

Appendix B.

A Case Study Demonstrating the Financial Impact of Covid 19 on Care Homes



15th May 2020

The objective of this case study is to assess the impact of Covid-19 on the financial position of the care homes Provider A and Provider B, and the effect this will have on service delivery if their financial position remains unchanged.

Covid-19 has presented significant financial challenges to care homes. Outgoings have increased due to additional PPE requirements, increased usage of agency staff, and the requirement to incentivise regular staff to come into work. Cheshire East Council have contributed to support with increased outgoings, by reimbursing providers for the cost of additional PPE.

However, care homes are also experiencing a large reduction in income, as occupancy has decreased. There have sadly been significant numbers of deaths of care home residents. Simultaneously, care homes with Covid-19 outbreaks have temporarily closed for admissions, and inquiries into new admissions have decreased significantly. The impact on providers and residents and loss of income are set out in this case study.

1. Provider A

Provider A is a care home with nursing care, owned by a large Care Home Group and located in Crewe. It is registered for a maximum of 80 service users.

Concerns about financial sustainability were first raised by email on 6th May by the Group Chairman. Concerns were reiterated more strongly in a letter on 13th May, stating that occupancy of Provider A was down by 14 residents, from 80 on 31st March to 66 on 13th May. Reduced occupancy combined with increased expenditure is causing a total monthly void of £71,097, compared with pre-Covid-19 levels (Table 1). Additional funding from Cheshire East covers expenditure on additional PPE, but this is relatively insignificant compared to reduction in revenue, which the Chairman states is “completely and totally unsustainable.” Provider A currently have 15 symptomatic residents in the home, and so regrettably, they anticipate further Covid-19 casualties. Therefore, financial stresses on the home are likely to worsen.

Table 1. Weekly and monthly financial impact on Provider A due to Covid-19

	Weekly	Monthly
Average commissioned placement cost	£787	£3,372
Reduction in income (14 vacancies)	£11,016	£47,213

Increase in agency staff expenditure	£4,167	£17,857
Increase in payroll expenditure	£1,406	£6,027
Total void	£16,589	£71,097

Currently, the Care Home Group are able to subsidise the continued service at Provider A, as they are a large organisation, and have cash reserves. However, this is not sustainable in the long term, particularly as Provider A is not an isolated case – nationally, the Group's occupancy has decreased by 10%. They have considered pursuing rent deferrals, or interest free loans. However, due to the very modest margins available in running of care homes, this option is not preferred as they do not anticipate being able to pay the debts back. Therefore, if their financial position remains unchanged, then the Care Home Group will be unable to maintain their presence in Crewe, and Provider A will close.

2. Provider B

Provider B is a care home with nursing care, also located in Crewe. It is registered for a maximum of 85 service users.

Similarly to Provider A, Provider B currently have 13 vacancies due to resident deaths. They have agreed to pay all staff that have been off with Covid-19 half pay plus SSP, leading to a large increase in payroll expenditure over the last 6 weeks, as well as an increase in agency spend. Reduced occupancy combined with increased expenditure is causing a total monthly void of £91,368, compared with pre-Covid-19 levels (Table 2).

Table 2. Weekly and monthly financial impact on Provider B due to Covid-19

	Weekly	Monthly
Average commissioned placement cost	£724	£3,103
Reduction in income (13 vacancies)	£9,412	£40,339
Increase in agency staff expenditure (estimated)	£6,000	£25,714
Increase in payroll expenditure	£5,907	£25,315
Total void	£21,319	£91,368

The manager of Provider B is concerned about how to retain service levels under such financial pressure. In the short term, she is considering furloughing staff, as well as reconfiguring staffing levels, which would result in staff lay-offs. From a long term financial sustainability perspective, it is likely that if the situation is unchanged, Provider B will be forced to close.

3. Impact on Residents of Provider Failure

The closure of Provider A would have substantial negative impacts on its current residents, as it would force their relocation to other care homes. Relocation of older people from one care setting to another is recognised to be particularly stressful, and just one unwanted move is associated with deterioration in health and increased mortality¹. Most residents of Care Homes have characteristics which leave them particularly vulnerable to the adverse affects of relocation, including older age, dementia, depressive illness, impairment of mobility and reduced sensory function².

Several elements of relocation which are known to be particularly stressful are likely to be exaggerated due to Covid-19. The move would be relatively sudden, and could involve multiple moves including temporary interim placements, due to a lack of appropriate long-term placements. Many good practice approaches to facilitate good outcomes for residents throughout the move would not be possible in the current situation (Table 3).

Table 3. Good practice guidance for the relocation of older people, and why it will be difficult to follow

Good practice guidance ²	Challenges posed by Covid-19
Identification of suitable alternative placements in consultation with the resident and their family.	Reduced number of open homes will limit choice of placement. The tight timescales imposed by care home closure, and current social-distancing measures, will make consultation with family difficult.
Familiarisation visits to the new care home in advance of a move.	This will not be possible due to social distancing guidance, and the risk of Covid-19 transmission posed by familiarisation visits.
Making careful person-centred plans for individual residents.	Plans for the relocation are unlikely to be person-centred, due to the large number of residents, time pressure and a lack of staff capacity at Provider A and Cheshire East Council.
Facilitate discussions and counselling with individuals and groups in anticipation of the move.	Due to the large number of residents, staff at Provider A will not have time to facilitate conversations about the relocation with all residents in a person-centred way.
The introduction of large groups within a short timescale may produce additional stress for residents and staff.	Due to the large number of residents being relocated, and the reduced number of open homes, it is likely that several residents will be relocated to the same new home, producing additional stress.

After the relocation has occurred, there is likely to be a reduction in the quality and continuity of care of residents. Care staff will have to get to know new residents, at a time when they are already experiencing enormous pressure. Communication between families and the new

home, which would assist the home in getting to know the resident, will be made difficult by social distancing. This is all likely to lead to a reduction in the quality of care and support, and worsened outcomes for residents.

4. Impact on Cheshire East Council of Market Failure

Where a business fails and the provider is unable to carry on relevant activity, the Local Authority has a temporary duty in respect of people receiving care and support services, under the Care Act, to meet the needs they were receiving immediately before the provider failed³.

4.1 Market Capacity

Relocating residents upon business failure requires beds to be available in open care homes. On 13th May there were 239 bed vacancies in open homes in Cheshire East. The closure of Provider A and Provider B would necessitate relocation of 139 residents, which would lead to 58% of those vacancies being filled, greatly reducing capacity in the provider market. The average number of beds in a care home in Cheshire East is 41, and therefore just 6 mid-sized care homes out of 96 closing could see bed vacancies in the borough shrink to 0.

4.2 Financial Impact

Assuming there are beds available to be commissioned, the premium charged to Cheshire East Council is likely to be much higher than the weekly average of £724 or £787 per placement currently paid to Provider B and Provider A respectively. Providers will be aware of the urgent requirement to relocate residents, and therefore will be able to set their preferred price. Cheshire East Council will have little recourse to negotiate on price, as we will be obliged under the Care Act to source a care package.

4.3 Time Impact

According to a checklist produced by numerous partners including CQC, LGA and NHS England, the Local Authority are identified as the lead on 124 considerations which should occur upon closing a home⁴. An unplanned closure may also present safeguarding issues for residents, meaning that Cheshire East Council are likely to see an increase in safeguarding referrals. This will significantly increase workload for Adults Social Care staff, at a time when they are already experiencing immense pressure.

4.4 Reputational Damage

Cheshire East Council have a duty under the Care Act to promote the efficient and effective operation of the market for adult care and support using a wide range of approaches, so that it meets the needs of everyone in the borough who need care and support, regardless of how it is funded³. Where remaining open is both in the best interests of the residents and it is possible to overcome issues, partners should do all they can to prevent care homes closing where possible⁵. Therefore there is a real risk of reputational damage to Cheshire East if the current financial difficulties experienced by care providers lead to provider failure.

5. References

1. Beirne, N.F., Patterson, M.N., Galie, M. and Goodman, P., 1995. Effects of a fast-track closing on a nursing facility population. *Health & Social Work*, 20(2), pp.116-123.
2. David Jolley, Peter Jefferys, Cornelius Katona, Sean Lennon, Enforced relocation of older people when Care Homes close: a question of life and death?, *Age and Ageing*, Volume 40, Issue 5, September 2011, Pages 534-537, <https://doi.org/10.1093/ageing/afr052> [Accessed 14/5/20]
3. <https://www.gov.uk/government/publications/care-act-statutory-guidance/care-and-support-statutory-guidance#chapter-4> [Accessed 15/5/20]
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