



HEALTHCARE: CARE HOMES

Navigating the ongoing impacts of COVID-19

January 2021

Private and Confidential

DUFF & PHELPS

SECTOR KEY STATISTICS

Sector Overview



Care homes deliver vital services and give much needed care to the most vulnerable in society.

While the COVID-19 pandemic has generally resulted in a fall in occupancy rates, it has not been as acute for all as initially feared but further challenges lie ahead.

While the Government has committed £1.146 billion of funding for infection prevention and control, the sector remains under pressure.

21,484

CARE HOMES IN
THE UK

18,964

DEATHS IN CARE HOMES INVOLVING
COVID-19 UP TO 11 DECEMBER 20

% OF CARE HOMES
RATED INADEQUATE OR REQUIRES
IMPROVEMENT

20%

COVID-19 RELATED DEATHS

21.4%

as a proportion of all deaths in care homes in
England and Wales to 11 December 20

Source: ONS, Care Quality Commission, Oscar Research

SITUATION OVERVIEW

Current issues for the Care Home Sector



NEW ADMISSIONS & OCCUPANCY

- Families and Local Authorities have been understandably reluctant to place elderly relatives in care unless absolutely necessary, meaning occupancy levels have reduced as well as revenue.
- Whilst new admissions started to return post the initial lock down, they are likely to remain sensitive until COVID-19 is brought under control, whether by widespread vaccination (for residents, staff and other stakeholders), rapid test and trace and other initiatives.
- Alternative care options, such as 'live-in-care', is reportedly receiving a surge of interest but this is not suitable for all.

GOVERNMENT'S 'WINTER PLAN'

- The Government's 'infection control fund', to offset additional costs incurred by service providers as a result of Covid-19, has been topped up with an additional £546m and extended through to March 21. Although welcome, this measure does not address lower occupancy rates which underpin financial viability.
- The Winter Plan requests an end to all non-essential movement of staff between care homes, resulting in likely adverse operational and costs consequences for some homes.
- Councils were requested to identify homes "that are safe for people leaving hospital who have tested positive for Covid-19" - so called 'Hot Homes' – and they should be "stand-alone units or settings with separate zoned accommodation and staffing". Stakeholders of such care homes are likely to face increased risks which should be carefully assessed and managed.

CQC

- The CQC outlined its plans to monitor infection prevention and control (IPC) in care settings over the winter.
- The CQC has already undertaken many inspections. Care Homes not complying with strict infection control policies are therefore at risk of publicly receiving instructions on how to remedy the situation to, in extreme cases, closure.

OUTLOOK

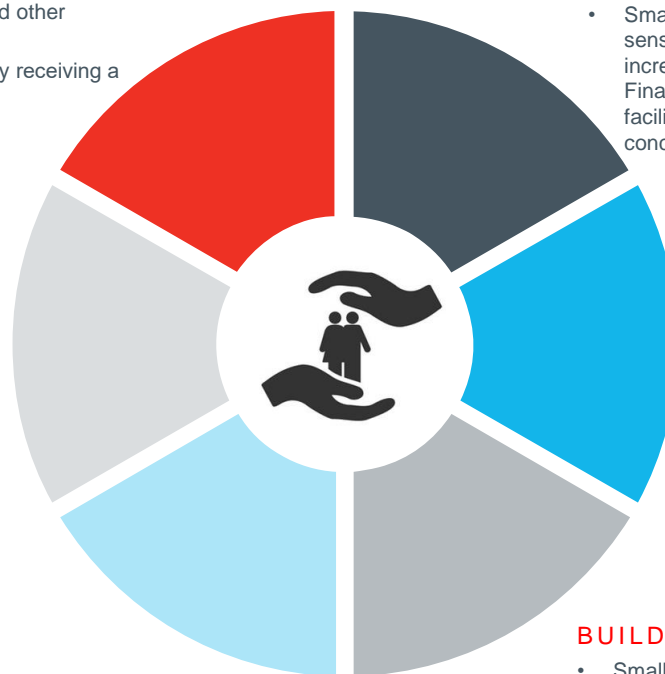
- The long-term fundamentals for this sector remain robust – principally due to the baby boom generation entering old age.
- The COVID-19 pandemic is however an unprecedented challenge but given the roll out of widespread vaccinations at Care Homes as well as ongoing regular testing, the immediate future is looking more positive.
- Smaller independent Care Homes however are likely to be more sensitive to the financial effects of lower occupancy rates and/or increased costs imposed on them since the outbreak of COVID-19. Financial adversity can lead to reduced investment into staffing, facilities and therefore care, possible resulting in safeguarding concerns.

OTHER

- Staff: Whilst the infection control fund is designed to help offset additional costs incurred by the COVID-19 pandemic, agency staff costs to cover absences have generally increased due to scarcity of staff for some areas.
- Testing: In December, the Government announced an additional £149m will be provided to the sector to speed up care home testing, partly in response to the more transmissible strain of COVID-19. Staff will be asked to take rapid tests twice a week, in addition to the weekly PCR test they have already been receiving to protect those most at risk.

BUILDING TYPE

- Smaller Care Homes and properties subsequently adapted into Care Homes tend to have limited scope, because of building design and layout, to be able to protect against infectious diseases. For example, corridor sizes and shared bathroom facilities can limit social distancing measures.
- Families and elderly relatives are therefore likely to gain more confidence from Care Homes which are able to provide the safest environments possible, which may negatively impact adapted and shared facility care homes' admission rates into the future.



PERFORMANCE METRICS

Key Performance Metrics to Monitor



FINANCIAL

- Timely, accurate and relevant Management Information and Financials (e.g. P&L, balance sheet, cashflow, KPIs)
- Occupancy Levels
- Sales Mix: private -V- funded & residential -V- nursing
- Average weekly fees
- Costs profiles (e.g. food costs – c4% of turnover)
- EBITDA



STAFF

- Staff turnover
- Agency staff requirements
- Management and home leadership quality
- Whistleblowing



RESIDENTS AND RATINGS

- CQC and Local Authority ratings / feedback
- Carehome.co.uk ratings / other rating websites
- Customer and family feedback / satisfaction



HOME DESIGN AND LAYOUT

- Age and condition of the buildings
- CAPEX / maintenance requirements
- Adaptability of building



COVID-19

- Current occupancy and new admission rates
- Plan to attract new residents
- Building type review and CAPEX
- Local Authority's winter care needs (block bed contract)
- Infection Prevention and Control Measures and vaccinations

OUR APPROACH

Protect

- Conduct initial meetings with owners, senior managers and other stakeholders to understand situation and desired outcomes.
- Undertake independent initial assessment, both financial and non-financial metrics.
- Update forecasts to understand available liquidity and any funding requirement.
- Consider instructing care consultants to assess home and identify any compliance and urgent care needs.

Restore

- Design and implement strategies to address current circumstances following independent initial assessment.
- Reassess short to medium term business plan.
- Prepare short to medium term cash flow, overlaying adjusted business plan and assess funding requirements.
- Implement agreed care consultants strategies for addressing any shortcomings.

Maximise

- Focus on strategic objectives / changes in consumer demands
- Invest in technology, estate and key resources, including staff
- Build a resilient supply chain, resetting processes and ensuring accountability
- Improve governance
- Programme to review and monitor progress

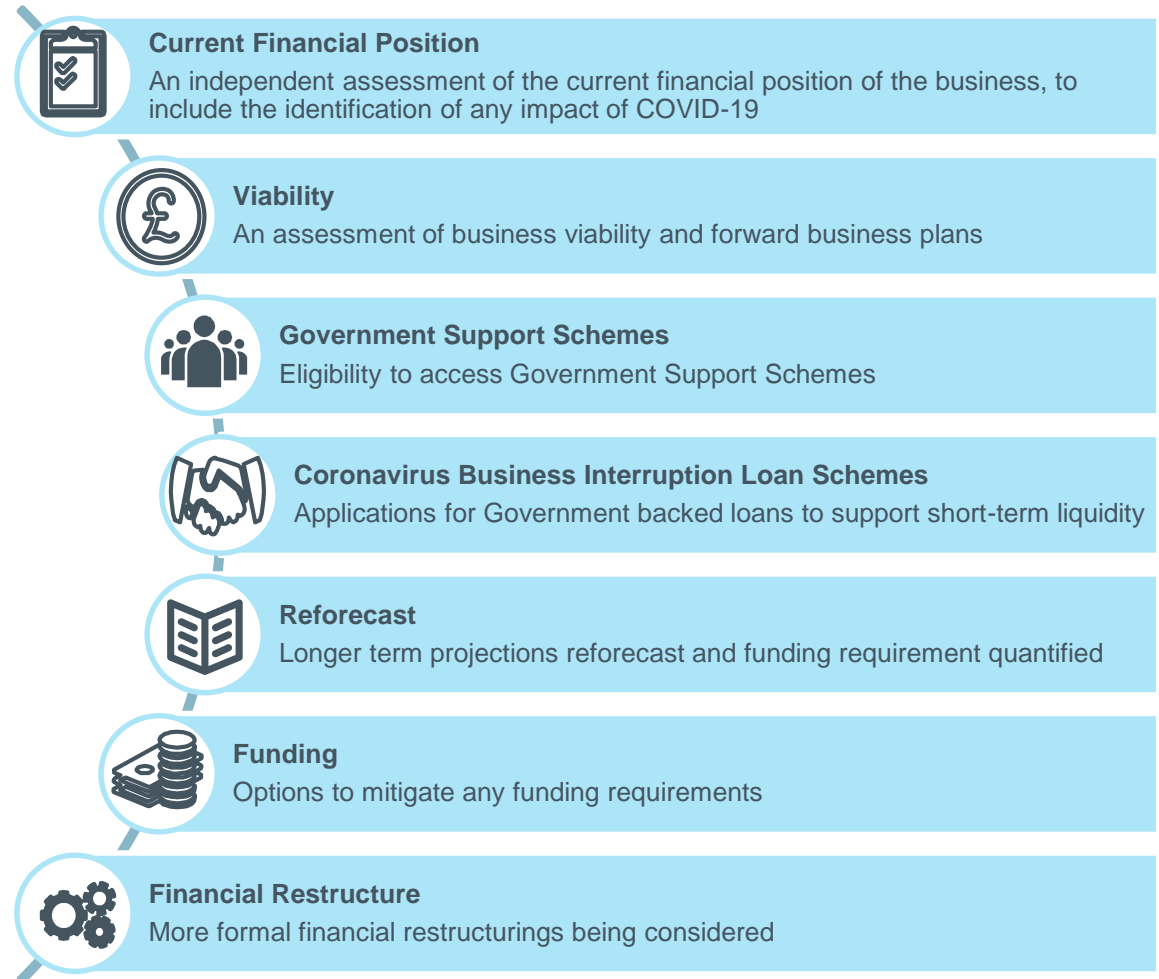
OUR APPROACH

Assistance in understanding the financial impact of COVID-19



The focus of many corporates and their stakeholders has been that of survival, prioritising the stabilisation of cashflow, minimising outflows and ensuring all areas of Government support have been explored and accessed.

Whilst this is time well spent, the lasting financial and operational impact of COVID-19 will adversely affect a number of businesses if action is not taken now to mitigate the impact.



OPERATIONAL CARE CONSULTANCY

Assistance in understanding the operational impact of COVID-19 and under-performing services



The COVID-19 pandemic has created further operational pressure on care homes, which has particularly stretched management teams of smaller independent care homes increasing the risk of homes being unable to deliver to the required standards. Duff & Phelps works with care consultants who can assist to stabilise an under-performing service and implement tailor-made care performance turnaround measures.

ASSESSMENT



Urgent review of immediate issues and risk areas (including COVID-19 risks).

Key activities and deliverables:

- Initial meeting with management to assess and identify key issues.
- Undertake independent compliance review of care home.
- Review of policies, CQC reports and care plans.
- Review Covid-19 policies and procedures.

ACTION PLAN



Address key risks and concerns of local authorities and regulators and implement action plans

Key activities and deliverables:

- Production of care action plan detailing issues, action to be taken and when by, responsibility as well as ongoing monitoring requirements.
- Assistance engaging with Local Authorities and CQC regarding care action plan.
- Assistance with care home governance and leadership.

IMPLEMENT STRATEGY



Implementation of action plan with continual monitoring of deliverables and dates.

Key activities and deliverables:

- Implement and monitoring of care action plan.
- Continual review of observations against applicable regulatory requirements.
- Active engagement with stakeholders.
- Bespoke assistance as required e.g. staff training, records and records management, assistance with the production of individual care plans etc.

REPORT TO REGULATORS



Reporting to Local Authorities and Regulators.

Key activities and deliverables:

- Assistance with reporting to Local Authorities and CQC.
- Liaison with inspectors.
- Improvements to CQC ratings and progress towards removing any restrictions imposed on services.

OUR APPROACH

Credentials / Case Study



Advisory

A group of three care homes based in the South of England with turnover of £1.5m and senior debt of £3.5m.

Confidential Project

[44365]

Duff & Phelps conducted a strategic and financial review of the company for its lender.

Advisory

A group of five specialist care homes based in the Midlands with senior debt of £10.5m.

Confidential Project

[90312]

Duff & Phelps undertook a financial review and contingency plan on behalf of the senior lender. Duff & Phelps continues to assist with negotiations and discussions with all stakeholders, while a sale process is undertaken.

Advisory

An established national care home operator with 15 homes located across the UK with consolidated turnover of £20m and total banking facilities (including bridging finance) of £54m.

Confidential Project

[52724]

Duff & Phelps was engaged to advise management through a restructure of the Group and assist with negotiations and discussions with all stakeholders.

UK Restructuring

A specialist care home group for young adults with learning disabilities in the Midlands, with annual turnover of £8.1m.

Confidential Project

[105812]

Duff & Phelps undertook a review of the Company's cash flows and recent financial performance and prepared an independent business review on behalf of the senior lender.

UK Restructuring

Trading during COVID-19 & going concern sale

Case Headline:

- The home provides accommodation, personal and nursing care to older people with a specialism in dementia care. The home has capacity for 67 residents, however received an inadequate rating with CQC and restrictions placed on resident numbers. The restrictions negatively impacted the working capital position and the lender had concerns about the regulatory and financial pressures which the business faced due to its inadequate rating and declining financial performance.

Role of Duff & Phelps:

- Duff & Phelps was appointed Administrators of the company by its director due to the cash flow and operational difficulties it was experiencing. Upon our appointment we undertook a thorough review of the home's operations, its staffing structure, client base and more importantly its service user/residents to ensure a sufficient level of care was being provided. Duff & Phelps engaged specialist care advisors to implement necessary operational changes and provide governance at the Home with a view to removing the home from 'special measures'.
- Duff & Phelps also provided the Local Authority and CQC with transparency and built a rapport with the relevant contacts at each organisation to ensure their needs were fully met to fulfil their obligations to service users.
- Duff & Phelps continued to trade the home while operations were being stabilised during which time a marketing process was being undertaken, however abruptly interrupted due to the COVID-19 pandemic.
- The focus was then immediately changed to manage the risk of infection within the home and to engage in discussions with Local Authorities about potential funding requirements based upon a forecast trading model prepared by Duff & Phelps modelling various scenarios predicting what effects COVID-19 may have on the business.

Outcome

- The home's inadequate rating was subsequently upgraded and moved out of 'the special measures' process.
- The home remained free of Covid-19 and, in September 2020, the sale of the care home completed on a going concern basis at a pre COVID-19 pandemic price.

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ABOUT DUFF & PHELPS

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