MEETING	**PUBLIC BOARD MEETING** **19th June 2019**
Agenda Item **Paper Number**	7 CM/06/19/07
Agenda Title	Market Oversight Update
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PURPOSE OF PAPER:

Actions required by the Board (delete as appropriate):

- **Note** the attached Market Oversight update.

IMPACT:

Information for Board to be aware of (delete as appropriate):

- Impact on stakeholders – the attached update is provided as part of CQC's Independent Voice.

Care Quality Commission

Market Oversight Update

Stuart Dean

19 June 2019

Market Oversight Responsibilities

Care Quality Commission

- ***Minimise avoidable uncertainty*** for vulnerable people owing to a disruption to continuity of care as a result of business failure.
- Monitor finances of potentially '***difficult to replace***' providers.
- Provide notification to local authorities (LA) to aid contingency planning in the event of *(i) likely service cessation as a result of (ii) likely business failure*.
- The scheme design assumes that the market can generally absorb business failure, hence this alone is insufficient to trigger a LA notification.
- ***Market Oversight has no powers to prevent provider failure***.
- The published guidance and scheme participants are published on CQC's website.

Key Facts

Care Quality Commission

- Currently **c.60** corporate providers included in the scheme.
- **Coverage** – c. 400 registered providers which deliver services from about 4000 locations (c.25% of all care home beds in England).
- **Risk Profile** – when the highest categories of risk are considered before CQC is required to make a LA notification, there has been a **27 percentage point deterioration** in risk across the portfolio since the scheme was launched in April 2015. This trend has remained broadly stable for the past three quarters.
- **LA Notifications** - 2 now issued since the scheme was launched – (i) Orchard Care Homes (No 4) Ltd [1 local authority] and (ii) Nestor Primecare Services Ltd t/a Allied Healthcare [96 local authorities]. Wider CQC enforcement powers have also been used when appropriate, such as Warning Notices.
- **Unseen influence** – improved financial discipline, enhanced financial stability by resolving uneconomic positions, cash injections to preserve liquidity and effectively holding Providers to account in problem situations.

Consolidated Data Trending
Themes

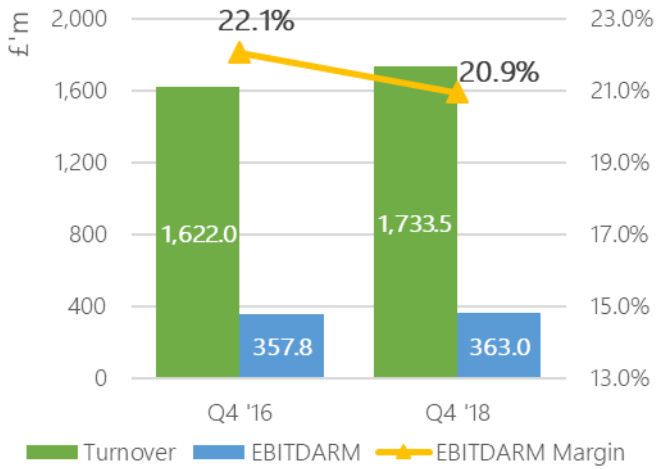
Care Quality Commission

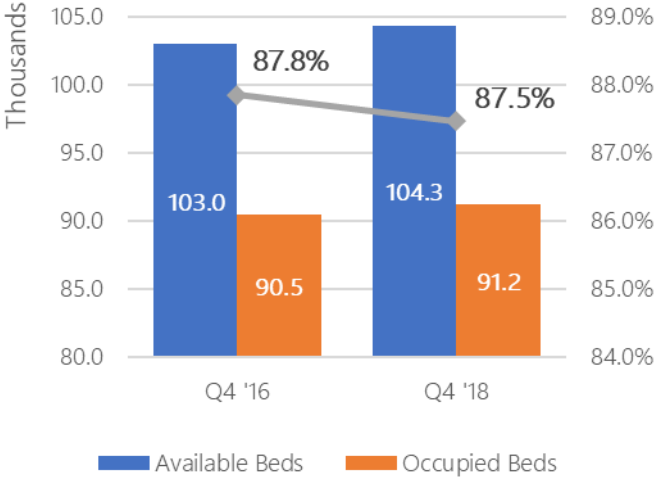
Overall* EBITDARM Margin (a high level proxy for profit) **has decreased** by 1 percentage point **to 20.9%** over a 2 year period.

An increase in turnover, driven by private pay and LA fee increases, **has been more than offset by increased costs** (predominantly staff costs).

This **negative effect on margins** has been more significant **(3x more)** in **care home** businesses with **low** levels of **private funding** as **LA fee increases fail to keep pace** with staff cost increases.

Occupancy in care homes has **reduced slightly**, in part a result of a particularly harsh winter in 2018 but also a result of **providers holding out for private residents** rather than accepting a lower LA fee. **This is to preserve profit per bed.**





*Overall figures are aggregated from a total of 54 providers within Market Oversight. Data predominantly relates to period ended 31 Dec 2018.

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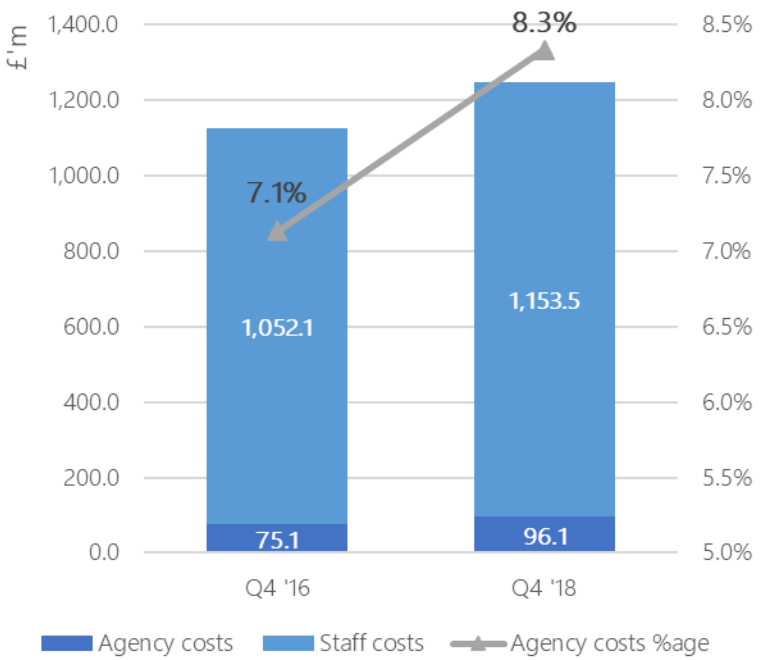
<u>Cost pressures</u> are primarily due to **staff and agency** cost **increases**. Overall **staff costs** have **increased by 9.6%** driven by a **28.1% increase in agency** costs.

Staff and agency costs have been **adversely affected** by:

- NLW increases; pension auto-enrolment; the Apprenticeship levy; and a shortage of labour (due to Brexit, fewer student nurses, and historically low levels of unemployment).



<u>Outlook:</u> Sustained staff cost pressures exceeding LA fee increases suggest that the existing market fragility is unlikely to reduce in the short term. Based on assumed cost increases* in the next 12 months, a fee uplift of 5.7% would be required to maintain current EBITDARM margin. Anecdotally, average fee increases achieved are in the region of 3.5%, leading to a further expected 1.6pp squeeze on margin to 19.3%. Should this occur, then a continued contraction of capacity can be expected.

*staff costs increase 6%, agency costs increase 8.8% and non-staff costs increase 2.9%