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Taking Care of Business : Care Sector Outlook 2013

THE PRIVATE CARE SECTOR AS A WHOLE FACES SOME TOUGH CHALLENGES THIS YEAR IN AN ENVIRONMENT OF DEBT, GOVERNMENT CUT-BACKS AND ESCALATING REGULATION

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Simon Thomas, Partner at Moorfields Corporate Recovery, examines the key issues facing the sector and explains how financiers can protect their position.

There is no denying that independent private care providers are an important part of future service provisions in health and social care to the UK. Laing's Healthcare Market Review looked at the latest data available from 2011 within the care sector. The research revealed that the total value of care in the UK, which includes the following care services: home, specialist care, education, homecare, dentistry and private hospitals stood at £39.9bn. It is a considerable market and one that is growing, with significant opportunities available for entrepreneurial businesses.

The statistics speak for themselves

The UK currently spends 9% of national income on health and social care, double what it was 50 years ago. Given the rise in medical care available, plus the impact of an ageing population, estimates from the Office for Budget Responsibility predict that spending on health and social care could increase to 20% as soon as 2016. In the next 20 years the number of over 65s is set to double from around 8million today to 16million as the Baby Boomer generation reaches old age.

The long term view for the care sector is positive. There is little doubt that the sector as a whole has an invaluable role to play in offering care to an older population, as well as in supplying affordable solutions to an overstretched and under-resourced NHS and local authority care structure. Many care companies have benefitted from private equity investment

An uncertain short-term view

The short to medium term view within the care sector is a lot less optimistic. 2013 certainly promises to be a tough business year for care providers for a number of reasons.

One of the major trading difficulties many within the care sector experienced in 2012 were difficult credit and lending terms from a cautious banking sector. In the pre-credit crisis days many care companies aggressively expanded, taking on increased debt burdens and these have proved increasingly difficult to service over the last few years.

Decline in property value

With a weak property market and declining values throughout 2012 this has exacerbated issues for care providers, many of whom have substantial capital investment in property.
Care home property values fell on average by 0.7% over the course of last year and while not a catastrophic decline, this has left many care companies with fewer options when seeking more favourable finance terms with lenders.

While the outlook in terms of bank lending seems slightly more optimistic in 2013, property remains increasingly unstable, something which is likely to impact on a number of care companies over the course of the year.

> "Care home property values fell on average by 0.7% over the course year"

Spending Cuts

Care providers are also feeling the effects of budget cuts within the public sector. Those private care companies providing services to the NHS and local councils have seen their businesses severely squeezed under the austerity measures introduced by the coalition government.

A recent poll by ComRes found that local authority budgets have been cut on average by 16%; many of these cuts have been in care, inevitably effecting private companies supplying care services. As many as 76% of local councillors are reported to be worried about the provision for elderly and vulnerable care in their areas. In London there is reportedly a £907million gap in care funding. These cuts in NHS spending and Local Authority budgets will undoubtedly make the business climate more difficult for some care businesses to remain profitable enterprises throughout 2013.

New Laws

Changes to care company regulation and increased red tape legislation are also likely to have a major impact on care companies. The care industry is still assimilating the findings of The Department for Health's report into the abuse at Gloucestershire Winterbourne View Hospital, which was published in December 2012.

One of the report's recommendations was for greater accountability. This has led to the call by former care minister Paul Burstow for corporate neglect to become a criminal offence. Proposals would see care home groups and their directors face prosecution if found guilty of corporate neglect. A government report is expected in the spring to address what has been deemed a 'gap' in care legislation. Under current legislation the Care Quality Commission can, and does, close failing facilities but it is currently powerless to then enforce action against institutions for institutional neglect and abuse. Justice currently comes through the civil courts. The new changes may also look to increase the powers of the Serious Case Reviews and Adult Safe-Guarding Boards, so that companies facing investigation for abuse are obliged to co-operate with the relevant authorities. These proposals are all likely to add to the administrative burden of running a care business and will likely increase expenditure for private companies looking to ensure that they can adequately show that they are providing quality care.

While there is support within the care sector around deterrents being put in place to prevent abuse and neglect, it is essential that legislation appearing fair for both service users and providers.

Any move to increase legislation to include corporate care neglect could set a precedent that may see local authority leaders and even health ministers facing accountability in the courts.

Moves to implement the proposed changes could yet prove fruitless. Many experts in the care industry have pointed out criminal law requires proof 'beyond all reasonable doubt', something which may prove be difficult to achieve when looking to link the actions of individual care workers to a managing director's responsibilities amid an accusation of dereliction of duty. This could potentially make any regulation very difficult to enforce in practise.

Funding changes

Elderly care is the biggest care sector, accounting for £13.4bn.

One of the biggest issues surrounding the provision of care to the elderly in the UK is who pays? Latest figures indicate that over half of all elderly residents in care paid either some or all of their care provision in 2012. 175,000 older residents, accounting for 43.4% of the total, paid the full cost of long term care last year. An additional 56,000 (14%) received top-ups from family or friends. This means that 231,000 older residents 57% of all elderly care home residents were contributing to their care, with only 43% receiving it free from the NHS.

Health Secretary Jeremy Hunt announced new plans in February to cap the total amount people pay towards personal care to £75,000. In what he describes as a "new era of support for the elderly and disabled", the threshold for assets before someone will have to pay for their nursing care is also set to be raised from £23,250 to £123,000.

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Running into difficulty

The outlook for the care sector in 2013 is troubled at best. Increased legislation, unfavourable spending and a difficult credit picture mean that many companies may fall into difficulty throughout 2013.

There are ways that financiers can manage the risk however. Early action can have a significant impact. Recruiting experts that can call upon specialist contacts to make a number of operational improvements, including delivery on practical solutions within short timeframes is invaluable.

Take Action Sooner Rather Than Later

At Moorfields, our extensive sector experience provides a constructive environment for engaging with all parties, reducing losses for finance providers in the process.

Always look out for warning signs that a care business might be facing difficulties. Keep a close eye on:

- Cash flow difficulties
- Late management accounts with declining trends
- Crown arrears
- Funding requests at short notice

Each of these factors indicates that a care company may be experiencing difficulties – and that now's the time to act. By involving us from the moment warning signs appear, we are well placed to create an effective plan and steer a course to a welcome conclusion for all parties involved.

Want to find out more?

To find out more about Moorfields' restructuring and insolvency services contact: Simon Thomas contact on 0207 186 1143

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