



Home alone

Dom care providers have had a tough five years. Will the future be brighter, asks **Daniel Thomas**

There's been a lot of uncertainty about the domiciliary care market of late, as government austerity has eaten into provider margins and customer volumes have

fallen. So news that the sector could see a major IPO before the end of the year has justifiably raised some eyebrows.

Sovereign Capital plans to partially float City & County Healthcare, the UK's fourth largest dom care provider, and raise £60 million to £80 million from the markets. But some are questioning the timing of the move given the broader economic climate. Furthermore, City & County is a 'pure play' provider, and as such, highly exposed to the market's vicissitudes. How investors will react is anything but assured.

That said, City & County has seen strong growth since Sovereign bought it in 2009 and appears to be riding out the downturn in the market – a trend apparent among other big players in the sector. (Moreover, Sovereign is unlikely to embark on a float it thinks won't work). Naturally, then, many in the space are asking the same question: what is City & County doing right and how can we replicate it?

In the short to mid-term, at least, the dom care sector's prospects do appear gloomy. Local authorities (LAs) are still

the main purchasers of home care, the lion's share of which is provided by the independent sector. But since the crash of 2008, social care budgets have been squeezed, resulting in huge downward pressure on prices and margins [see box overleaf].

Exacerbating this has been a tightening of eligibility for care, with most councils now only offering care to those with 'substantial' or 'critical' needs. Naturally, the volume of people receiving publicly funded home care has fallen.

"I am anxious about care at home," concedes Mike Parish, chief executive at Care UK, one of the UK's biggest care players. "Funding by local authorities has reduced despite growing demographic pressures; reduced in terms of the levels of dependency that are funded; reduced in terms of the various enhancements that have historically applied to payments; and reduced in terms of absolute fee level and inflationary cover."

Graeme Lee, CEO and founder of mid-market player Springfield Care, puts it more bluntly: "I feel the industry can't go much lower, really."

In response, many providers are cutting some serious corners. Her Majesty's Revenue & Customs, for example, is investigating 120 care providers for allegedly employing workers at below the minimum wage –

- thought to be the direct result of their margin pressures. Home visits have also diminished in length, many lasting just 15 minutes, generating negative press in the process.

Such a situation is clearly unsustainable, say some, and we are likely to see price reductions bottom out soon. Other factors offer hope for investors, too. While the volume of LA funded carer recipients has fallen, for instance, the number of contact hours per service user has risen – the consequence of an ageing population with ever more complex needs.

Tighter eligibility has also driven up the number of people self-funding their care, either in full, by ‘topping up’ LA provision, or through Direct Payments (personalised budgets from the government, which allow people to choose their own social services). And with the population ageing fast, this segment should increase by default.

That said, it may take a while for self-funding to really pick up. “Self-pay is growing, just not fast enough to offset the falls in publicly funded services,” says one healthcare analyst.

This means the market is likely to continue feeling stress in the short to mid term, then – so how are the likes of City & County still managing to grow? Most agree that some organic growth is still possible, particularly among those that can offer higher acuity services. But the most sure-fire route to growth for now remains consolidation.

The sector is no stranger to big deals, of course, and in the last few years we’ve seen Mitie’s £111 million acquisition of Enara from August Equity last year, and Acromas (which also owns sector giant Saga) buying Allied Healthcare for £108 million in 2011 and merging it with Nestor Healthcare. There have also been a slew of smaller bolt-ons, reflecting the highly fragmented nature of provision [see box]. Enara, for example, made some 50 such acquisitions while under

August’s ownership.

Consolidation has some obvious benefits, with scale bringing better margins, density in local areas, and improved back office functions for the companies bought out. It also allows geographical expansion in what remains a highly localised market. Springfield, which is Yorkshire’s largest dom care provider, says it has made a series of bolt-ons to open up new areas of delivery, but also new specialisms.

“We’ve already bought a business that specialises in serving areas with a predominantly minority and ethnic population,” says Lee. “We’ve also bought a business in the North East that specialises in learning, and we’ve bought one that offer children’s services.”

Lee stresses that the business’s growth plan is built just as much on organic growth as it is acquisitions. (Government-backed venture capitalists the Business Growth Fund also ploughed £4.4 million into the business in June, in a sign of their faith in Lee’s strategy). But some are sceptical that consolidation may sometimes be happening for its own sake, too.

“Too often acquisition has been as an

alternative to organic growth,” warns Parish. “Very often if you peel behind the acquisitions, businesses have been shrinking.”

This lends credence to the theory that acquisitions may in fact be paving the way for altogether new opportunities – namely those presented by the large community care contracts increasingly being outsourced by the NHS. The government has already ring-fenced £3.8 billion of NHS money for social care in 2015-16, in a bid to ease demand on NHS hospital services. It has also said it wants more integration between health and social care in future (although it is hazy on the timeframe).

All of this points to new openings for dom care providers at some point down the line. For Ed Matthews, senior manager at strategy consultants Credo, this explains why support services firms such as Mitie and Interserve (which bought Advantage Healthcare last December) have shown such interest in the space of late.

“I think those providers are increasingly looking to this market as the next wave of outsourcing opportunities,” he says. “There’s a real

The domiciliary care market: vital statistics

- During 2011-12, an estimated 517,000 adults received homecare through their local authority. This figure has been falling year on year.
- In 2010-11, an estimated 72% of councils only offered care to those with ‘substantial’ or ‘critical’ needs.
- The average unit cost of ‘in house’ LA provided homecare rose to £35.50 in 2011-12, while the average unit cost of homecare to authorities from using independent providers was just £14.70 – less than half.
- In October 2012, a report by Oxford Brooke University claimed that gross profit margins on public sector contracts had fallen from in excess of 10%, to between 4% and 7%.
- According to the Care Quality Commission (CQC), there were 4,515 registered providers of home care in 2012, over 3,900 of which were operating from a single office.
- As of May 2012, the 10 largest dom care providers (among them Mears, Saga, Care UK and Enara) only accounted for 16% of the market.
- Of those ineligible for council supported care, an estimated 150,000 are purchasing care at home privately.



push to join up social and healthcare services, in both the commissioning approach and sometimes the delivery. And if you have a network of social care services, there must be opportunities to then combine that with community health provision."

Sovereign has also said it sees "forthcoming opportunities" in community healthcare outsourcing, which might explain its underlying faith in listing City & County. It is still likely to have a job on its hands convincing investors to buy in to the float, though. Firstly, while there are a few listed providers in the dom care space already (Mears and Mitie for example), none are pure play like City & County, making them far better at absorbing market

shocks when they arise.

City & County also depends heavily on LA work, and as such, investors may be conscious of the risks. "I think there's still some uncertainty around the austerity measures and fee pressures," says one market source. "So when Sovereign test the market, they've got to convince them that they can get access to that £3.8 billion integrated care budget. They have to show there's a good quality of income streams that can be sustainable."

Others are more confident, though, arguing that investors are educated enough to understand the risks. Care UK and Nestor have both been listed in the not too distant past, offering useful case studies, too. "I think there are small-cap

fund managers that know the space and who are aware of the market conditions and the operational challenges," says Parish, "so I don't think it's impossible."

Either way, the float will be a genuine bellwether of confidence in the sector, and may signal where it's headed next. It's certain that change is afoot and there is more pain to come in the short term. But over the long term, the drivers look undeniably positive. "In the longer term demand will absolutely go up, the amount of LA money available will improve, the self-pay market should grow, and pricing is likely to recover to some extent," says Matthews. "The market is going to change, and those who position themselves well for the opportunities will fare better." ■