Care News

WINTER 2020

Welcome from Michelle Ferris

Welcome to the Winter 2020 edition of the Care Newsletter.

The year has been dominated by the pandemic, and it will therefore come as no surprise that it is a key theme in the following pages. We have the views of our professional colleagues from Christie & Co and Chandler & Co on the effects of Covid-19 on the market and bank lending, and our Senior Tax Manager Elaine Grose shares her ideas on rewarding staff for their ongoing efforts. Still on the subject of employees, the first 'Professional Care Workers Week' took place in September, whilst the Health and Social Care Select Committee has launched an inquiry into employee burnout. The same Committee has also recently published a report on funding, the key findings of which I've detailed below.

Looking to the future, Julie Hopkins gives advice on future-proofing business transformation and explains why cash flow management and forecasting are so important. Finally, our 'Meet the Team' interview is with Neil Hutchings, Director of Corporate Finance.

Enjoy the issue!

Michelle

Head of Charities and Care, Albert Goodman

South West care homes **have lowest infection rate** and **high buyer interest**

Simon Harvey and Rachel Seward MRICS, Directors of Christie & Co, see much to be positive about in the South West.

Thankfully the summer influx of tourists to the South West did not lead to a large spike in case numbers. With winter beginning the much anticipated second wave is now in full flow, and many homes in the South West have reacted early and closed their doors to all bar essential visitors. Whilst speculation is rife as to how severe the second wave will be there appears to be heightened optimism amongst many operators, who feel more prepared with stringent admission protocols in place, good levels of PPE stocks and regular testing occurring.

Pre-Covid our analysis shows that average occupancy in the South West was around 90%, slightly higher than the UK average. Whilst we have no substantiated evidence, anecdotal evidence is positive with a high percentage of homes appearing to have had nominal or no impact on occupancy, with no positive staff or resident cases. In July 2020, CQC published statistics showing that the South West had the lowest level of infections, with just 29% of care homes reporting an outbreak compared to other English regions at between 36% and 54%, with an average of 45.5%.

Over recent years the UK care home market has attracted new investors, who are increasingly seeking alternative asset classes and a more secure, long-term sector. Since the onset of the pandemic this trend has increased, with traditional commercial sectors such as office and retail suffering. Buyer appetite in the sector remains very strong and Christie & Co are pleased to have carried out 408 care home viewings with 277 offers, 105 agreed sales and 73 exchanges since the start of lockdown. We are also seeing more buyers potentially considering the South West due to the lower infection numbers and strong trading performance of many homes, with values appearing to be largely maintained across the sector if trading has been unaffected.

Notwithstanding this, lending in the sector continues to be challenging, particularly for first time buyers with no experience. Criteria previously considered desirable in the market, such as experienced operators, CQC ratings of Good or Outstanding and established strong trading performance, are now largely essential; and even experienced purchasers are unlikely to see LTV ratios above 55% to 65%. The impact of tightened lending criteria on values remains to be seen but for the moment, overall the sector is showing resilience and plenty of activity.

For advice from Christie & Co, contact Rachel Seward MRICS on 117 946 8511 or by email rachel.seward@christie.com

Commons Health and Social Care Select Committee Report

Last month, the Commons Health and Social Care Select Committee published a report on the Adult Social Care Workforce and Funding. Michelle Ferris, Head of Charities and Care at Albert Goodman, highlights the main points.

The report highlights the challenges which the sector has faced over the course of the last seven months. It is not intended to be an in-depth inquiry (given the number of these that have already been carried out without action), but rather a short, focused one looking at funding and workforce issues, in the light of both Brexit and the Comprehensive Spending Review due in the Spring of 2021.

The report is clear that the Committee believes that the Government understands the urgent need for reform, and indeed put a number of case studies to Matt Hancock, Secretary of State for Health and Social Care. There are twenty-one conclusions and recommendations to improve funding and the strength and stability of the workforce, centred around two key elements - the historical injustices in the system, and the current funding pressures.

The report calls for a minimum increase in annual funding of £3.9bn by 2023-24 to meet demographic changes and planned increases in the National Living Wage, but notes that this will not address shortfalls in quality of care, reverse the decline in access or address further issues. The overall recommendation is ultimately an extra £7bn per year for social care, with the acknowledgement that this could easily rise to over £10bn to address most problems.

Previous reports have recommended free personal care and a cap on care costs (at an estimated cost of £5bn per year) or a lifetime cap on care costs (at an estimated cost of around £3.1bn by 2023-24), but this goes a step further to look to address wage issues within the sector, as well as an increase in the scope of personal care funded.

In considering recommendations, the Committee heard evidence regarding the system in Japan, where service users pay a co-payment of between 10% and 30% of the total care cost. Those in residential care pay 'hotel costs' (accommodation and food) but these contributions are means-tested and capped for those on low incomes. The system is funded through general taxation and through 'premiums' paid by all people over 40 at a rate of 1% of income.

With UK National Insurance contributions expected to hit £143.4bn in 2019/20, a 2% rise in national insurance would cover almost all of what the report is recommending.

The report also calls for the Government to publish a 10-year plan for the social care sector, as they have for the NHS, with the argument being what most have been saying for years, that the systems are intrinsically linked. The report also comments on the testing system available for care home staff, including a recommendation that the Government should consider including a named key relative in routine testing. This is an idea starting to gain real traction on the ground to enable a safe level of interaction with family, which is so vital for all individuals, but particularly those with dementia and Alzheimer's.

The big question is, will this make a difference? Certainly, the Select Committee have more freedom to call for such measures, without consideration of the public purse or political pressures, but there are some compelling arguments pulled out in what is really a brief report. The case study of Japan is particularly interesting, and certainly there is more public awareness of the state of the care sector than there ever has been previously, making perhaps an increase in National Insurance slightly more politically palatable for Rishi Sunak and the Government. If nothing else, the report adds a further layer of pressure to the position, one which I would encourage you all to build on, to get the situation built into the Comprehensive Spending Review.

A full copy of the report is available here: https://publications.parliament.uk/pa/cm5801/cmselect/cmhealth/206/20602.htm

The Care Home Mortgage Market - *What are Lenders looking for?*

Mark Hickman, Director of Chandler & Co, explains why he thinks banks will continue to lend to the care sector, and how to present your business to potential lenders.

We continue to face many challenges in the workplace, and we are all adapting to how we work through them. The care home mortgage market is no different, but one key point we have found is that it has proven to be resilient through these times.

Chandler & Co have been arranging mortgages in the care sector for over 25 years, and have seen some other challenging times over those years. Today we continue to work to support our clients, and any new client who approaches us.

We are continuing to work on active transactions and have clients keen to acquire more homes, whilst having an increase in investors enquiring about and keen to enter the sector. Regardless of the pandemic there will still be demand for care homes, and they will continue to operate.

I expect the care market to remain a key sector for the banks to lend into. This is evidenced from our live pipeline of deals sanctioned with lenders, which include both high street and challenger banks. As with any changes to the market, presentation to the banks is key. This will include background on the applicant and how their homes are currently run, both financially and from a CQC perspective. Vital pieces of information to have to hand are the latest management accounts, occupancy lists, and Covid policies and procedures. The banks will want to see how the care homes have traded during the pandemic, and what guidelines they are working to in order to protect the home and its staff and residents as best they can.

If you are currently at a crossroads with your care home mortgage, either from an acquisition or remortgage proposal, or would like to discuss your plans for the next 12 months, please feel free to contact me on 07500 056193 or mark@chandlerandco.co.uk

Health and Social Care Select Committee launches inquiry into *employee burnout*

Pressure and stress amongst staff in the NHS and social care sectors has been an acknowledged issue for some time. Following the first wave of the pandemic it was announced that the Health and Social Care Select Committee would begin an inquiry into the issue, looking at workforce burnout and resilience in the NHS and social care.

The inquiry will consider the increased pressures which arose during the Spring and Summer, and the resilience of services to cope with high levels of staff stress. Prior to March the sector faced many issues including absenteeism, high numbers of vacancies, and high staff turnover, and although the vacancy rate in particular has been lower in recent months, it has been reported that 92% of NHS trusts were concerned about burnout among staff.

MPs are requesting evidence to assess the impact of staff burnout on a range of areas, and the inquiry will also focus on the Government's workforce planning set out in the NHS People Plan. The fact that there is no equivalent plan for social care will also be considered.

The closing date for submitting evidence was the end of October, and at the time of writing there is no indication of when the findings will be made public.

Agility and business transformation *for care businesses*

Julie Hopkins, Albert Goodman's Care Sector Business Developer and Consultant, shares her tips for making your care business agile in these changing times.

As a researcher and business advisor in the care sector, it has been a marathon keeping up with the almost daily guidance in the sector. Numerous articles have been generated from Local Government Associations, care associations, and other social media, in addition to guidance from the national Government. More change from the Regulator is anticipated, with businesses needing to ensure that they are ready and agile for more change with Winter upon us.

We can expect more remote monitoring, with the care sector digitalisation approaching an accelerated rollout. There is no doubt that CQC is seeking a real-time live data system of inspection, which will no doubt make inspection output less likely to be challenged.

As we await the CQC Strategy 21, what action can care providers take in the meantime?

Firstly, there will need to be a **greater uptake in the use of technology** in the sector. This was clearly demonstrated during the pandemic, but continuous evolution is required to enhance the care service *(see our piece "The robots are coming" later in this newsletter for more information).*

Secondly, care providers may also be looking at whether the **business structure** needs addressing - for example, is a care home property asset ringfenced from the trading operation? If a business has several care homes, is each home trading as a separate entity within a group structure?

Thirdly, a possible accelerated outcome of the pandemic is the need to address whether a current property is fit for purpose as a care home. With social distancing, increased infection controls and a greater emphasis on the health and wellbeing of staff as well as residents, should providers **consider a refurbishment/building extension programme?**

I have developed some current top tips for care business viability across the board:

Technology: Technology is definitely progressing at a faster pace in the post-pandemic world, and with it there may be opportunities for a Research & Development tax claim. A specialist tax accountant, such as Albert Goodman's Elaine Grose, can assist in this area.

Care plan quality: The digitalisation of care planning is just the start. Ensuring the quality of the care plan and examining the trends of any output is vital alongside the actual accountancy function. Auditing data output and evidencing recommendations with follow-up action is an important part of ongoing CQC inspection preparation.

Restructures, risk and audits: Business restructures, whether it is an incorporation of a sole trade or partnership, or a review of the overall company structure taking into account tax and accountancy aspects alongside an assessment of risk and corporate governance, will most likely be accelerated as business life rejuvenates.

As a business adapts and grows, audit may be a current and future requirement. As with other services, audits of financial statements and cash-flow and management accounts, and reviews for investor needs are becoming more demanding. Speaking to a care sector audit specialist will be increasingly important in this new world.

The pandemic has illustrated the need for larger rooms with en-suite facilities as part of a risk assessment/ isolation policy, alongside relative/resident meeting hubs, green space, additional storage capacity for PPE, and staff space.

Staff engagement and training: Ongoing and increased investment in staff training and wellbeing is essential. Staff needs should be embedded in the business culture in an open and transparent communication arena. Team engagement in the business continuity strategy will follow, and indeed will address any potential employee whistleblowing concerns.

The increased professionalisation of the care sector, with clear career progression, will ensure staff empowerment and a well-led business. This will, in turn, generate higher referrals and occupancy with increased community communications. Revisit your 'rising star' programme and any mentoring arrangements.

Financial forecasting and agility: Some providers are grappling with the new times. Financial forecasts can assist providers to ensure that short and long term funding meet the needs of the business, and highlight any areas for action whether now or in the future.

Demonstrating an agile business is evidence to CQC of future sustainability. This is important for new care business registrations, as well as the ongoing business entity.

Securing funding: Funding and cash are always important, but never more so than now. In the current climate a provider should look at current, short and long term funding, be resilient, and accept factors outside of their control. Focus on what can be achieved, and take back control post-pandemic.

STAFF REWARDS don't have to cost the earth

Elaine Grose, Albert Goodman's Senior Tax Manager, shares her thoughts on how providers can thank their keyworkers without breaking the bank.

With increased outgoings on PPE, covering the costs of staff who are self-isolating, and inflated insurance premiums, most care home businesses will be lucky to see a profit in 2020. So how can you reward your dedicated workers, who have supported the most vulnerable in our society, without doing too much to harm your bottom line?

There are of course the basics:

- Clear communication of expectations, as one disengaged staff member adds to the team's overall burden
- Regular breaks with in/outdoor spaces to relax in away from the residents
- Flexibility with working hours
- Investment in equipment to reduce the physical burden
- Well run and supported systems, to ensure minimal disruption to your staff's administrative burden
- Creating a constructive and open feedback system.

Then there are financial rewards:

- Discretionary bonuses
- Increased holiday entitlement
- Generous employer pension contributions
- Benefits which attract little or no tax liability
- Employee share schemes, to create an additional return when finances permit.

Let's face it, most individuals working in the care sector are not in it for the money, but when it comes to those that go above and beyond, their financial value should not be overlooked!

If you'd like to discuss the options available to you as an employer, please do get in touch at elaine.grose@albertgoodman.co.uk or by telephone 01823 286096.

THE ROBOTS ARE COMING

Hannah Rowe looks at how technology is moving into the care sector, and how it can benefit providers and service users.

The pandemic has changed the way we all live, and nowhere is this more true than in the social care sector. Whilst face to face visits were banned, staff and residents got to grips with communicating via mediums such as FaceTime, Zoom and Microsoft Teams; and more homes are now beginning to offer 'virtual' tours for potential residents and their families. Elsewhere in this newsletter Julie Hopkins noted that CQC is beginning pilots for virtual inspections of community care providers, with care homes sure to follow.

Things were already beginning to change before Covid began though: in our Spring newsletter we reported that the leading care home review site www.carehome.co.uk survey of 2,611 care home owners, managers and staff showed that over half thought that homes should use Artificial Intelligence (AI) such as smart speakers to help care for residents. In September, 'Metro' newspaper reported on AI research being trialled with care home residents across the UK and Japan, which gave residents a robot for up to 18 hours over two weeks.

Care technology is also developing quickly, with software which originally began as a care planning tool now offering many other features. The most recent entrant to the market is PredicAire the first holistic software, which will cover everything from care planning to accounting, maintenance, HR, activities, and nutrition.

With CQC making encouraging innovation a priority in its strategy, and the changes in communication which have occurred due to the pandemic, there is no doubt that the amount of technology available to and used by social care providers will increase rapidly in the years to come.

Why CASH FLOW MANAGEMENT and FORECASTING are important

As we all look at the future of care and work with the 'new normal', Julie Hopkins, Albert Goodman's Care Sector Business Developer and Consultant, addresses some pressing points around cash flow and forecasting.

There is additional emphasis on cash flow issues due to the pandemic, but with some foresight these can be aided by good cashflow forecasts. There are a variety of steps you can take now, to get yourself in the best possible financial shape for winter.

STEPS TO PREPARE

The main step is to ensure that any cash flow forecasts you have are fit for purpose. Some areas you may like to consider are:

PPE pricing and availability: Champions within the organisation may now be needed for the procurement of PPE and other equipment for the medium-term, securing reliable supply chains and considering the possible impact of Brexit on these chains.

Staffing costs: The coming months will continue to bring increased staffing costs in care homes and domiciliary care. Providers should ensure that they have worked such costs into any forecasts, with examples being:

- Shift bubbles
- Cover for people isolating and shielding
- The administration of testing
- Enhanced HR costs, such as obtaining well-being training
- Recruitment and retention. Whilst recent months have seen increased applications for staff vacancies, this may change over winter. You could consider values-based recruitment to lower recruitment costs, reduce staff turnover and target a positive return on business investment. There is a hidden time and cost of recruiting, so consider recruiting in-house or outsourcing, in addition to utilising the Care Friends app
- Staff burnout could have serious implications - have you thought about how additional staff could be procured? This may be permanent, bank and voluntary staff.

Real-time reporting: Has your organisation decided the time is right to move the care service into real-time care reporting, using technology and EMar packages? CQC is starting pilots for virtual care at home inspections, and all indications are that care homes will be next. If you are looking to move this way, have you considered remote monitoring? It is also anticipated that commissioning will move away from time and task to better outcomes for care in the community. How will this impact your business?

Occupancy and cash flow: If you are relying on occupancy remaining high, have you considered new measures to ensure that people are still attracted to your organisation? This is likely to involve considering your visitor policy, and demonstrating a robust Pandemic policy to service users, relatives and friends. Find out what is important to a potential service user, recent examples being: whether you have a café/bar; whether residents can still see their own hairdresser; whether visits with loved ones will be in-person or remotely; and your Covid policy.

Clearly if occupancy does not remain at budgeted levels it will have a significant impact on the cash flow of the organisation. Business agility and innovation is key, alongside forward-looking business acumen. Ask yourself if there are sufficient cash reserves to weather a storm.

POST-PANDEMIC BUSINESS MODEL

Will your business model need to evolve post-pandemic? What have you learnt that you can consider the implications of now, and include within your forecasts?

After taking into account the above, design cash-flow reports supporting crucial business decisions. This will help you establish if there is a temporary or more permanent funding shortfall.

Reliable forecasting can make a case for short term and/or more long term lending. They are also essential for demonstrating your organisation's viability, should you require external funding.

Sensitivity reporting within the cash-flow should follow through the 'what if' scenario and cash flow impact is always advised.

It is important that you keep any forecasts you do as a living document – compare it to actuals, set up regular income and expense meetings with those who have the insight into predicted cash movements, and discuss requirements with any in-house budget holders.

You should also ensure that there are clear lines of cash-flow reporting throughout the organisation. People feel valued when they champion a cause.

The underlying message is clear – the care sector is here to stay, and with careful planning and resilience businesses will be sustainable for the long term.

MEET THE TEAM

Neil Hutchings ACA - Director of Corporate Finance

Neil is head of Albert Goodman's Corporate Finance team, and works closely with Michelle Ferris to assist care sector clients. We caught up with him to find out about his role, and how the care sector has to be viewed differently to others when it comes to valuation.

How long have you worked for Albert Goodman?

I joined the firm in 2008. I completed my accountancy training with Deloitte in Nottingham, qualifying as a Chartered Accountant in 2001; and moved to PwC in Bristol before joining Albert Goodman.

What kind of services do you provide to the care sector?

In addition to the wider accountancy, audit and taxation services and more specialist and ad-hoc services relating to benchmarking, management reporting and system appraisals provided by the firm, my team specialises in providing the full range of Corporate Finance services incorporating exit planning, valuations, deal structuring, business plans, fund raising and due diligence investigations. In providing these services I work closely with our Care Sector and Tax Consultancy specialists, to ensure that our advice is tailor made and meets the specific needs of care business owners.

To illustrate the type of support we offer, recent care sector projects have included: advising a charity which was acquiring a 65-bed care home to expand its existing operations; assisting with fundraising for a 40-bed care home; financial due diligence investigation of an 18-bed residential care home business; and providing valuation advice to a range of other businesses in the care sector.

As much as providing detailed technical advice, I often find that I am asked to offer business support, to 'hand hold' the owners through the transaction. By providing this support through what can be a very time-consuming one-off piece of work, this allows the business owner to concentrate on running their care business.

Do you find care businesses different to those in other sectors?

In some ways, yes – particularly when it comes to valuations. Whilst the valuation of trading businesses which buy and sell goods or services is often assessed on the basis of earnings, this is not always the case for care businesses where earnings alone do not always reflect the true valuation of the business. The premises have to be taken into account too, as these are often former residential properties that have alternative uses and potentially higher values. Similarly, the wide range of businesses that fall within the care sector means that a 'one size fits all' approach is not applicable, not least because certain 'rule of thumb' valuation bases also exist for the care sector.

I am always happy to talk to care business owners to help them to properly assess their current position. With our nationally recognised team being well connected with sector consultants, property agents, and solicitors specialising in the care sector, we are confident that we can offer appropriate professional advice.

Do you find a wide range of profitability in the sector?

As with all businesses, some are more profitable than others. In the care sector profitability can be affected by the ability of the manager, as well as how efficiently the owner and management team run the home. There is no hard and fast rule - some small homes run very efficiently and profitably whilst some larger homes can be less successful, and vice versa.

How do you think Covid has affected the market for Albert Goodman's care clients?

During 2019 the care market was uncertain, as the country dealt with the dual issues of Brexit and the General Election. 2020 began brightly, but then of course we reached March and went into Lockdown.

Since the end of the first lockdown we have seen many enquiries from clients either looking to sell their businesses, or to begin planning their exit strategies. Whilst the specific challenges faced by the care sector during recent months have been widely reported in the media, encouragingly, our colleagues at Christie & Co have written elsewhere in this newsletter that more buyers are potentially considering the South West. This bodes well for care business owners who are considering an exit from the market, even considering the second lockdown position we find ourselves in.

To discuss Corporate Finance support with Neil, email neil.hutchings@albertgoodman.co.uk or call 01823 250793.

End note

As we step into winter, and a second national lockdown looms, it is clear that we are by no means out of the woods as regards the pandemic. However, the South West managed to avoid the worst effects of the first wave, and remain well set up and prepared for what the next few months will bring. We have no reason to believe that the care market in our region will do anything other than remain stable, a position which would be welcomes by many. As we approach 2021 we can only hope that a vaccine will arrive to allow normality to resume.

We hope that the articles contained within this newsletter help you to prepare for the future, whatever it brings. I wish you a peaceful and prosperous festive season.

Michelle

Head of Charities and Care, Albert Goodman

Dates for your diary

9th - 10th March 2021
CARE EXPO (NEC BIRMINGHAM)

27-28 April 2021
THE RESIDENTIAL & HOME CARE SHOW (EXCEL, LONDON)

DID YOU KNOW...? **Albert Goodman can provide your care business with:**

Accounts and Audit compliance (Peter Strong and Michelle Ferris)
Consultancy for business development/growth (Julie Hopkins)
Acquisition and sales advice (Elaine Grose and Richard Bugler)
Property Capital Allowance reviews (to release 'hidden' tax reliefs) (Kelly Di Notaro)
Corporate and personal tax services for owners (compliance, advisory, restructure, succession and exit planning) (Tax Team)
Later Life Care funding solutions (Louise Osborne)
Corporate Finance including valuations and due diligence for acquisitions and sales (Neil Hutchings)
Workplace pensions (Andrew Hopper)
Payroll (Michael Evans)
Bookkeeping Outsourcing (Clare Blackmore)
App Advisory (Tom Hawes)

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