and 5.9 FTEs for management services.

Apart from the differences in the number of hours worked as defined in each agreement, we can also observe sizeable differences in wages for each occupational category.

The province of Guipúzcoa shows the largest variations, with an average increase of 45% over the national collective agreement, followed by Vizcaya with an average increase of 25%. In the remaining regions, the differences are not as pronounced.

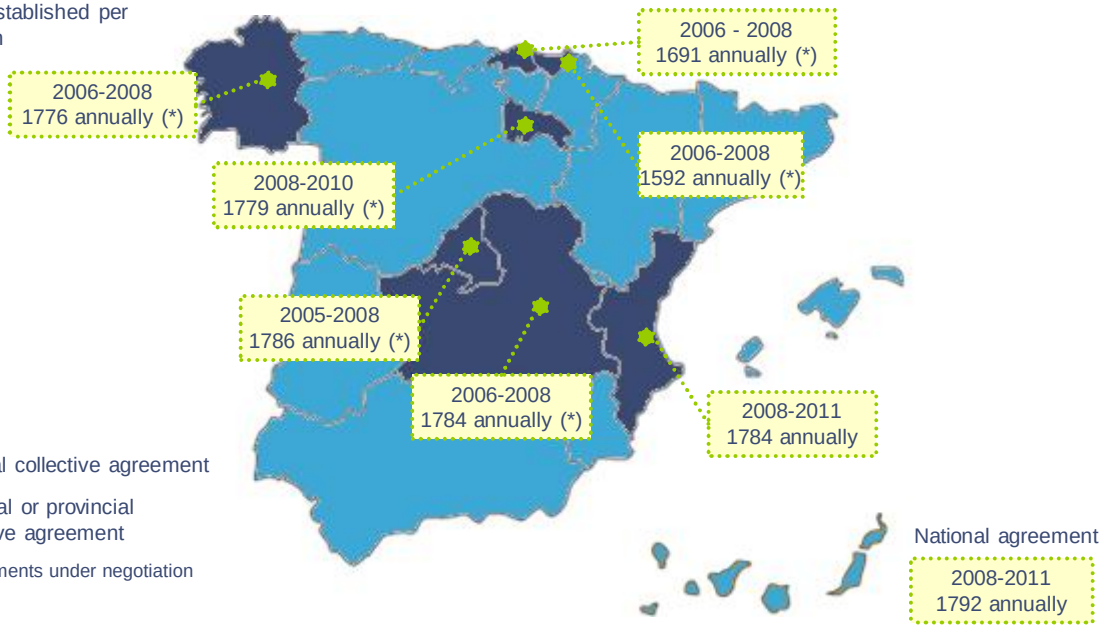
On the other hand, mainly due to the shortage of professionals, the salary determined by the collective agreement for certain occupational categories does not reflect the reality of the industry, and the staff are paid more than in the collective agreement. This is mainly the case for the categories of Doctor, Nurse coordinator, Nurse, Social worker, Physiotherapist, Head housekeeper, Chef, Manager, and Maintenance officer.

Based on the figures provided by the operators, and in order to reflect the reality of the sector, the cost model defined takes these adjustments into account.

Graph 16.
There are eight different collective labour agreements in Spain and six are currently under negotiation.

Map of collective labour agreements.

Duration of the agreement and number of hours established per autonomous region



Source: Applicable collective agreements in each autonomous region.

Lastly, to calculate staff costs, we must take into account variable remuneration and the costs of absenteeism and occupational risk prevention. We have not included the cost of professional certificates that will be progressively required in certain job roles until they are fully enforced in 2015.

	ASSUMPTION	COMMENTS
SENIORITY	3% of the total staff salary cost	Cost of staff with long seniority. Source: PwC analysis based on data provided by main players
ABSENTEEISM	3% of the total staff salary cost	Absenteeism includes any absence from work, whether or not for a good reason. The reasons provided by law as justified are sickness, maternity leave, union hours and paid leave. Source: PwC analysis based on data provided by main players
NIGHT SHIFTS	Night shift: 10 hours 1 nurse's aid per 60 residents 1 registered nurse per 120 residents Additional cost per hour: 25%	Additional cost per hour for night shift. Source: PwC analysis based on data provided by main players
PUBLIC HOLIDAYS	66 days public holidays Extra cost: as established by collective agreement	Occupational categories who work on Sundays and holidays: Care assistant, Nurse, Receptionist, Cleaning staff, Laundry staff, Chef and Kitchen assistant. Working hours on a public holiday: 8 Source: PwC analysis based on data provided by main players
OCCUPATIONAL RISK PREVENTION	€150 per employee/year	Includes Health, Safety, Ergonomics, Applied Psychology and Health surveillance. Source: PwC analysis based on data provided by main players

The rest of the cost variables taken into account to set the operating expenses and management services are detailed below:

	ASSUMPTIONS	COMMENTS
PROVISIONS FOOD	€1,369 year / resident	Source: Data provided by the main players in the industry
CLEANING	€4 m^2 / year	Source: Data provided by the main players in the industry
SURFACE AREA PER RESIDENT	48 m^2 / resident	Source: Data provided by the main players in the industry
LAUNDRY	€102 year / resident	Source: Data provided by the main players in the industry
MAINTENANCE AND SUPPLIES	€32 m^2 / year	Source: Data provided by the main players in the industry
REPLACEMENTS AND ENTERTAINMENT	€150 year / resident	Source: Data provided by the main players in the industry
INSURANCE	€110 year / resident	Source: Data provided by the main players in the industry
OTHER COSTS	€500 year / resident	Includes telephone costs, travel, couriers, audits, indirect taxes (Property tax, Business tax) and others. Source: Data provided by the main players in the industry
CENTRAL SERVICES SUPPORT	€1,150 year / resident	Includes central services costs: purchase management, finance management, IT, quality, supervision Source: Data provided by the main players in the industry

The results of the analysis show that the average daily cost of management of a care home bed in Spain is €52.

In the regional analysis, we note that since staff costs are the largest expenditure item accounting for over 70% of the cost of a bed, the most expensive regions are those that have higher wages established in the collective agreement.

Therefore, Guipúzcoa has the highest cost per bed per day of €68.1, followed by Vizcaya with a cost of €63.3 per day. This are 31% and 22% increases respectively above the average in Spain.

The other regions range between a cost of €50-53 per bed per day, with the exception of Murcia, Asturias, Canarias, Extremadura and Galicia, which are below €50.

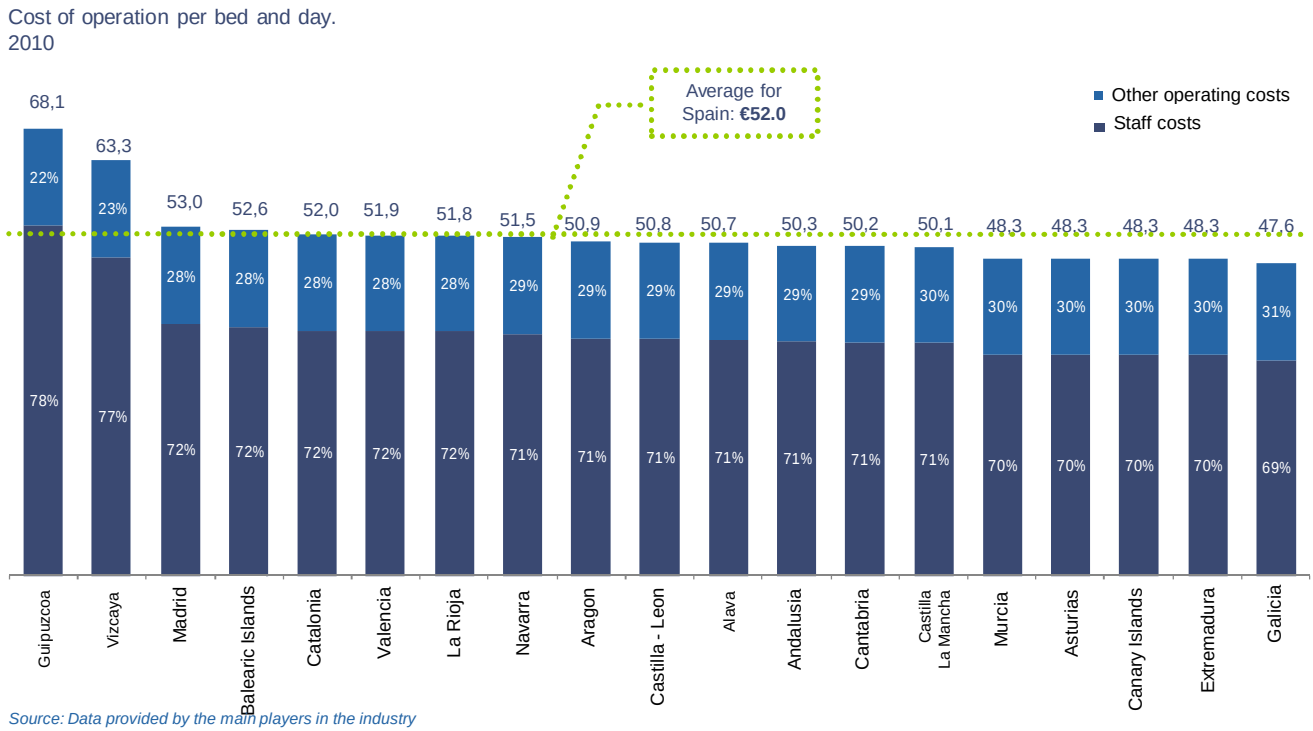
Galicia, with the lowest wage agreement has the lowest per bed management costs

Once the management costs have been calculated, the operator applies their mark-up, which is calculated as a percentage of the fees plus the financial costs due to delay in payment of fees.

Lastly, we have included another essential cost, which is the cost of financing the property (plot and building) and the facilities, which can be obtained in several ways:

- Ownership model: Execution of a construction project (with acquisition of a plot, or through an administrative concession or surface right). This involves the financing of the construction project, the cost of managing the construction and subsequently the cost of depreciation.
- A variant of this model involves passing the investment risk in the property to a third party, and renting the building.
- Management model. In this case, the owner of the property is the Public Administration, and the operator operates the business.

Graph 17.
Guipúzcoa and Vizcaya are the provinces with the highest management costs due to the high salary base of their collective agreements.



Source: Data provided by the main players in the industry

In our case, and to simplify the analysis, we have calculated the cost per bed based on an ownership model, with the property (plot + building) and facilities under lease. We will then compare this with the scenario where the plot is obtained through an administrative concession or surface right.

The table below shows the assumptions made to estimate the total cost of a bed per day.

	ASSUMPTIONS	COMMENTS
Management margin	7% of total revenue per bed	Mark-up of the home operator Source: Data provided by the main players in the industry
Deferred payment	Interest rate 5% 30 days financing	Financial cost of deferred payments. Source: Data provided by the main players in the industry
Cost of construction and fitting-out	€ 56.921 per bed	Source: Data provided by the main players in the industry
Cost of acquisition of plot	€ / m^2 Andalucia 209,2 € · Extremadura 162,8 € Asturias 235,5 € · Galicia 181,9 € Aragón 188,0 € · Madrid 363,8 € Baleares 291,1 € · Murcia 236,5 € Canarias 225,1 € · Navarra 220,1 € Cantabria 209,2 € · La Rioja 209,2 € Castilla y León 215,3 € · Valencia 260,8 € Castilla La Mancha 227,1 € · País Vasco 207,7 € Cataluña 250,1 €	Cost of land for council housing in each autonomous region Source: Statistical Yearbook of the Spanish Property Market 2009. RR. De Acuña & Ass.
Rental of building and facilities	7 % of the investment made	Source: Data provided by the main players in the industry

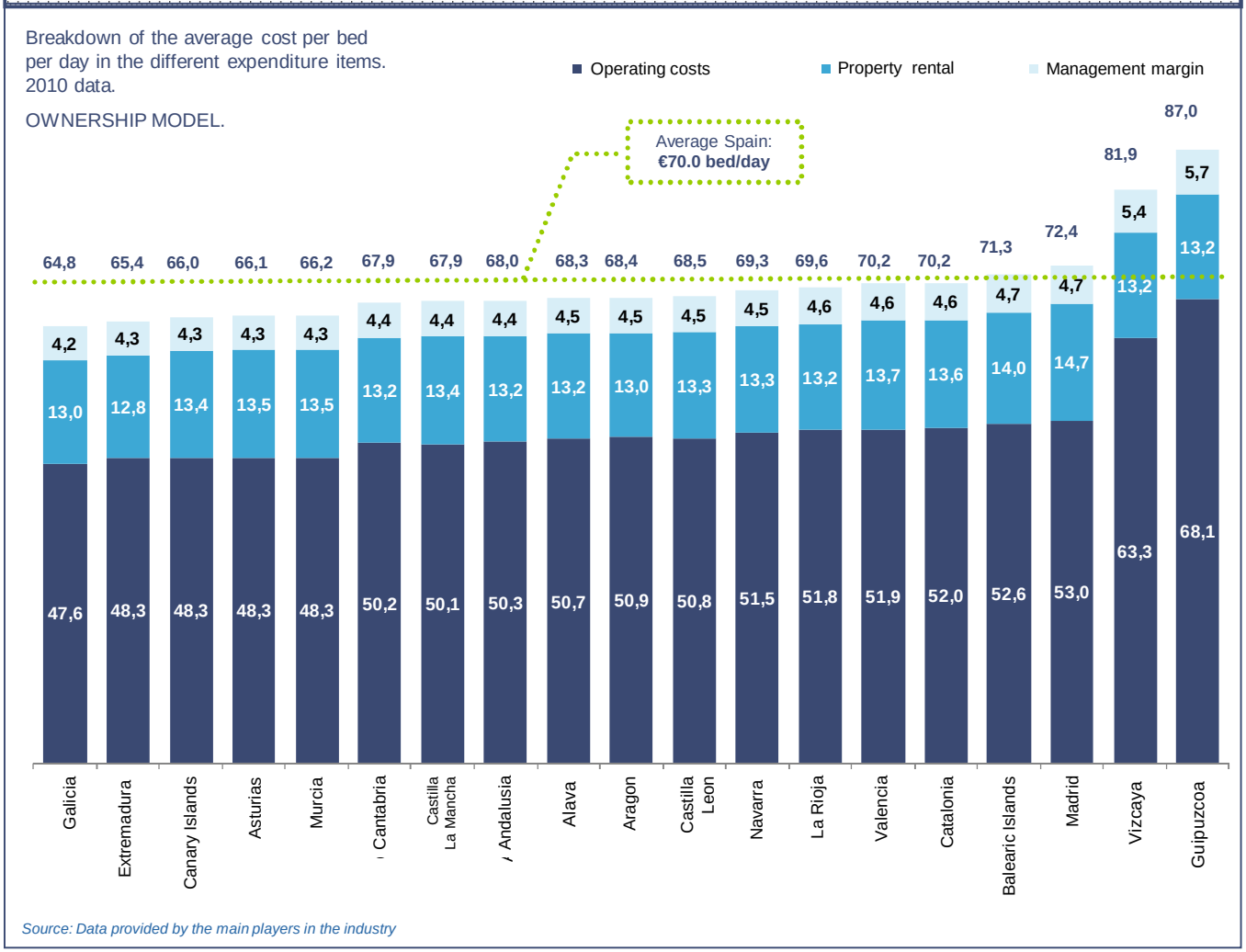
Section 4.2 Main results of the model

Based on the assumptions made, we find that the average cost of a residential bed in Spain, located in a 120-bed home which is owned under the defined characteristics, is €70 per bed per day (€2,129 per bed per month), excluding Value Added Tax.

In the analysis by autonomous region, it appears that the regions with higher collective agreement wages are those with a higher cost per bed, as expected given the high proportion of staff costs in the cost structure of a care home bed.

Therefore, the most expensive beds are located in Guipúzcoa and Vizcaya, with a cost per bed of €87/day and €81.9/day respectively, as much as 24% above the average in the case of Guipúzcoa. On the other hand, regions such as Galicia (€64.8), Extremadura (€65.4), Canary Islands (€66.0), Asturias (€66.1) and Murcia (€66.2) are cheaper regions with costs below €67/day.

Graph 18.
The average cost of a residential bed in Spain in an owned care home with the specified characteristics is €2,129 per month, with variations of up to 20% on the average depending on the autonomous region.

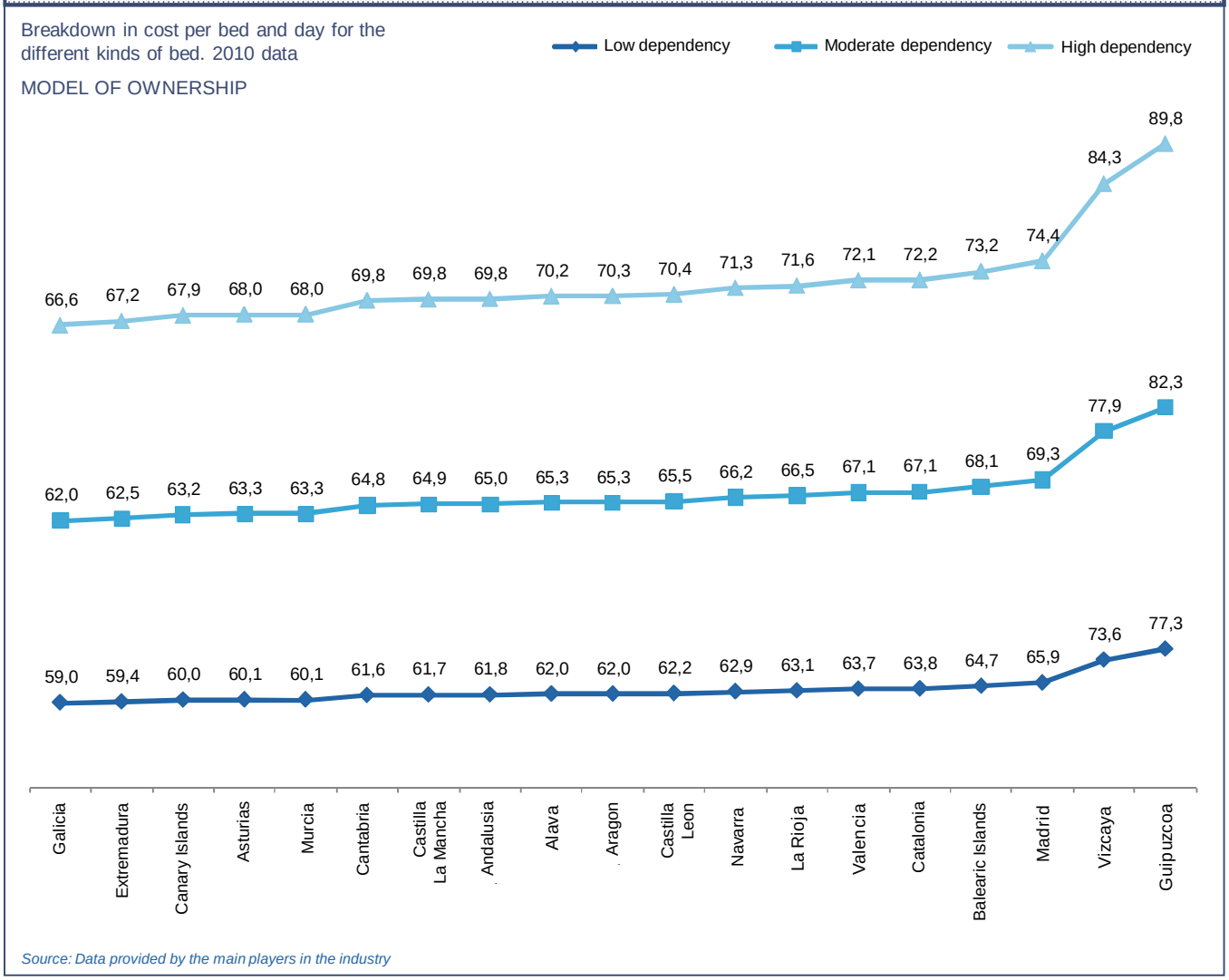


Source: Data provided by the main players in the industry

If we look at the breakdown by level of dependency, the average cost per bed is €63.4/day for low dependency residents (€1,928/month), €66.8/day for moderate (€ 2,032/month), and €71.9/day for high dependency (€2.187/month).

However, when analysing the rates paid by the local authorities for beds in private homes, there are still many regions that do not take this parameter into account in the definition of their rates.

Graphs 19.
There is a wide variation in cost per bed per day depending on the type of resident, from € 1,928 per resident per month for low-dependency, to € 2.187 per resident per month for high-dependency, 13% more.



Source: Data provided by the main players in the industry

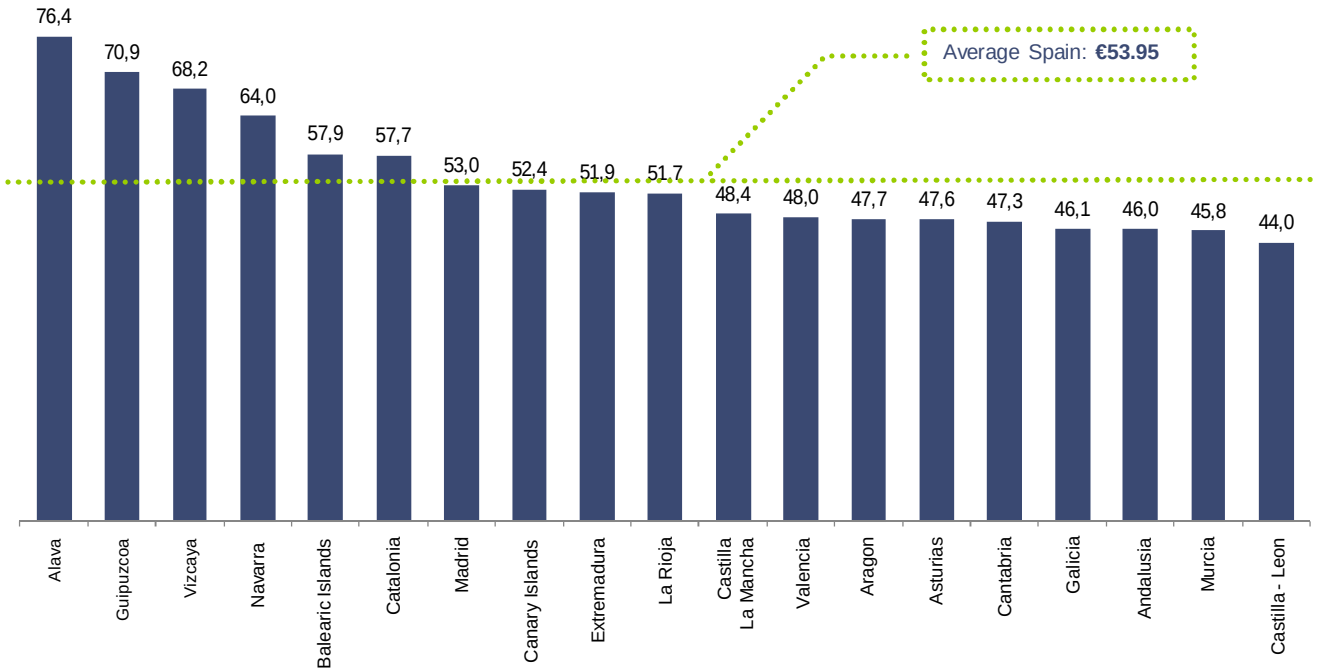
Based on information provided by the industry players, we have analysed the average rates paid by regional governments to private operators for care home beds. The average rate in Spain stands at around €54 per bed per day excluding VAT, well below the estimated average cost per bed, which is around €70.

The three Basque provinces are above average, Alava (€76.4), Guipúzcoa (€70.9) and Vizcaya (€68.2), followed by the regions of Navarra (€64.0) Balearic Islands (€57.9) and Catalonia (€57.5).

On the other hand, the regions with the lowest rate per bed are Castilla-León (€44), Murcia (€45.8), Andalusia (€46.0) and Galicia (€46.1).

Graph 20.
The autonomous region offering higher rates for regional authority agreements with private homes is the Basque country, exceeding €68 per nursing bed per day in its three provinces.

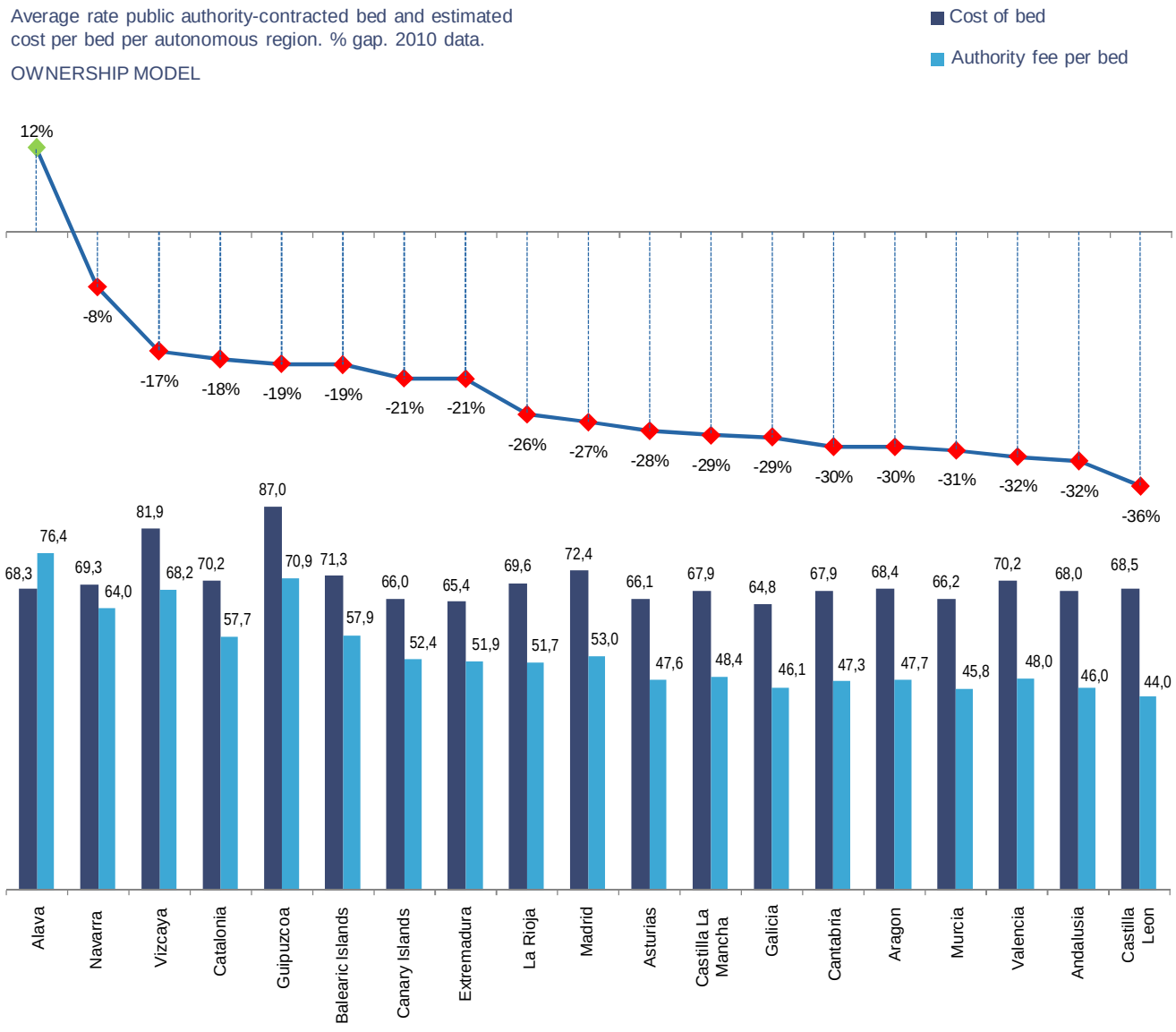
Average rates paid by the regional authorities for beds in privately-owned homes, per nursing bed and per day. Excluding VAT. 2010 data.



Source: Data provided by major operators. To calculate the rate, the average was taken of the rates provided by the different operators in each of the regions. For regions with different rates applicable according to level of dependency, we calculated the average rate taking into account the distribution of beds in the assumptions of the standard care home..

In the comparative analysis of cost per bed in a care home which is owned and with average rates agreed with the regional authorities, it appears that only Álava would cover the theoretical cost of a residential bed in a 120-bed home with the specified characteristics. The regions with the greatest differences are Castilla-León, Andalucía, Valencia, Murcia, Aragon, Cantabria, where the gaps are over 30%.

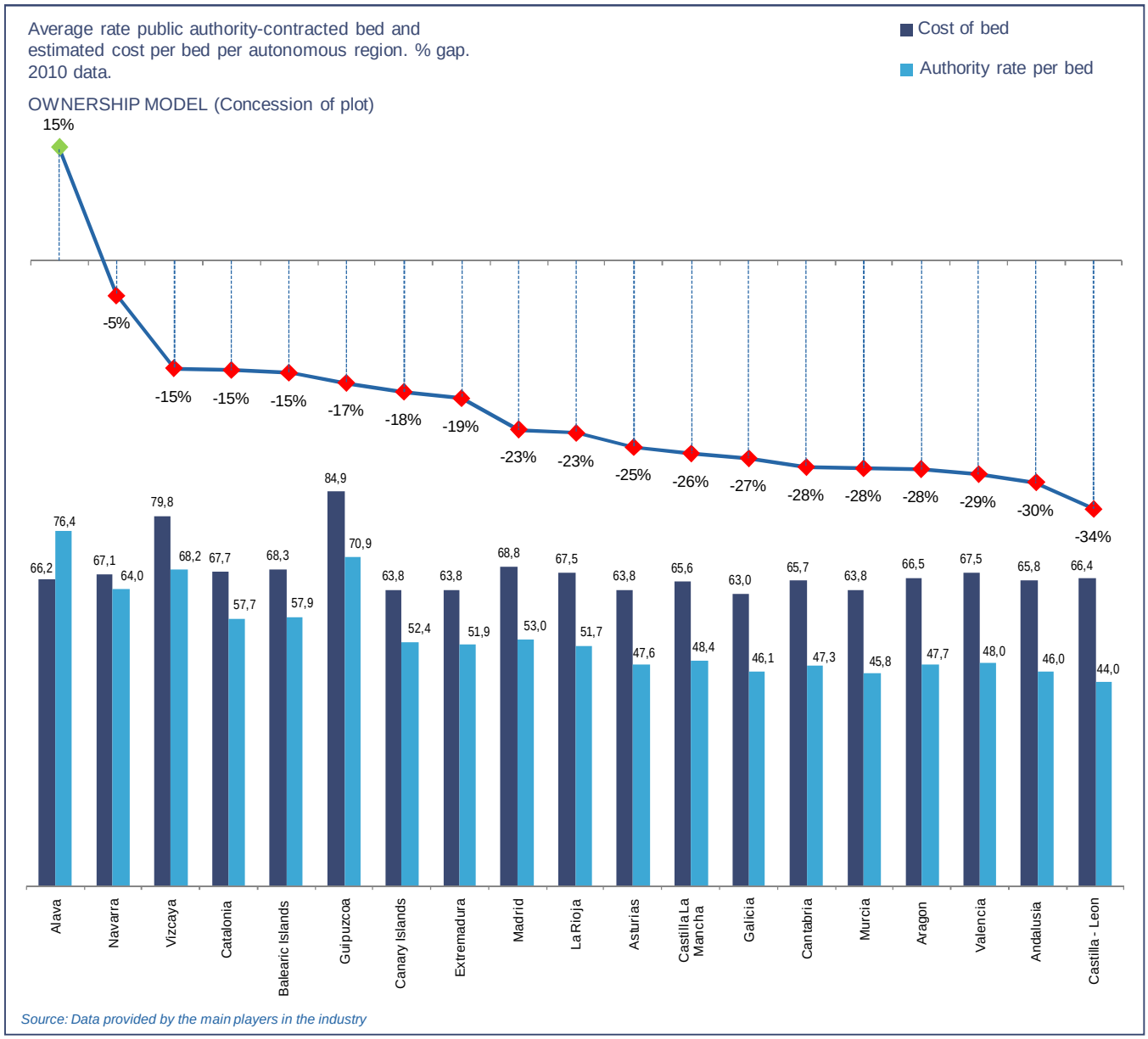
Graph 21.
In the case of care homes owned by the operator, only the province of Alava has a per bed authority rate that is higher than the estimated cost per bed based on the characteristics of the standard home



Source: Data provided by the main players in the industry

In the care home industry it is common for regional Authorities to assign an operator a plot for the construction and operation of a home through a concession or surface right. In this case, the situation improves slightly, between two and three percentage points, but it is still far off the reality of the industry, with the exception of Álava. It should be noted that where data was missing, we have applied the wages established in the national collective agreement and have not taken into account any wage increases in any occupational category.

Graph 22.
In a model of ownership, with the plot granted in a concession, the gaps are slightly reduced, between 2 and 3 points per region.



Source: Data provided by the main players in the industry

Conclusions

Final conclusions

The Law on Promotion of Personal Autonomy and Care for Dependent People (Law 39/2006, of December 14) commits the government to assisting all those individuals in a situation of dependency, most of whom are elderly.

The review of data regarding the elderly population and the design of the theoretical cost model carried out in the preceding sections are not intended to be exhaustive but are useful for contemplating important issues regarding the situation of the care home sector in Spain.

1. **T**he **remaining authorisations** of long-term care service providers need to be completed. This is essential to guarantee Spanish people an equitable right to care services of comparable quality in all geographical regions and areas.

   The **public provision of beds** still varies in terms of planning strategies, procurement systems and pre-requisites for authorisation, which makes equality between the regions difficult.

   Public-private partnerships are required, based on an authorisation system which sets common standards, to ensure the quality of service and equal access wherever the recipient lives. An adequate authorisation system will entail the restructuring of the sector.

2. In most regions, the economic structure of current authority agreements produces a deficit for operators. The industry requires a system of rates to be developed based on the **degree and level of dependency and which are aligned with the actual cost of the service** and the required quality. This would prevent private fees having to cover the deficits in the public authority rates.

3. The **future sustainability** of the long-term care provision sector **is at risk** from the current staffing and operating costs and the average authority rates.

   Payment by **authorities of rates** which are **more closely aligned with the actual cost of services** would not only dispel doubts about the sustainability of the sector but it would help attract the investment required to develop high-quality provision.

4. The long-term care system is a **generator of non-relocatable employment**. It is a new sector with great potential for the creation of stable jobs.

   In this regard, the provision of professional services tailored to the level of dependency of the individual should be prioritised over the granting of financial assistance which does not create employment or produce economic returns.

5. The **necessary conditions can be provided to develop long-term care systems comparable to those countries which are** international **leaders** for quality and professionalism in care of their elderly.

   It is important to draw attention to the work of the regional governments which, in compliance with the law, not only clearly commit to professional services, but also make significant efforts to prioritise high-quality services and adequate rates according to grade and level of dependency which meet the actual cost of services.

In the future, the **organisation of healthcare services needs to be developed** and strengthened to bring together the home-based services as part of primary healthcare. In terms of residential centres, an efficient and flexible way forward would be to recognise a healthcare component for long-term care which objectively and equitably compensate for the shortfall of the current rate. The healthcare system would benefit from this expenditure by being able to establish a more efficient circuit for referral on discharge from hospital.

The Law on Promotion of Personal Autonomy and Care for Dependent People is an excellent first step. However, further work is needed to improve the quality of life of people in a situation of dependency and ensure the future sustainability of the sector.

On the basis of the results of the study presented, we conclude that there are **major development opportunities** in the care home sector for the coming years on the basis of strong **public-private partnerships**.

Agradecimientos

Homes which belong to AESTE

Adavir

Ballesol

Amma

Eulen Servicios Sociosanitarios

Caser

Care

Mapfre-Quavitae

Sanitas Residencial

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