Care Thoughts

December 2020 Issue

Funding Accommodation for Older People

The problem with the current model

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Introduction

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Introduction

- An aging population has created a growing need for specialist accommodation for the elderly, delivered through:
  - Supported Housing
  - Extra Care
  - Modern Care Homes

- Meeting this requirement involves significant investment, however, providers face increasing problems in accessing funding

- This is a particular challenge for charitable care home operators, who:
  - have a strong track record on operations
  - are committed to providing a product to those in need
  - offer some of the highest quality care in the sector

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Introduction

- This contrasts with the position of Social Housing Providers, as illustrated below:

Social Housing Providers	Care Providers
Direct subsidies (Grants) for development	No subsidies in place for development
'Planning gain' through Section 106 consents	No benefits for planning
Large volumes of private sector debt at low margins	Limited funding
Government Guaranteed funding through AHGS 2020 - a £3bn facility that **specifically excludes Care Homes, Supported Housing and Extra Care**	Little government support

- Yet the provision of accommodation for the elderly is simply another mechanism for resolving the housing crisis:
  - every person accommodated in a home, supported living or extra care property, releases a property to be occupied by someone else

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Analysing the Problem

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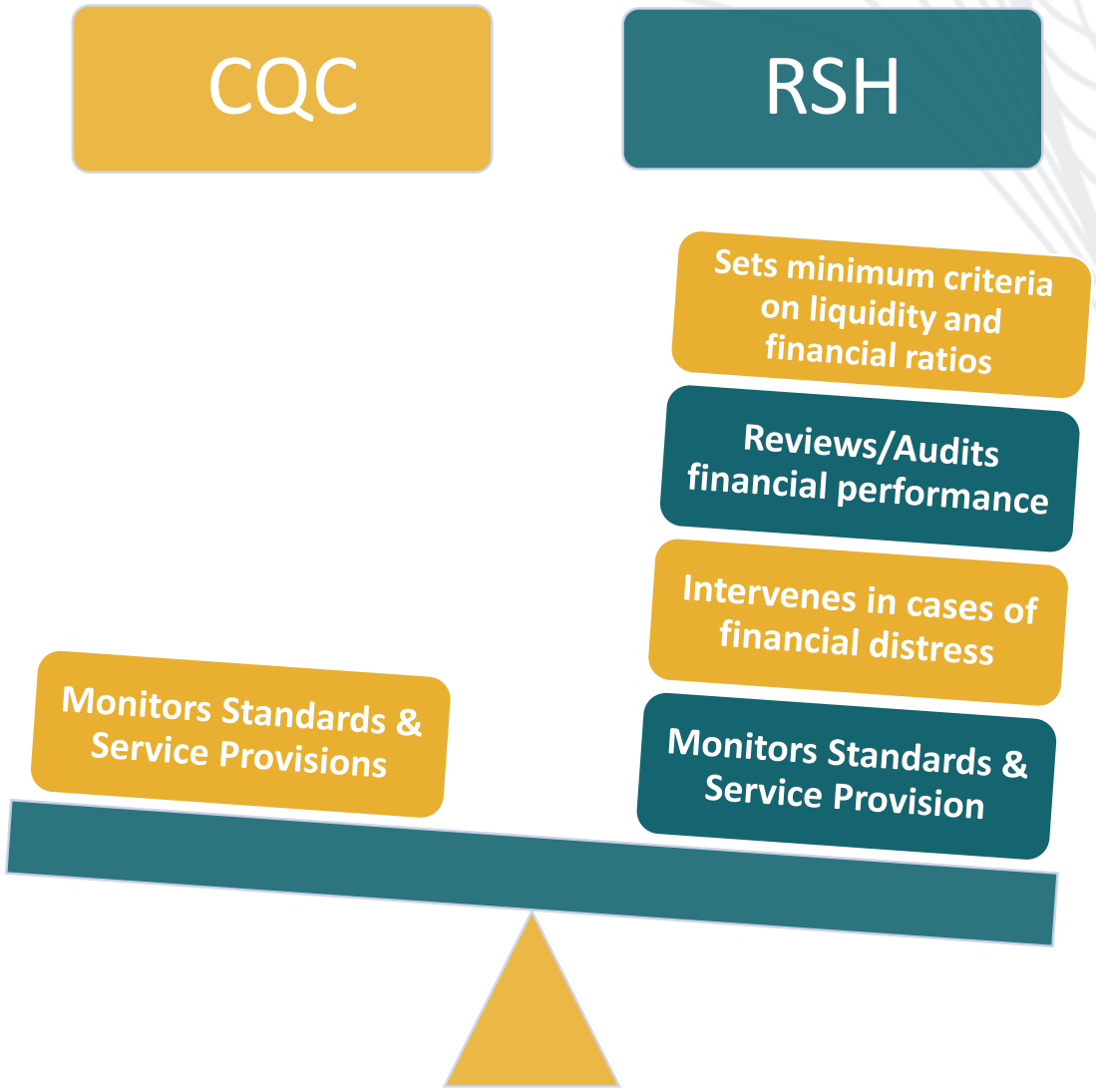
Analysing the Problem

So where does the problem arise and what steps should government take to resolve it?

- Ironically it starts with the unintended consequences of regulation
- The Regulator of Social Housing (RSH) has an entirely different relationship with lenders compared to the Care Quality Commission (CQC)
- This arises from its origins as an organisation designed to encourage and oversee the provision of Social Housing
- As a consequence, it operates a regime that protects tenants while supporting lenders



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Analysing the Problem

- By contrast the CQC is primarily focused on standards and performance:
  - with only a limited role in monitoring business viability, and lack of transparency on what does take place,
  - limited interaction and visibility with lenders and investors, and
  - no say in the level of liquidity or gearing in the business
- At the same time, the actions it takes in defence of customers can actually threaten the viability of the business
- Lenders carefully monitor CQC Ratings, as rulings on “Requires improvement” or “Special measures”, have consequences, that can:
  - impact admissions,
  - often necessitate expenditure, and also
  - effect valuations
- There are no mechanisms in place to:
  - to provide financial support,
  - protect the interests of lenders or, indeed
  - those who pay for the service, public or private

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Challenge for Funders

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The Challenge for Funders

- This has created a difficult situation for ethical investors who are:
  - keen to support socially impactful businesses, but
  - nervous of a regulatory regime that is quite opaque and can impact their financial interests

- As the CQC has become more effective in driving up standards of care, investors' concerns have been exacerbated by legacy issues which include:
  - excessive and irresponsible leverage in the private equity model
  - the challenge of rising costs and diminishing certainty of income:
    - investment in improving standards
    - declining per capita local authority payments
    - ethical dilemma of greater dependence on private payers
  - sensitivity to monitoring issues of operating risk

- This has given rise to a situation where charitable care home operators struggle to obtain adequate and attractive funding, despite good outcomes and an increasing need for their services

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The Challenge for Funders

- These difficulties have been exacerbated by a number of other factors:

Limited Government Support for New Care Facilities

- Virtually no support for from government on the development of new care facilities

Planning Issues

- With Developers that specialise in cornering planning consents
- Maximising profit by requiring operators to accept expensive ‘sale and leaseback’ options on attractive sites

Legacy Strategies Separating Operation from Ownership

- Creating high levels of operational gearing in care providers
- Making them vulnerable to any set back

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A New Approach

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A New Approach

- These issues will not go away and require a transformation in the approach to the care sector – including rallying support from government and new initiatives to drive investment

A new approach to providing care

- A joined up approach from Government
- A move to combine ownership with operation
- Building on relationships with lenders
- A change in planning consents to encourage operator-led developments
- Direct Support for Investment in facilities (i.e. Grants or guarantees)
- A transparent, regulatory regime combining financial viability with standards

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A New Approach

- This approach also **protects government**
- When things go wrong with an essential service like care, government has to intervene
- Whether through central or local government, huge sums are being expended on care with little control over how this is applied, such as:
  - levels of excessive and unsupportable leverage
  - models that incorporate unsustainable operational gearing
  - capacity to extract substantial short term gains at the expense of long term cost
- Care for the elderly is an essential service which now needs a regulator that oversees it on the same basis as other critical services

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Appendix

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Current Stance on Financial Regulation

- The CQC has two regulations in place that cover, or partly cover, the financial position of care providers – both of which fall short of protecting the financial stability and integrity of care providers ,and offering confidence to the market

1) Regulation 13: Financial Position
   - The intention is to require providers to ensure reasonable steps are taken to meet the financial demands of providing safe and appropriate services
   - The CQC cannot prosecute for a breach of this regulation or any of its parts but they can take regulatory action
2) Regulation 17: Good Governance
   - This regulation, although does not directly address financial issues, is in place to ensure that providers have systems and processes to ensure compliance with other requirements in relation to the Health and Social Care Act 2008
   - When requested, providers must provide a written report to CQC setting out how they assess, monitor, and where required, improve the quality and safety of their services

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Current Stance on Financial Regulation

- A number of care homes have ceased in business due to their finances no longer being viable – and there has been criticism of both government and local authorities for not providing enough funding to cover increases in costs (i.e. staff costs)
- In 2018, the CQC confirmed the introduction of a more consistent and proportionate way of assessing the financial viability of care providers *applying for registration* – although this only applies to some providers
- Providers are required to provide assurance in the form of a statement letter from a financial specialist, such as a bank, advisory or accountancy practice. However, this does not address on-going financial issues
- The Regulator requires that should a provider be in, or close to, financial difficulty, they must raise this with the regulator – at which point an inspector is dispatched
- Additionally, the CQC only monitors those providers deemed 'difficult to replace' in the event of failure for financial sustainability, and even in those cases they do not have any responsibility or regulatory power to intervene to prevent a failure – instead they are required to inform the local authority when they believe this is likely to occur
- This reactive rather than proactive approach, together with an overall lack of transparency and engagement, partly justifies investor reluctance to invest into the sector

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