

Provisioning Care

Financialized Business Models Or financial innovation for a social purpose

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Introduction

- The well-being of current and future generations depends on the provision of foundational goods and services, including care, delivered by grounded and capable firms offering better jobs.
- The demand for care will inevitably increase as the population ages
- But funding from cash strapped Local Authorities limits capacity for change
- Funding is captured by financialised chains with aggressive cash extracting business models.
- What we need is more financial innovation for a social purpose so that in care services, capital investment can be linked to social innovations in service design, community participation and the green economy.



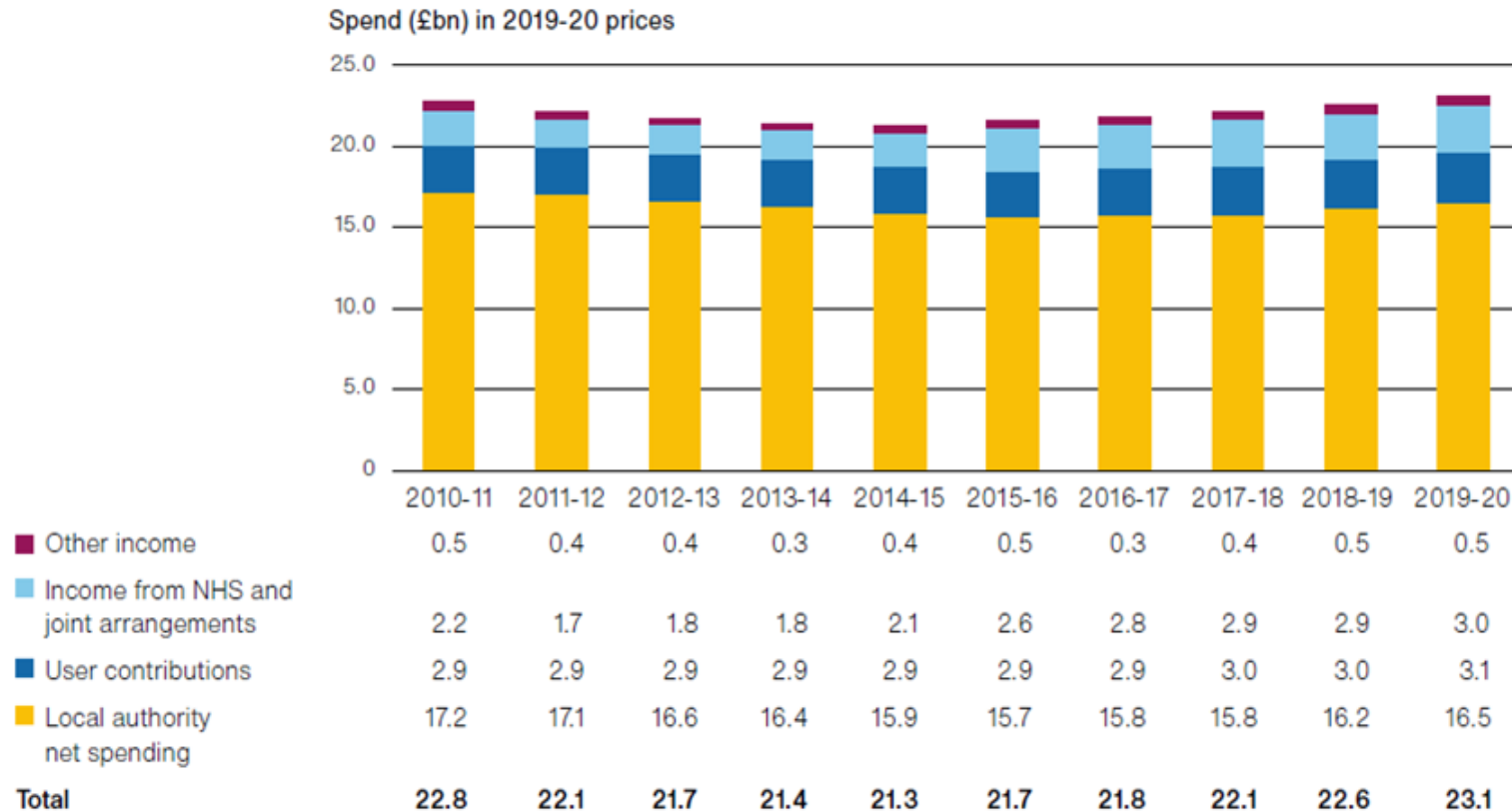
Growing demand limits on funding

- It is estimated that if current patterns of care continue, around 29% more adults aged 18 to 64 and 57% more adults aged 65 and over will require care in 2038 compared with 2018.
- Between 2018 and 2038, the total costs of care are projected to rise by 90% for adults aged 18 to 64, from £9.6 billion to £18.1 billion, and 106% for adults aged 65 and over from £18.3 billion to £37.7 billion
- The publicly funded system is demand led with cash strapped councils under a legal obligation to meet need and they are responding by raising the threshold of need by which one becomes eligible for state funded care.
- Real spending on arranged care has remained flat over the last few years



Spending on local authority arranged care, 2010-11 to 2019-20, in 2019-20 prices

Most spend on local authority arranged care is funded by local authorities themselves



Supply and Capacity

- Independent providers run most care homes; based on market value, 76% of care homes for older adults and adults with dementia are for-profit. Of the remaining 24%, 14% are not-for-profit and 10% are run by a local authority or the NHS.
- In the UK there are roughly 17,600 care homes and 450,000 residents and this remains stable rather than growing and a workforce of 700,000 excluding non-paid carer's

How many care homes are there in the UK?

There are about 17,600 care homes in the UK. Around 70 per cent of care homes are residential settings, while nursing homes make up 30 per cent of the total number of care homes.

Number of care homes in the UK

	UK	England	Wales	Scotland	Northern Ireland
Total	17,598	15,009	1,336	1,044	418
Residential care homes	12,471	10,905	776	547	181
Nursing homes	5,127	4,104	260	497	237

Figures correct as of 24 March 2021. Data gathered from carehome.co.uk which lists all care homes registered

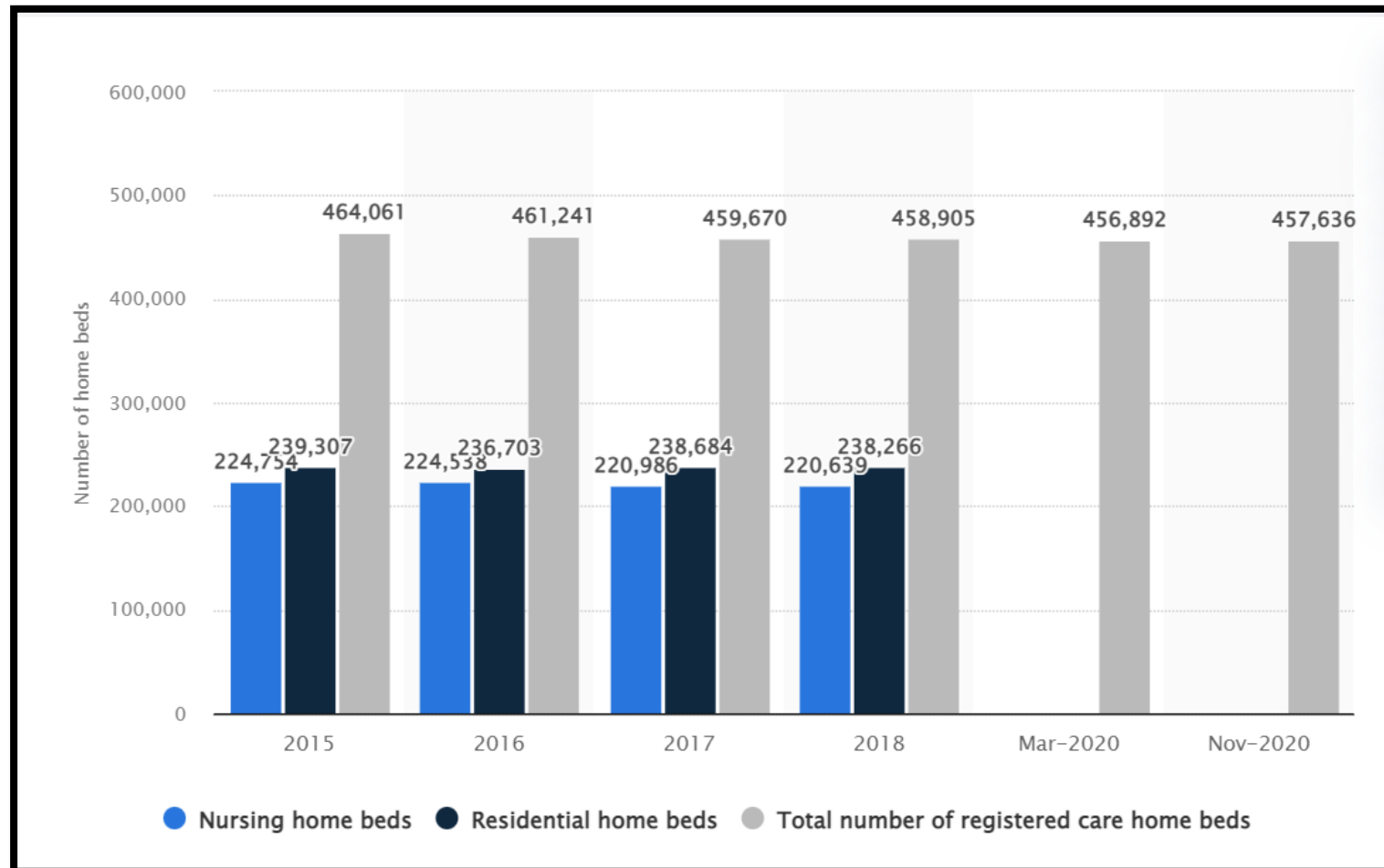
The UK care home workforce totals nearly 700,000 people.

UK care home workforce*

	UK	England (2020)	Wales (2018)	Scotland (2019)	Northern Ireland (2018)
Total	696,340	595,000	29,860	53,080	18,400
Source		Skills for Care	Social Care Wales	SSSC	Skills for Care

*There is no UK-wide dataset as each country is responsible for its own data collection. This means there are discrepancies in the ways data is collected and reported. The figures above should be viewed as estimates.



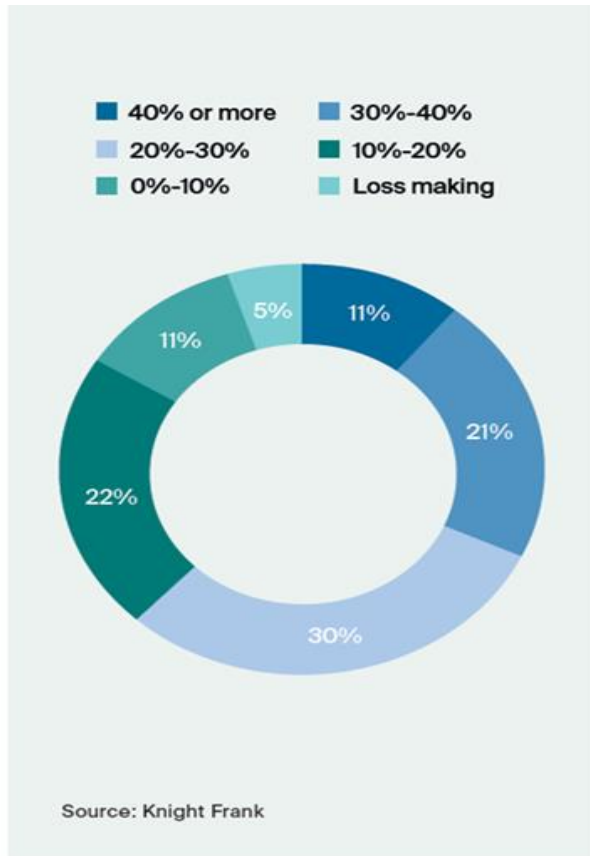


Large financialized care providers

- LaingBuisson estimates the market share of the 10 largest care home providers for older adults is 22%.
- These companies funded by a mix of self-funded patients and Local Authority funding.
- Financialized companies are characterised by their Op-Co / Hold-co arrangements
- The Hold-Co manages the finances attached to lending, treasury functions, owns the property and leases this out to the Op-Co, charges management and administrative fees.
- These charges are measured by the performance metrics EBITDARM
- Earnings before interest, tax, depreciation and amortization, rent and management fees.



Financialized Providers of Care



- Of the large companies surveyed by Frank Knight
- 11 percent had a 40% or more EBITDARM
- 21 percent had a 30-40 percent EBITDARM
- 62 percent had an EBITDARM of more than 20% of total revenues.
- This is cash extracted at the expense of direct care provision.



Case Example HC1 Ltd and Barchester Ltd

	HC1 Ltd OP Co		Barchester Ltd OP Co	
	£mill	Share %	£mill	Share %
Turnover	339		663	
Employee Costs	228	67.3	373	56.3
EBITDAR	65.7	19.4	205.4	31.0
	HOLD CO STRUCTURE		HOLD CO STRUCTURE	
Hold Co	Libra Intermediate Holdings		Barchester Holdco Jersey	
Hold Co	Jersey		Grove Ltd Jersey	
Hold Co	FC Skyfall Upper Midco			
Hold Co	Skyfall GP Caymen Islands			
Hold Co	Skyfall LP Caymen Islands			

Let's look at the Hold-Co FC Skyfall Upper Midco

Key performance metrics

- Number of continuing homes-leased and owned operating properties
- Average occupancy 87.6% (2019: 90.9%), 3.3% lower than prior year
- Self-pay occupancy 24.5% (2019 :25.1%), 0.6% lower than prior year
- Average weekly fee rate £754 (2019: £728), 3.6 % higher than prior year
- Home EBITDAR 25.2% (2019:25.6%)
- Profit after taxation for the financial year £9,496,000 including £3,490,000 of exceptional costs.
- Underlying Home EBITDAR per occupied bed £9,177 (2019: 8,905), 3.1 % higher than prior year
- The basic state pension is £7,155
- The median household gross savings in the UK is £11,000



Financial innovation for a social purpose

The Social Purpose

Stakeholders have called for better integration across services, focusing on a person-centered and a preventative approach to health and well-being.

A whole-system approach to care centered on the individual's needs ..and challenging long-standing arrangements around accountability, finances, culture, workforce development and soft and hard infrastructure support.

Financial Knowledge

The Department of Health & Social Care has not investigated the extent to which care providers lease or rent property and whether this is more costly than providers developing their own accommodation.

Local Authorities might be able to support capital spending but budgets are limited and these financial pressures limit borrowing.



Financial innovation for a social purpose

- Local Authorities could lead innovative partnerships /alliances for change to imaginatively build new residential accommodation for older people.
- Community hubs including facilities like cafes, meeting rooms and games rooms open to the public. Generating some income streams to offset capital costs.
- This duality has an important social effect in that it breaks down the barrier between care home and community, mixing old and young
- Innovative financing models utilizing Local Government Pension Schemes as part of their remit to add local social value to their fund management arrangements. The market value of LGPS funds at end of March 2021 was £332.7 billion.
- Pension funds have traditionally invested in equities where the long run real return is not much above 5%. Government bonds where they would currently get no more than 2-3% and low interest rates are likely to continue.
- Bond finance is available at less than 5% for care home development.



Financial innovation for a social purpose

- These innovative funding models need to be coupled to new operating arrangements : for example a fee for service. The operators obtaining a reasonable return on the management and provision of services.
- The object is to release funding that can be recycled into hard and soft infrastructure(s) for innovative care provisioning.
- Without intervention, the inevitable exit and buy out of smaller operators.
- Large chain funding will lock in the physical and financial character of the system for the next generation.
- In ways which block the possibility of coordinated, progressive change.



Summary

- A siloed approach to innovation is likely to produce disappointing results. What is needed is a whole government policy mobilising different government departments in an alliance with local authorities, community organisations and care providers.
- The objectives should be threefold:
 - deploying public funds and patient pension capital to strategically reinvent residential care
 - using released returns to capital to promote imaginative reforms to care on an integrated basis joining up primary care and community well-being services
 - explicitly connecting better care with other social value policy objectives, such as environmental sustainability, community well-being, and local economic development.

