

Great Expectations or Hard Times – thoughts on the Care Homes market

An assessment of the care market brings to mind the opening of *A Tale of Two Cities* – “It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness”.

The best of times would include the very impressive initial results emerging from the enhanced health in care homes vanguards. Projects such as the Kingsclear Nursing Home are set to open in summer 2017. The project which incorporates high end fit out and equipment with landscaped gardens is designed by a Chelsea Flower Show gold winning designer and points to a golden age for care. Advisers such as Savills point towards the attractive yields available for well-structured projects and flag some investors’ view that “the quasi-Government backed income [healthcare projects] provide offer[s] an appealing proposition in uncertain times against some of the strongly priced commercial investment markets”. Occupancy rates are up and average fees are finally (albeit slowly) inching upwards.

Yet, those of us in the industry know that for each success story there is a gloomier outlook such as the recent special measures that the CQC imposed on two Lancashire care homes. There is the accelerating rate of nursing home closures (73 closures from January to June 2016 – more than the total number of closures in 2015), as well as the news that a care home in the Midlands is not only due to close, but that its directors have “chosen not to sell the business as a going concern given the state of the sector and believe it is more financially viable to sell up”.

The truth, as always, lies away from the extremities. Home closures lead to decreased capacity, which in turn leads to higher occupancy. Classic supply and demand economics at work. Geographical variations skew national statistics. High-end self-funder homes in affluent areas spike average fees and mask the obstinately low local authority rates.

So, in the absence of being able to move your home to new location, or easy access to capital to fund improvements required to pursue self-funders or to cater for the intermediate care model, what steps should businesses be taking to secure their futures? The answer is unglamorous but essential – concentrate on the basics.

Funding is an obvious point of focus. After the public tragedy of Southern Cross no care home operator can have financing far from their thoughts. Interest rates are historically



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low and while some lenders have retreated from the sector, specialists such as Santander remain committed to the sector. Refinancing or restructuring debt obligations can make a substantial impact on a business’ viability.

Financing then leads to the second key area – contracting and standards. It’s obvious but no less important for being so, that understanding key contracts and ensuring delivery to those terms is essential. It’s not uncommon for finance documents to contain cross default provisions linked to key escalations in commissioning contracts or enforcement action taken by the CQC. Understanding the black letter obligations of a business and the process that is required for counterparties to trigger remedies can make the difference between staying open or not.

The CQC is a major area of focus. We are seeing increased take-up for CQC inspection preparation, helping many of our clients prepare for CQC inspections, identifying ‘issues’ at a stage when remedial work can be undertaken without significant consequence. Of course, no one operates in this sector without a desire to provide the highest care.

However, as cases such as Castlebeck demonstrate, standards can fall and businesses can turn from thriving to embargoed admissions in a seeming free fall where adequate systems aren’t in place.

With the national living wage set to increase businesses’ cost base (not only by raising direct costs but with indirect pressures such as cost increases to maintain wage differentials) and staff attrition rates remaining steady with the consequent agency costs that care homes have to bear, maintaining focus on high quality care with the requisite systems can seem hard, but it is in fact essential.

Adequate training, good documentation and preparation for inspection are not luxuries. Yes, money is tight and savings must be made, but savings are designed to improve a businesses’ viability. Essential standards and preparation will help to keep the doors open and much needed services provided. When assessing the care market perhaps another Dickens quote is more appropriate “no one is useless in this world, who lightens the burdens of another”. Helping others is at the heart of the industry we work in; let’s just make sure we take care of the details so we can continue to do great things.



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