

Cabinet

Report Subject	Acquisition of a Care Home
Meeting date	23 November 2018
Cabinet Portfolios	Councillor Blair Crawford – Adult Social Care
Corporate Lead	Sue Ross, Director
Service Director	Neil Goddard, Service Director, Community Learning & Commissioning
Status	Public
Classification	For decision
Key Decision	Yes
Impacts on Key Policy Framework	No
Report author	Sarah Longthorpe, Commercial Development Manager, ☎ 01202 451170 ✉ sarah.longthorpe@bournemouth.gov.uk Ivor Cawthorn, Head of Joint Commissioning & Partnerships, ☎ 01202 458722 ✉ ivor.cawthorn@bournemouth.gov.uk
Executive summary	<ol style="list-style-type: none"> 1. Adult Social Care continues to face many challenges in sourcing suitable accommodation and good care at an affordable price for those leaving hospital or who are otherwise in need of residential care. These challenges are shared across the whole of the care sector. As the report indicates the proposed acquisition of a care home is a direct intervention to meet present and future needs of individuals within available resources and budgetary pressures within Adult Social Care. 2. Due to the current economic conditions the external care home market in Bournemouth is finding it difficult to modernise and adapt to meet the changing needs of the population. The care homes that have been built recently have to charge higher fees than the Council is able to pay to meet their new build borrowing costs and therefore are not economically sustainable within the current Adult social care budget. The Council is therefore looking to directly participate in the market by creating or securing provision to meet identified needs. 3. This report considers the acquisition of a care home as a going concern. It is an opportunity to positively influence and stimulate the broader care market. Additionally, it will provide the Council

	<p>with a strategic solution that will secure quality provision at affordable rates to enable the council to benefit from savings and efficiencies in an area of significant budget pressure.</p> <ol style="list-style-type: none"> 4. It will also secure an on-going operational facility that can meet the needs of older people with dementia and complex needs providing the care and support they require. 5. This acquisition will involve purchasing 100% of the shares in the company that owns and operates the Care Home (TargetCo). The acquisition will be funded by prudential borrowing. 6. Upon acquisition of TargetCo, TargetCo will transfer the freehold of the Care Home to the Council at a value to be determined (subject to legal and accounting due diligence as set out below). The Council will then grant a lease to Tricuro Support Limited (TSL) (in substantively the same form as other leases granted to TSL) (the Lease) and a commissioning contract will be entered into to affect the provision of care services by TSL. Pursuant to the commissioning contract, it is anticipated that the staff currently employed by TargetCo will transfer to TSL under TUPE as well as the moveable assets and equipment needed to run the care home and potentially some supplier contracts following due diligence. The pension arrangements of the transferring staff will be treated in compliance with the applicable legislation. TSL will also provide care services to the private pay residents at the Care Home so that they will remain looked after. 7. The rent payable by TSL under the Lease will be sufficient to service the Council's borrowing from the Public Works Loan Board (PWLB). The confidential part of this report also considers options on expiry or earlier termination of the Lease. It concludes that alternative operating models would generate sufficient income to continue to service this borrowing.
<p>Recommendation</p>	<p>That Cabinet:</p> <ol style="list-style-type: none"> a) Approves the acquisition of the Care Home identified in the confidential report as an on-going concern via the purchase of TargetCo; b) Delegates authority to the Corporate Property Officer in consultation with the Monitoring Officer and Section 151 Officer to agree the final terms of the contracts, including the share purchase agreement and ancillary documents, lease and commissioning contract, and to sign-off the legal and financial due diligence; c) Approves the appointment of the Council's, Service Director Community Learning & Commissioning as Director of TargetCo, the adoption by TargetCo of revised Articles of

	<p>Association and Shareholders Agreement upon completion of the purchase of the TargetCo;</p> <p>d) Approves the transfer of the Care Home property from the TargetCo to the Council at a value to be determined subject to further legal advice;</p> <p>e) Authorises the grant of a 10-year lease to Tricuro by the Council with a mutual unconditional break at year 5;</p> <p>f) Approves the entry into a commissioning contract with TSL and Tricuro Limited to enable the continued operation of the Care Home and the associated transfer of staff from TargetCo; and</p> <p>g) Notes that this decision will have an impact on the Medium Term Financial Plan of the new Bournemouth, Christchurch & Poole Council.</p> <p>That Cabinet recommends to Council to:</p> <p>h) Amend the Capital Programme to include provision for this purchase, to be funded by prudential borrowing, on the basis set out in the confidential report.</p>
<p>Reasons for recommendations</p>	<p>The acquisition of a Care Home provides Adult Social Care with a strategic solution to the under provision of affordable bed spaces within the care sector in Bournemouth by guaranteeing a fixed number of bed spaces at affordable prices.</p> <p>It will secure a sustainable operational facility that can meet the future needs of older people with dementia and complex needs providing the care and support they will require.</p> <p>This Local Authority involvement in the market, alongside working with Tricuro aims to secure access to dementia care beds at local authority fee levels.</p> <p>Bournemouth has seen a rise in the development of larger care homes, (over 60 beds) which has resulted in higher levels of fees that have increased pressure on the Adult Social Care budget. Operators have to charge a higher rate to meet their increased financing costs.</p> <p>This acquisition fulfils the Adult Social Care Capital Asset Strategy objective of directly influencing provision by securing a sustainable and affordable supply that can meet the care needs of individuals.</p> <p>Whilst not being acquired as an investment opportunity, the acquisition also fulfils the strategic objectives of the Bournemouth Asset Investment strategy and assists with the management of sound finances and increases the Council asset base.</p>

Background

1. Adult Social Care continues to face many challenges in sourcing suitable accommodation and care at an affordable price for those leaving hospital or who are otherwise in need of residential care.
2. Due to the current economic conditions the external care home market in Bournemouth is finding it difficult to modernise and adapt to meet the changing needs of the population. The Council is therefore looking to directly participate in the market by investing in provision to meet identified needs. A detailed market commentary provided by Cushman & Wakefield is included in Appendix A and concludes that this area remains a needs-driven market and the demographic trends imply significant future growth in demand for variety of forms of care.
3. In Bournemouth several smaller care homes have closed over the last years, but these have been replaced by larger homes increasing the bed capacity overall rather than reducing it, and as the larger homes have a higher level of fees this adds pressure to the Adult Social Care budget.
4. The acquisition clearly contributes towards Council objectives, since it will help ensure the future provision of care home places in Bournemouth at affordable prices and will also deliver a modest financial return.
5. It is anticipated that this care home acquisition would be completed by the end of 2018, subject to due diligence.

Consultation

6. The operational delivery of the care home has been explored with the Council's LATC Social Care provider Tricuro and Tricuro has concluded that based on the running costs submitted from the TargetCo and applying its own business modelling that this is a viable operational business to run within the parameters of the current costs associated with this acquisition.
7. The Asset Investment Panel chaired by the Council's Managing Director and comprising the Leader of the Council, the Deputy Leader of the Council, the Cabinet Member for Local Government Reorganisation & Economic Growth, Section 151 Officer, Monitoring Officer, Corporate Property Officer and the Director of Housing & Communities have provided a robust scrutiny of this opportunity and fully endorse the recommendations contained within this report.
8. A Health & Adult Social Care Overview & Scrutiny Panel will be held on 21 November 2018 to consider this report and the service benefits it will deliver. Members of the Corporate Services Overview & Scrutiny Panel will also be invited to attend this meeting.

Alternative Options Considered and Rejected

9. The Council has also explored the feasibility of constructing a new care home on land that it owns elsewhere in the Borough, with a build cost estimate of between £7-8m. The purchase of an existing care home is therefore a much more cost-effective solution, providing considerable savings over the new-build option.

10. This care home is already trading well, with a 'Good' CQC rating as at July 2018. There would need to be an allowance in the business case for a new care home to build its occupancy levels and income whilst it strives to reach trading maturity.
11. Not to progress the purchase of this acquisition. The Council would be at risk of losing affordable bed space provision which would result in significant cost pressures.
12. There is currently no cap on prudential borrowing in the General Fund provided that it meets affordability criteria. Therefore, these acquisitions will not prevent further asset purchases or investment by virtue of a current borrowing cap.
13. The acquisition outlined in this report will enable the Council to develop a better balanced and more diverse asset portfolio.
14. The options for acquiring and holding the acquisition are detailed in the non-public part of this report.
15. The vendor wishes to sell the shares in the TargetCo. Therefore, it is not an option for the Council to simply purchase the freehold of the property on a going-concern basis.

Summary of Finance and Resourcing Implications:

16. The non-public part of this report considers the detailed financial and resourcing implications, which are commercially sensitive at this stage of the transaction.
17. The business case is based largely on the need to ensure future certainty over the provision of care home beds at local authority rates. It is proposed that the home will operate largely as it does at present, with a mix of local authority-funded and self-funded clients.
18. This acquisition will result in cost avoidance to the service unit of circa £400k per annum if a third party had control of provision. This is detailed further in the non-public part of this report.
19. The premise of this acquisition is that the Council will be borrowing the money at low fixed rates of interest currently available across the UK to local Authorities in order to invest in assets and service delivery.
20. The rent that comes from this asset will be used to pay the borrowing costs (interest and capital) and will benefit the Adult Social Care budget by reducing pressures.
21. In considering borrowing to fund investment, Members should be aware;
 - there are no current Government caps on General Fund Borrowing
 - that any General Fund borrowing is required to conform with the "CIPFA Prudential Code for Capital Finance in Local Authorities (2017 Edition)". This stipulates that:
 - the borrowing is used to support capital investment.
 - the borrowing is affordable over the life of the asset (period provides value to the organisation). The test of affordability being can it repay the capital

sum invested and cover the associated interest costs over the life of the asset?

- the council is required to prudentially repay the capital amount borrowed and the associated debt costs over the lifetime of the asset. In this respect an asset life of 35 years has been assumed.
 - CIPFA has recently published the revised prudential code for capital finance. This is seen as a direct response aimed at maintaining confidence in the prudential system following criticism of many Councils' commercial property activity. The revisions emphasise the prioritisation of security and liquidity over yield as well as ensuring transparency to the Council regarding strategies, risks and potential losses arising from non-treasury investments.
22. Recent concerns raised by the press and financial institutions about the property investment activities of Councils around the country has prompted the Ministry of Housing, Communities and Local Government to issue revised draft guidance on prudential borrowing. This continues to support the use of prudential borrowing in support of the local economy and service delivery the proposed opportunity entirely accords with this revised guidance.

Summary of Legal Implications

23. The Council is entering into this transaction to secure affordable and quality provision to meet present and future assessed social care residential needs of eligible individuals, which will contribute towards Council objectives. Under section 18 of the Care Act 2014, the Council has a mandatory statutory duty to provide care and support to adults who meet the eligibility criteria set out in article 2 of the Care and Support (Eligibility Criteria) Regulations 2015 (Eligibility Criteria). Under section 19(2)(a) of the Care Act 2014, the Council has a discretionary duty to provide care and support services to an adult who meets the Eligibility Criteria and is an ordinary resident of another local authority.
24. In our view, this proposal does not trigger a requirement to consult under section 3(2) Local Government Act 1999 to consult because the Council is acquiring the care home business as a going concern by purchasing 100% of the issued shares of TargetCo. It is proposed that the care home will operate largely at it does at present. Therefore, the acquisition will not entail a review of service provision to users i.e. a provision of a majority of places to the Local Authority and hence, will not trigger a best value duty to consult.
25. Under Option 1 it is proposed that the Council purchase the shares of TargetCo using prudential borrowing. Section 1 of the Local Government Act 2003 provides the Council with the powers to borrow money "for any purpose relevant to its functions under any enactment" or "for the purposes of the prudent management of its financial affairs".
26. The Council intends to enter into a transaction to purchase 100% of the issued shares of TargetCo. Section 1 of the Localism Act 2011 provides the Council with the general power of competence "to do anything that individuals generally may do".

27. The purpose of the acquisition of 100% of the issued shares of TargetCo is to secure quality affordable accommodation for adults with assessed care needs. It is contemplated that TargetCo will transfer its trading / operational assets to the Council's LATC Social Care Provider – TSL. TSL will thus be responsible for delivering care home services to individuals nominated by the Council as well as private pay residents. TSL may potentially make a surplus through the private pay market, thus generating an income stream for the Council. Section 95 of the Local Government Act 2003 provides the Council with a power "to do for a commercial purpose anything which they are authorised to do for the purpose of carrying on any of their ordinary functions", such power being exercisable through a company.
28. TargetCo is the company which owns the land and the 67-bed residential care home building. By acquisition of 100% of the issued shares of TargetCo the Council will acquire the land and buildings owned by TargetCo. The site is located directly next to an existing Council asset. In acquiring the land and buildings the Council will be increasing its land holding in this area. Section 120 of the Local Government Act 1972 gives the Council the power to "acquire by agreement any land, whether situated inside or outside [its] area" for the purposes of "any of [its] functions... or the benefit, improvement or development of their area".
29. Is it intended that upon acquisition of 100% of the issued shares of TargetCo, TargetCo will transfer the freehold of the building to the Council at a value to be determined. The determination of the value of the care home to be transferred to the Council is subject to further legal and financial advice.
30. As part of the financial due diligence the Council will need to ensure that TargetCo has sufficient distributable reserves to facilitate the transfer of the property asset to the Council to ensure the transaction is lawful.
31. The Council will then grant a lease of the building to TSL at market rent in accordance with section 123 of the Local Government Act 1972.
32. Section 18 of the Care Act 2014, places a statutory duty on the Council to provide care and support to adults with eligible care needs. The Council intends to enter into a commissioning contract with its existing LATC Social Care Provider – TSL, who will be responsible for delivering care home services. As part of this arrangement the Council intends to secure the transfer of appropriate assets and equipment, including a lease of the care home building to TSL. Section 1(1) of the Local Government (Contracts) Act 1997 provides that a "statutory provision conferring or imposing a function on the Council" also "confers power on the Council to enter into a contract with another person for the provision or making available of assets or services, or both, (whether or not together with goods) for the purposes of, or in connection with, the discharge of the function by [the Council]". The Council's substantive statutory duty under section 18 of the Care Act 2014 is supplemented by the power under section 1 (1) of the Local Government (Contracts) Act 1997.
33. The Council has subsidiary powers by virtue of section 111 of the Local Government Act 1972, by which it has "power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive

or incidental to, the discharge of any of [its] functions". Insofar as there is a requirement for the Council to enter into any incidental or ancillary agreements to give effect to the transaction contemplated in this report, section 111 of the Local Government Act 1972 vests the Council with the requisite powers to perform such acts.

34. The proposal falls within the ambit of the broader powers the Council now has pursuant to these legislative provisions. The Council needs to be mindful of the public law duties to act for a proper purpose, its fiduciary duty to obtain value for money and to consider carefully all relevant factors, including the "CIPFA Prudential Code for Capital Finance in Local Authorities (2017 Edition)", the Ministry of Housing, Communities and Local Government's guidance document "Capital Finance: Guidance on Local Government Investments (Third Edition)", the Council policies listed below under "Background papers", the risks and the proposed methods to manage and mitigate the risks.
35. The decision will be subject to a satisfactory Report on Title and agreed contract terms and conditions, hence the requirement for the delegation contained within the recommendation.
36. The shareholders of Tricuro are currently reviewing their shareholder agreement. This acquisition may have an impact and need to be considered as part of this review.
37. The transaction involves the acquisition of land and buildings by the Council through the purchase of 100% of the issued shares of TargetCo. Land and shareholding acquisitions do not trigger a requirement to tender under the Public Contract Regulations (PCR 2015) because regulation 10(1) (a) of the PCR 2015 states that the regulations do not apply to the "acquisition or rental, by whatever financial means, of land, existing buildings or other immovable property, or which concern interests in or rights over any of them". Similarly, loans, whether or not in connection with the issue, sale, purchase or transfer of securities or other financial instruments are also exempt from the PCR 2015 under regulation 10(1) (f).
38. The Council intends to use its existing LATC social care provider – TSL for the delivery of care home services. The commissioning contract between the Council and TSL will be a "public service contract", as defined in regulation 2 of PCR 2015. The public service contract need not be competitively tendered under the PCR 2015 where there is a specific exemption. One such exemption is the joint Teckal exemption. The Council intends to enter into a commissioning contract for delivery of the care home services with TSL, which is a trading company jointly owned by Dorset, Bournemouth & Poole Councils and which therefore, meets the "joint Teckal exemption.
39. The "joint Teckal" exemption in regulation 12(4) PCR, applies where:
 - the Council exercises jointly with other contracting authorities a control over TSL which is similar to that which they exercise over their own departments;
 - more than 80% of the activities of TSL are tasks entrusted to it by the Bournemouth, Dorset and Poole Councils (or bodies controlled by them); and
 - there is no direct private capital participation in TSL. It is envisaged that TSL will be providing care services to private payers. The Council will need to

establish appropriate monitoring procedures to ensure that the income derived from such private payers does not exceed 19.99% of TSL's total income or else the Council would be in breach of the Teckal exemption.

40. The Council along with Dorset and Poole Councils will be considered to exercise joint control over TSL where the following conditions, as stipulated in regulation 12(5) PCR 2015 are met: (a) the Company's decision-making bodies are composed of representatives of all participating contracting authorities; (b) those contracting authorities are able to jointly exert decisive influence over the strategic objectives and significant decisions of TSL; and (c) TSL does not pursue any interests which are contrary to those of the controlling contracting authorities.
41. In undertaking this transaction on the basis of the facts as outlined in this report, it is our current view that the Council will not engage in unlawful state aid, which is defined in Article 107(1) of the Treaty on the Functioning of the European Union as "any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods".
42. In accordance with paragraphs 3.4 to 3.10 of the "State Aid Manual (July 2015)" published by the Department for Business, Energy and Industrial Strategy, the Council will be abiding by the Market Economy Operator (MEO) principle as it will be acting in a way that a private investor would in providing loans to TSL on terms that would be acceptable to a genuine private investor who is motivated by return. Therefore, on the basis of the facts set out in the above report, the Council is not providing state aid within the meaning of Article 107(1) because the company will not be obtaining an advantage as it could get funding on the same terms from the Council as it could have obtained on the market.

Summary of Environmental Impact

43. An Environmental Impact Assessment has been completed. This shows that there are no identified impacts from the purchase of this opportunity.
44. The building has an Energy Performance Certificate, indicating a B Rating, with a score of 42. This means that the Council will be purchasing an energy-efficient property with below average energy costs and carbon emissions.

Summary of Equalities and Diversity Impact

45. An Equality Impact Needs Screening Tool has been completed and this shows that there is no direct impact in terms of equalities. Indirectly, however, it is likely to have a positive effect as operational savings and rental income will be used to repay borrowing and underpin essential services, often provided to the most vulnerable in the borough. The Council will need to consider its public sector equality duty (PSED) with regard to the workforce and residents of the care home.

Summary of Risk Assessment

46. The specific risks in relation to this service delivery opportunity are explained in the non-public part of this report.
47. This acquisition is regarded as high risk due to large sum involved and because it will be 100% debt-funded, via prudential borrowing. This increases the Council's exposure to debt, potentially affecting its overall financial standing.

Overall Council Risk

48. This additional borrowing will result in a shift in the overall gearing of the Council, i.e. the relationship between its debts and its assets. This will mean that interest payments on the total Council borrowing will comprise 2% of net budget, rising from 1%, when the impact of this purchase and other approved investment is taken into account. Whilst this is still low in comparison with many of our nearest neighbours, increased exposure to debt via prudential borrowing will more closely link the financial health of the Council to the performance of the economy, at both a national and local level.

Economic Performance Exposure

49. In considering commercial acquisitions Councils are advised to consider their overall exposure to the economy in light of reducing Government funding and increasing reliance on local sources of funding influenced by economic conditions such as;

£90.3m	Council Tax (including the local council tax support scheme)
£31.4m	Business Rates (in a 50% system)
£11.3m	Car Parking income
£10.5m	Tourism income
£2.7m	Mallard Road Retail Park
£1.7m	Commercial Green Waste Income
£0.9m	Green Waste Income

50. In essence, the market conditions which might lead to a potential void in the above investments could also impact on £148.8m of the Council's general income streams.

Council Exposure to Debt via Prudential Borrowing

51. The table below highlights the current debt servicing costs of the Council compared to its CIPFA's nearest neighbours. The Council is currently the second lowest in the group when looking at total interest costs payable on borrowing and Minimum Revenue Provision (statutory charge to pay for unfunded capital expenditure) divided by the Councils net revenue budget.
52. This analysis shows that the Council amongst its peers has managed its recent capital investment very well. It has avoided over-reliance on external borrowing by utilising internal funds, meaning its exposure to external debt is low. Clearly significant investments would alter the picture below and members need to be aware that this exposure to external debt will be fixed for many years to come.

	Interest Payable	Minimum Revenue Provision	Total	Net Revenue Expenditure	% of Revenue Expenditure
	£'000	£'000	£'000	£'000	%
North Somerset UA	7,302	8,376	15,678	153,182	10%
Plymouth UA	9,583	6,500	16,083	184,429	9%
Torbay UA	6,334	3,065	9,399	109,222	9%
Poole UA	0	2,699	2,699	105,753	3%
Bournemouth UA	1,221	3,716	4,937	124,159	4%
Brighton & Hove UA	3,632	7,915	11,547	217,693	5%
Southend-on-Sea UA	11,491	9,132	20,623	135,759	15%
Isle of Wight UA	8,873	864	9,737	126,334	8%
Blackpool UA	4,895	6,854	11,749	131,336	9%
York UA	11,917	7,275	19,192	120,539	16%
Woking	23,159	2,791	25,950	11,773	220%
Warrington	17,601	-547	17,054	131,406	13%

**The data for the other authorities is based on the 2017/18 budget as this is currently the most up to date available data.*

53. [Woking Borough Council is included within the analysis to show an extreme example of another authority where it is known that the authority carries out borrowing to support investments in commercial property and other areas. Woking has a very diverse portfolio of investments and is one of only two authorities which holds an external credit rating. Their position is well established and most of their borrowing has been carried out as onward lending to their companies within the Thameway group, whose activities include property development and various Energy solutions. At the end of March 2018 Woking's total long term loans outstanding was £736.6m.
54. It should be noted that this analysis only shows one side of the coin in terms of the cost exposure. The investments being undertaken will also provide income which will improve the authority's net budget position.

Legislative Risk

55. The Government retains the power to "cap" any local authority undertaking what they regard as risky borrowing. Any such cap could impact on other programmes and ambitions of the Council. In addition, CIPFA has started a review of the prudential code in response to concerns expressed by some commentators regarding increasing property investment activity by Councils.

Background papers

Capital Strategy and Corporate Asset Management Plan 2018 – 2021

<http://www.room151.co.uk/wp-content/uploads/2018/03/Bournemouth2018TMSpage105.pdf>, in particular pages 5 to 11 of the PDF.

The Capital Strategy and Corporate Asset Management Plan 2018 - 2021

<https://www.bournemouth.gov.uk/councildemocratic/AboutYourCouncil/PlansandPerformance/CapitalStrategyandCorporateAssetManagementPlan.aspx>

Medium Term Financial Plan (MTFP) 2018/19 – 2020/21 and Budget 2018/19 report to Cabinet on 7 February 2018

<https://www.bournemouth.gov.uk/councildemocratic/CouncilMeetings/CommitteeMeetings/Cabinet/2018/02/07/Agenda/agenda-and-reports-special.pdf>

<https://www.bournemouth.gov.uk/councildemocratic/CouncilMeetings/CommitteeMeetings/Cabinet/2018/02/07/Cabinet07-Feb-2018.aspx> , pages 39-180, in particular pages 40 and 42–46.

Equalities Impact Needs Assessment -

<https://www.bournemouth.gov.uk/councildemocratic/AboutYourCouncil/AboutYourCouncilDocs/cscamp/eina-for-cscamp-2018-2021.pdf> , in particular page 4

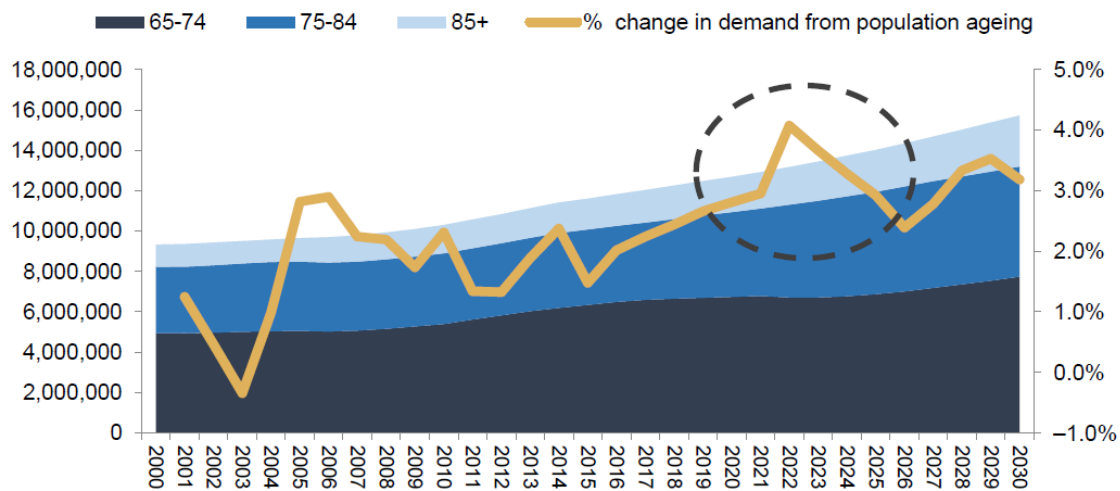
An Environmental Impact Needs Assessment and Risk Assessment have been completed. Both assessments are available upon request by contacting the report author.

Appendix A

Market Commentary - Source: Cushman & Wakefield

Background

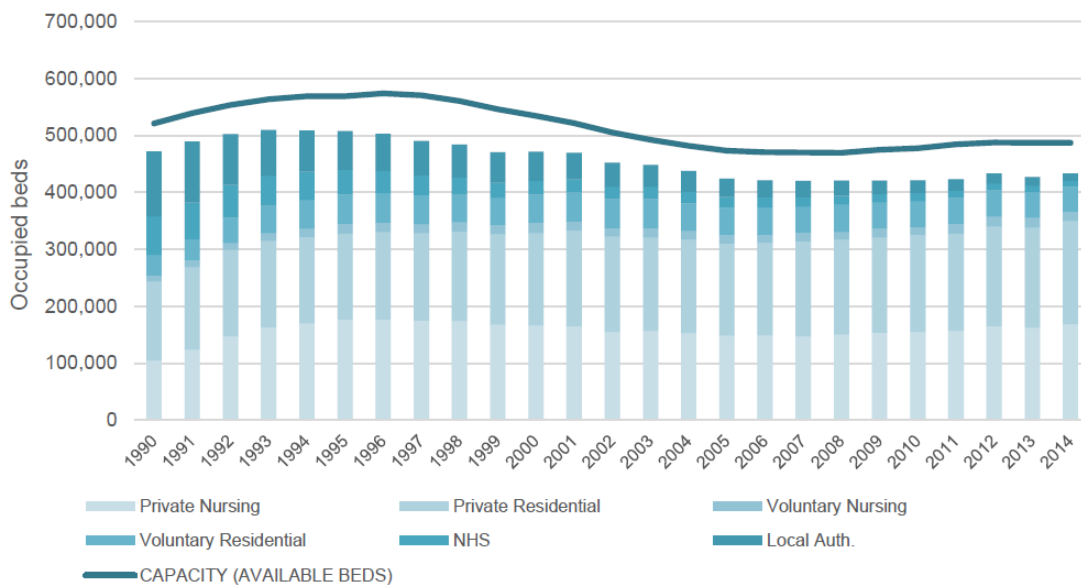
- There are currently approximately 18,000 care homes across the UK.
- The provision of residential care in the UK has effectively been privatised since the 1980s and 1990s, driven by the much lower cost of independent sector homes compared with the public sector. This in turn is mainly due to the lower costs of labour in the independent sector.
- The sector has started to grow again, driven by population ageing, as local authorities have found it increasingly challenging to divert older people with high care needs to non-residential settings. Many experts project that capacity and demand in the care home sector for older people will now continue to grow for several decades, despite major technological changes such as a cure for Alzheimer's disease.
- According to Laing & Buisson (May 2017), the amount of over 85s in the UK is projected to increase fivefold from 1.6m in 2017 (2.3% of the population) to 7.4m in 2086 (8.7% of the population), with a spike in demand around 2022.



Source: LaingBuisson

The independent sector has grown significantly over the last 25 years with voluntary and public sector providers reducing in number as seen in the graph below, local authorities however remain the largest single source of funding for older people in private residential settings, financially supporting 49% of all residents.

Around a quarter of these however receive top ups from families and friends enabling them to upgrade their accommodation above the standard provision from the council. With the projected rise in demand for residential care provision (the over 85 population is set to quadruple by 2070), the heavily debated issue of social care funding will need to be addressed if access to funded care is to remain the same.



In recent years, the emphasis on quality properties and profitability has led to a wider polarisation between compliant homes and older stock, which is increasingly reflected in market attraction and prices paid. This has been exacerbated by:

Pressure on local authority fees with some areas focussing on the self-pay market where fees have risen in line with inflation and the less affluent areas where residents are socially funded and fees have not risen with inflation.

A focus on economies of scale has seen average registrations in the private market compared to 3 decades ago increasing from 24 to 51 places by 2014 for care homes with nursing and from 15 to 28 places for care homes. The increase has been mainly driven by corporate providers who consider care homes with 60 beds or more as being the most economic and by the exit of smaller operators with care homes of 20 beds or fewer which have far lesser appeals to acquirers

Not only has the size of homes increased, but also there have been higher numbers of care homes being registered for nursing care rising from 54.6% of new beds in 2011 to 73.7% of new beds in 2014, which is likely reflective of the increasing dependency levels of people moving into care homes, but perhaps also reflective of how operators of larger homes includes in part, perhaps not wholly, a nursing provision, thus skewing the numbers

Finally, the increased market expectations in terms of product cannot be ignored and is more pronounced now than ever with a move towards all single bedrooms, larger bedrooms and a and greater provision of en-suite facilities.

Additional Trends

At the lower end of the quality spectrum, the care home sector is more affected by lower fees and historically low rates of fee increases due to pressures on public funding generally, plus increases in staff costs from the introduction of the National Living Wage.

The confluence of events on businesses more exposed to the publicly funded market makes the current operating environment more difficult than the private pay, high quality market. There is a growing consensus, however, that with a fall in the supply of registered beds in this segment of the market, the pendulum may be swinging back towards the operator. This is being manifested by some more encouraging fee rises this year in contrast to several recent years.

Conclusions

Overall, despite some of the challenges in the industry, this sector boasts several very positive fundamentals. This remains a needs-driven market and the demographic trends imply significant future growth in demand for a variety of forms of care.