Residential Care Home Operators: A Long Road To Recovery

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Occupancy – the start of a re-build?

Occupancy at elderly care home operators has reduced by as much as 20% since the start of the Covid-19 pandemic, with those focussed on private pay being harder hit than those reliant on local authorities. There has been more positive news in recent weeks, with deaths now at the lowest level since March 2020 and over 80% of residents having had two doses of the vaccination. However, industry commentators believe recovery to pre-pandemic occupancy levels may take at least another two years, with some forecasting that this could take significantly longer, especially for those businesses focussed on private pay.

Whilst many operators have seen a slight increase in occupancy in recent weeks, this has primarily been driven by a reduction in excess deaths as opposed to new admissions. Any sustained increase in residents will not take hold until residents and their families regain confidence in residential care and people return to pre-pandemic working patterns.

Residential care operators are also impacted by a near complete withdrawal of the respite care market due to visiting restrictions, negative press around deaths in care homes and reductions in overseas holidays. Respite care has historically been both a key revenue source and a helpful tool in building a pipeline for new residents.

Operators also face competition from the domiciliary care market and newer delivery models, including retirement villages.

Government support

Three rounds of infection control funding have been welcomed and many have benefited from government schemes such as CBILS, PAYE / NI deferrals, as well as the landlord moratorium and advanced payment from Local Authorities. The unwind of these initiatives is likely to place significant pressure on the cash flows of care home groups, especially those with low occupancy.

We also understand that HMRC will expect formal Time To Pay arrangements to be agreed and are wary of setting precedents when agreeing longer-term repayment terms.

Operational impacts

Staffing pressures continue to impact operators, who are facing an increase in staff retirement following the challenges of the last year and many potential new overseas recruits unable to move to the UK due to travel restrictions / cost of isolation. Many operators believe the jobs market may improve due to significant levels of unemployment, but there is limited evidence to support this to date.

Due to restrictions in accessing care homes, only essential maintenance and capex has been carried out. Where there is capacity in the market, prospective residents are likely to choose the most modern and infection control compliant facilities - 'catch-up' maintenance and capex will be required and needs to be included in financial forecasts.

The pandemic is also likely to cause a permanent increase in costs in the form of PPE, staff costs (e.g. sickness pay), increased hours to supervise visits and insurance.

Insurance and the risk of legal action

Care home operators have seen the cost of insurance increase significantly (in some cases double), have been unable to source new policies that cover Covid-19, and in some instances have struggled to find insurance providers willing to provide any new policies. There is a risk that employees and residents' relatives seek to take legal action against providers for Covid-19 related deaths or 'long Covid' symptoms. There could be gaps in previous insurance policies and new policies exclude Covid-19 cover, leading to potentially material claims that would need to be funded by operators if found in favour of the claimant.

Quality of care will underpin any recovery

The CQC remains supportive of care operators and continues to carry out inspections, albeit on targeted basis.

Quality of care and maintaining the best CQC inspection results is central to any operator seeking to re-build occupancy.

Under the CQC's Market Oversight Scheme, larger operators may be required to demonstrate support of its key stakeholders to evidence that they have sufficient liquidity to continue to trade.

M&A and debt markets

There has been a flight to quality in both the M&A and debt markets, with investors looking for high quality, Covid-19 resistant assets. At the more distressed end of the market, interest remains, but at a low value, and higher recoveries are more likely to be achieved with a piecemeal disposal strategy.

Outlook

The best performing and well capitalised care home operators should have the ability to re-build occupancy against the backdrop of excess demand and a requirement to invest in their facilities to attract new residents. The residential care market is highly fragmented and there is likely to be consolidation as some operators chase occupancy over profit or are unable to agree payment terms with their key creditors.

A key focus for operators is to grow occupancy in a market where the supply of available beds outstrips demand. Operators must avoid situations where they reduce fee rates to attract new residents to levels that do not cover the cost of providing care and meeting other essential costs including capex.

Operators have proved extremely resilient to the impact of the pandemic but many challenges remain, including the risks that vaccinations are less effective against any new Covid-19 variants.

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