



Rewarding Learning

ADVANCED
General Certificate of Education
2017

Business Studies

Assessment Unit A2 2

assessing

The Changing Business Environment

MV18

[AT221]

MONDAY 19 JUNE, MORNING

Time

2 hours, plus your additional time allowance.

Instructions to Candidates

Write your Centre Number and Candidate Number on the Answer Booklet provided.

Answer the **one** question.

Information for Candidates

The total mark for this paper is 80.

Quality of written communication will be assessed throughout the paper.

Advice to Candidates

You are advised to take account of the total mark stated for the question in allocating the available examination time.

Study the information and answer the question that follows.

Senebus HealthCare Limited

Source 1: Senebus HealthCare Limited

Senebus HealthCare Ltd (Senebus) is a provider of nursing and residential care home services in Northern Ireland. It owns and operates 65 nursing homes with 3000 staff who care for 1800 elderly people. The majority of the company's care home portfolio provides permanent residence services for the frail and elderly. It employs professional nurses, social care workers, administrative, catering and ancillary staff.

Senebus is running at 90% occupancy rate in each of its residential care homes.

Senebus was purchased in 2010 for £80 million. It is now operating with a bank loan of £50 million. Due to its continued losses, the management team of Senebus is considering whether it should continue to trade.

Source 2: Care Home Market

Care home providers, including Senebus, derive their sales revenue from three revenue streams as shown in **Fig. 1**:

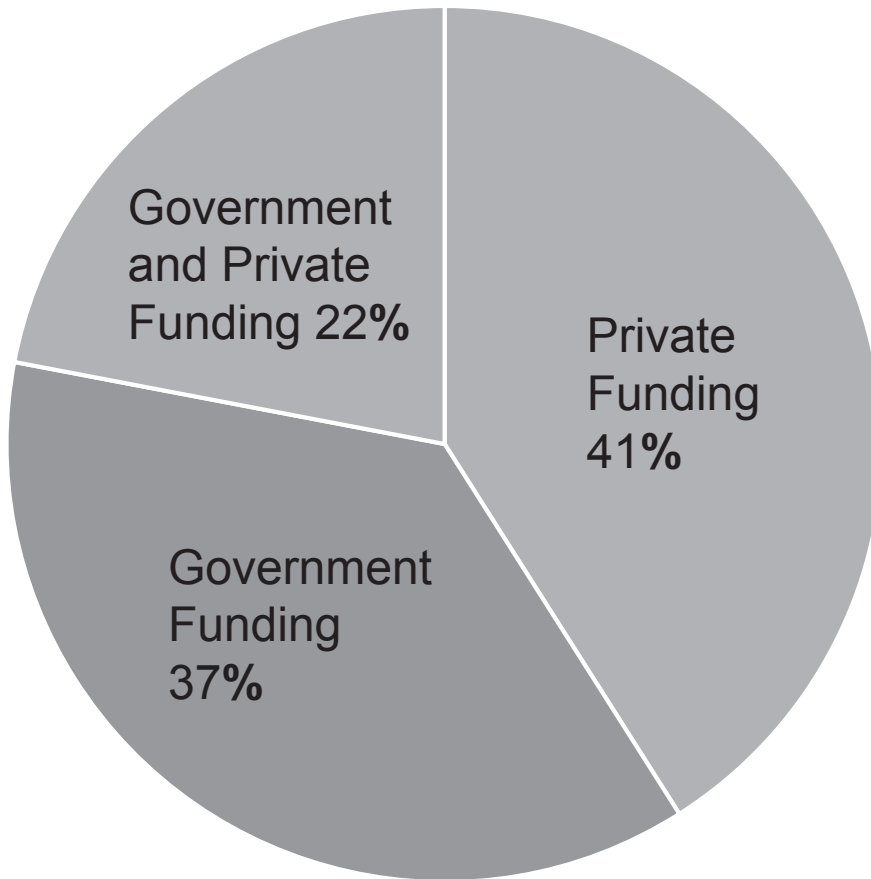


Fig. 1: Care Industry Funding Breakdown

Northern Ireland's care home market is divided into the following categories:

- Private funding is fees that are wholly paid by the resident from their own private funds
- Government and private funding are fees paid by both the resident and the government
- Government funding is fees wholly paid by the government on behalf of the resident who cannot afford their care home services

The average fee per resident is £490 per week for 2016/2017.

Government statistics predict the following changes to the aged 65+ distribution of the NI population.

	Year 2020	Year 2030	Year 2040
People aged 65+	340 000	400 000	425 000

As a result of an ageing population, rising longevity and a growing number of people living with serious health conditions such as dementia, demand for care homes is increasing. Current provision is not meeting that demand.

Source 3: Mission Statement

Senebus's Mission Statement is to improve the lives of all its residents and communities, to consistently deliver special resident experiences and to be the best place to work in the care sector.

Senebus's Values are Respect, Trust and Care:

- **Respect** To treat residents and others with professional courtesy, dignity and respect
- **Trust** To instil a culture of trust and act with integrity in everything it does
- **Care** To demonstrate a caring attitude through words, actions and choices.

Senebus is proud of the dedication, passion and commitment of its employees and especially the recognition received for delivering special resident experiences to everyone in its care. It is especially proud of being shortlisted in several awards ceremonies, including UK Customer Experience, National Association of Care Catering Awards, Northern Ireland Care Awards and National Dementia Awards.

Source 4: Financial Statements

In the table below is an extract from Senebus's Financial Statements.

	Year Ended		
	31 March 2017	31 March 2016	31 March 2015
	(£000's)	(£000's)	(£000's)
Sales Revenue	68,814	71,307	70,888
Cost of Sales	63,002	63,743	60,422
Gross Profit	5,812	7,564	10,466
Administrative Expenses	4,666	5,355	5,268
Profit before Interest	1,146	2,209	5,198
Interest Charges	2,264	2,607	2,667
Net Profit (Loss)	(1,118)	(398)	2,531

Senebus's losses continue to rise due to:

- a decline in the fees that the government pays towards residents' care
- a rise in staff costs caused by the introduction of the National Living Wage, which will rise to £9 per hour by 2020
- bank loan of £50 million which is attracting annual interest payments of £2.2 million.

Source 5: Government

All care home providers are being squeezed by a decline in their funding from the government who pays towards residents' care. The government has stated that it will increase the residential care budget by 2% in the coming years, but Senebus needs to raise its prices by 5% annually if it is to make acceptable profits to pay the required dividends to its shareholders. It highlights the crisis in the social care industry amid rising costs and falling funding levels from government. Almost 48%, shown below, of Senebus's Sales Revenue for the year ended 31 March 2017 was sourced from the government.

Senebus's Sales Revenue for 31 March 2017 was analysed as follows:

	Total	Private	Government
	(£000's)	(£000's)	(£000's)
Private Funding	28,200	28,200	
Government and Private Funding	15,150	7,657	7,493
Government Funding	25,464		25,464
Total Sales Revenue	68,814	35,857	32,957
Percentage Source	–	52%	48%

Source 6: Ethical Issues

Looking after the elderly is the responsibility of every member of society. No single issue could be more critical to the health and well-being of a nation than the care and support of its elderly. The government has an ethical duty to look after its elderly and must take on its responsibility by appropriately funding the care home providers to provide high quality care, pay a fair wage, improve conditions of service and give businesses such as Senebus a fair return on their investment.

The social care crisis is real and it is happening right now. The government cannot ignore it any longer if we are to truly have a society that works for everyone.

A spokesman for Senebus described the decision to close seven of its residential homes as difficult but unavoidable. The principal reason behind its decision was that each of the homes was operating at a loss and they were no longer viable. The decision resulted in 250 elderly residents having to find alternative care home accommodation (Source 8).

With continuing financial losses Senebus is finding it increasingly difficult to fulfil its Mission Statement.

The Managing Director declined to say how many more care homes could close next year, stating that it would obviously depend on the company's performance during 2018.

A trade union, Unison, suggests that when residents' care needs are balanced against profit margins, profit wins out every time.

Source 7: Competition

The residential care home sector in Northern Ireland is a highly competitive market.

A key competitor of Senebus, The Six Seasons Care Group, recently closed two of its care homes, which were earmarked for closure as part of its drive to stem its financial losses. Fortunately, both homes were purchased by local NI investors. The Six Seasons Care Group stated that it had come to its decision to sell the homes with great reluctance. Staff at both these saved care homes were thrilled at the prospect of the care homes' future continuance. They challenged Six Seasons Care Group's view for closing the care homes, declaring the fact that two local buyers bought them shows that the care homes are profitable and viable. Market research data indicates a growing trend in Northern Ireland's ageing population (Source 2).

Source 8: Employment

During 2017, Senebus closed seven residential care homes.

	Closed Residential Home Details	Number of Residents	Number of Staff Employed
1	Newry	35	50
2	Antrim	25	32
3	Belfast	50	76
4	Portrush	30	45
5	Derry/Londonderry	55	84
6	Enniskillen	30	44
7	Omagh	25	39
	Total	250	370

The care home closures in Northern Ireland have been branded a crisis by the Trade Union, Unison. With the loss of 370 staff, Unison is seeking to hold urgent negotiations with the government regarding the closures and possible future closures. Unison has been advised by other residential care home providers that they too may have to close some of their residential homes because they are not being paid enough fees by the government for their residential care. Further closures will affect their members across the UK.

A recent UK-wide report stated that if nothing in the funding regime changes within the next five years there will be a projected loss of 37 000 care beds as funding will fail to meet projected demand. The loss of these care beds will have corresponding staff losses.

Question 1

You are a consultant employed by Senebus and you have been asked to prepare a report entitled “Senebus HealthCare Limited – The Way Forward”. [80 marks]

The aim of the report is to examine the issues presently facing Senebus in the context of the changing business environment. You should analyse and evaluate those issues and draw conclusions as to whether the management team of Senebus should continue trading.

Your report should be in an appropriate format and should include recommendations to the management team of Senebus.

(You may find it useful to address **some** of the following areas in your report: pressure groups; business ethics; economic growth; employment; government objectives; government expenditure; managing change effectively; demographics; business objectives; stakeholder objectives; company accounts; and ratio analysis.)

THIS IS THE END OF THE QUESTION PAPER

Sources

- Source 1: © *'In the spotlight Four Seasons Health Care and Britain's social care crisis'* by Ravender Sembhy.
Published by International Business Times, 06 May 2015
- Source 2: © *'Four Seasons Health Care likely to be taken over' by creditors* by Graham Ruddick.
Published by The Guardian, 06 May 2015
- Source 3: © *Four Seasons Care Homes Annual Report 2016, Vision and Values*
- Source 4: © *'Four Seasons seeks bigger fee increases from local authorities'* by Gill Plimmer.
Published by Financial Times, 24 May 2016
- Source 5: © *'Four Seasons Health Care reports £264 million annual loss'* by Graham Ruddick.
Published by The Guardian, 27 April 2016
- Source 7: © *'Buyers step in to save two Northern Ireland care homes that faced closure'* by Lisa O' Carroll.
Published by The Guardian, 04 December 2015
- Source 8: © *'Closure of Four Seasons Home'* by Unison, 22 January 2016 and © *'UK's biggest care home operator sells £20 million of assets to US hedge fund'* by Adam Barnett.
Published by Independent, 27 December 2015 and © Hamilton steps in as Four Seasons Health Care closes seven homes. Published by BBC, 24 November 2015

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