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UK social care reform shake-up may drive sponsor investment, tackle long-standing ESG woes - advisors

Analysis

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Though the UK government's social care funding reform has provoked industry jitters, risks are quantifiable, and the package overall may boost private equity investment and redress ESG shortcomings related to carer welfare, sector players and advisers told this news service.

Funds allocated to the sector by central government are increasing and there is a private equity investment track record in social care to complement this, providing certainty that this in an area to invest in, Andy Lees, Partner at Palatine Private Equity said.

It seems that headaches over funding formulas and regulation aside should not detract from that overall picture.

Investment by private equity into care homes and companies focused on the provision of specialised carers will cater to the exponential demand, especially if more self-funders access local authorities for social care, Mike Fell, Partner at Key Capital Partners and Lees agreed.

Earlier this month, the UK government said that it would enact legislation in the 2014 Care Act to give self-funders the ability to ask their local authority to find care for them, in a bid to tackle unfairness in the social care system and give everyone the opportunity to find better value care.

A cap for insurers

In this context, examples of quantifiable risks include a proposed cap, due to come into force in October 2023, on the amount that self-funders pay towards their social care, with a proposed limit of GBP 86,000 on care liabilities.

Having the cap in place opens the door for insurers to provide long-term-care policies, Dominic Dalli, Managing Partner at Sovereign Capital said. That should give individuals confidence to take out policies to cover the cost of that cap, in turn benefiting providers via increased demand for their services, he added.

This new market for insurance will better manage risk and offer affordable premiums, Leonid Shapiro, Managing Partner at Candesic echoed. In Shapiro and Dalli's view, greater coverage for private care will likely increase private occupancy for providers.

Meanwhile, with central government having set out its plan to increase funding for care, local authorities will be able to pay more, David Porter, founding partner at Apposite Capital said. This means that care providers can invest in better buildings and better pay for their staff, he added.

Costings accountability

Changes around accountability in social care costings are also part of the equation, but again represent quantifiable risks, Sharon Lamb, Partner at McDermott, Will & Emery agreed.

Assessing where the funding is going and how to ensure it goes towards the cost of care homes will be of primary importance, she said. Proposals to ringfence cash sent to local authorities so it cannot be spent outside of care provision and to allow government access to critical pricing information from stakeholders to obtain transparency on the costing matrix are both on the table, Lamb added.

According to the *Health and Care Bill*, the Secretary of State can require regulated adult social care providers to provide information relating to themselves, their activities in connection with providing adult social care, or individuals they have provided adult social care to, whether funded by local authorities or privately by individuals

The most important aspect is to ensure the funding "hits the front line" and that it is used for staffing, Lamb said. Accountability of local authorities' funding for social care will ensure that the funding goes to carers, she added.

ESG concerns with carers

There is a provision gap between private care and local authority funded care and the staffing model needs to be addressed, Lamb said.

The sector is plagued by ESG concerns due to carers barely receiving the minimum wage, according to Peter Robinson, Managing Partner at advisory firm Primary Access & Research.

As local authorities are not providing sufficient financing to care homes to pay these carers, there is limited investment in people, and there is a need to address the minimum wage, Robinson, Lamb, Fell and Lees echoed.

The need for carers is a greater and a more fundamental problem than the funding and the demand, they agreed.

Private equity players are becoming increasingly aware of ESG and are best placed to invest in these assets "as the quality of services typically equates to quality of earnings and this is what PE often do best," Giles Johnson at CIL Management Consultants said.

Investment by PE in companies providing carers for domiciliary care and for care homes will improve the quality of care in a chronically underfunded social care system, Lees and Fell argued. Care providers could pay higher, fairer wages to their workforce with more money in their coffers, Porter agreed.

Companies such as UK-based Curam, an online platform that provides carer jobs at a fair price, will help solve the underlying problem of not having enough carers in the system, Robinson said.

The social sector needs to invest in carers, making their job a professional service where there are financial incentives, training and a clear pathway for career progression, Lees said. This will decrease the current 30%-40% staff churn which creates significant operating costs, he added.

Lending weight to these arguments, a lot of growth in care overall is driven by specialist care, not least because providers can pay their staff better and therefore have fewer retention issues, Dalli noted.

PEs can invest in care businesses, make them operationally efficient, increase standards and be well placed for an exit, Lees said.

Private equity and venture capital-backed UK care companies tipped for possible exit by *Dealogic*'s proprietary *Likely to Issue* tool

Portfolio Company	Financial Sponsor	Investment Date
Sciensus (previously known as Healthcare at Home)	Vitruvian Partners	01/02/2012
Lifeways Community Care	OMERS Private Equity	11/06/2012
Shaw Healthcare	Bridges Fund Management	16/11/2017
ABL Health	Foresight Group	04/09/2018
Aspirations Care	Elysian Capital	21/06/2019
Consolidated Healthcare Agencies	Limerston Capital	16/03/2020

The way forward

But let's not get carried away. The current reality is a gridlocked system starved of cash from local authorities that have themselves been squeezed by central government continually since 2008, Porter said.

The consolidation of care homes and in the industry has been ongoing for some time and to a large extent has been related to creating economies of scale, Robinson said, adding that this may change now.

Economies of scale to a certain point can be beneficial if, for example, a carer can work in different care homes or in different councils within one week so there are synergies to be had, Lees said. Utilising specialist skills of carers so that there is more care at home and preventative healthcare is beneficial, he added.

However, typically efficiency gets worse as the number of homes in a chain become bigger so there is a natural sweet spot for size which is not too big and not too small, Shapiro said.

This "Goldilocks" effect has been observed in sectors as varied as care and restaurant rollouts.

A number of larger care players that have already undergone consolidation have come up for sale in recent years but none have really panned out because that footprint can put buyers off rather than attract them, Dalli said.

Consolidation will continue, and the latest funding and regulation developments could certainly spur it on, Dalli said. But dealmakers are aware the diseconomies of scale in this sector have now been recognised, he said. Bigger is not always better.

**Graph includes M&A data for specialist care providers*

Integrated care systems

The implementation of the integrated care system (ICS) model is also designed to address – and render quantifiable – the risk of patients ending up in acute care, instead of incentivising a transfer into a cost-effective structure such as care homes or domiciliary care, the experts agreed.

By creating an ICS structure which brings together the National Health Service and local authorities for social care, there will be more focus on funding for carers above the minimum wage, Fell said.

The model is going to make care services more professional, procurement more efficient and optimise methodologies. If the system works as intended, providers can be well resourced, effective and offer professional services, Lees said.

Positive development could arise in combining social care and healthcare services, Amit Thaper, Managing Director at Cairngorm Capital said.

Through its portfolio companies such as Millbrook Healthcare, a community equipment and home adaptations provider, Cairngorm Capital explored ideas around more integrated models that could deliver better discharge services, such as assessing a patients' needs while still in hospital and providing a kit ready for them to use at home, he said.

Digital technologies will accelerate in home care to assist carers with their job, and there will be more investment in this segment, Lees said, pointing to Palatine's own investment in care provider Routes Healthcare.

CERA Care, a London-based technology-enabled home care company is a good example of this, Shapiro added, having attracted investment from Schroder British Opportunities and Evolve HealthCare Partners in April this year.

Technology is viewed as becoming an integral part of social care services, but the path towards this remains unclear, Thaper conceded. The question will be who pays for it, as some technologies could be more expensive than humans, he added.

Another factor is around the ownership of data, Thaper said. A tech player might be able to provide services at a lower cost, but it will want to use the data generated by its software and machines, and right now there are significant restrictions on this, he added.

Nonetheless, increased government financing and growing demand for care given UK demographics point to a serious opportunity for financial sponsors keen to put dry powder to work.

The key to achieving an attractive return will be boosting carer career standards and finding integrated care and technology efficiencies in an overall more transparent market framework. That would be a win-win for patients, the public realm and investors.

by Mintoi Chessa-Florea, Gregoire Gille, Joao Grando and Harriet Matthews, with analytics by Jonathan Klonowski

UK social care and specialist care deals involving financial sponsors (2016 – YTD 2021)

Filing/Announcement Date	Target	Acquiror
21-Jun-21	Routes Healthcare (North) Exit: Key Capital Partners	Palatine Private Equity
09-Nov-20	Exemplar Health Care Exit: Agilitas Partners	Ares Management Corp
02-Nov-20	THG Healthcare (key assets) Exit: Terra Firma Capital Partners	Montreux Capital Management
24-Aug-20	Trinity Homecare Group	Consolidated Healthcare Agencies Ltd (Limerston Capital)
16-Mar-20	Consolidated Healthcare Agencies	Limerston Capital
31-Aug-19	Horizon Care Exit: NGBI Private Equity	Graphite Capital Management Existing Management

Filing/Announcement Date	Target	Acquiror
12-Jul-19	Firstport Retirement Property Services Exit: Lexington Partners	Equistone Partners Europe
04-Jul-19	Fox Elms Care	Voyage Healthcare Group Voyage Care Ltd (Duke Street; Partners Group)
21-Jun-19	Aspirations Care Exit: August Equity	Elysian Capital
04-Sep-18	ABL Health Ltd (Stk%)	Foresight Group
20-Feb-18	Ark Home Healthcare Exit: Core Capital	City & County Healthcare Group MiHomecare Ltd Westminster Health Care Holdings plc (Graphite Capital Management)
31-Jan-18	Active Assistance Exit: August Equity	Montreux Capital Management
12-Jan-18	Baywater Healthcare Exit: Duke Street	Bastide le Confort Medical
08-Nov-17	Porthaven Care Homes Exit: Phoenix Equity Partners	Fremont Realty Capital
14-Sep-17	Glenside Manor Healthcare Services Exit: Bowmark Capital	Raphael Medical Centre
21-Jul-16	Oakland Primecare	Existing Management Synova Capital LLP

TARGET

Routes Healthcare Limited

Financial advisor

Grant Thornton

Park Place Capital

BIDDERS

Palatine Private Equity LLP

Debt Provider

Shawbrook Group PLC

VENDORS

Key Capital Partners

Consultant

Connell Consulting

Osborne Clarke

Financial advisor

Grant Thornton

Lawyer

Ward Hadaway

TARGET

Cera Care Limited

BIDDERS

Schroder British Opportunities Trust plc

Evolve Capital plc

TARGET

CuramCare Ltd

Financial advisor

Primary Access & Research Ltd

OTHERS

Cera Care Limited

Birdie Care Services Limited

Better Home Care Services Ltd.

Mable Technologies Pty Ltd.

TARGET

Millbrook Healthcare Limited

Financial advisor

Oaklins

Lawyer

Paris Smith LLP

BIDDERS

Cairngorm Capital Partners LLP

Financial advisor

PwC

Winterberg Group AG (former Bryanston Group AG)

Lawyer

Gowling WLG

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Confirmed

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