
Care UK Health & Social Care Investments Limited

BUSINESS

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1 Overview

Care UK occupies a unique position within the health and social care markets, as the largest independent provider of NHS services and as the largest developer of new residential and nursing care homes.

The Group operates a balanced and diverse portfolio encompassing a broader range of specialist clinical and social care services than any other provider. Care UK's portfolio is closely aligned to commissioners' priorities, and focused on patient, service user and customer expectations and choice.

Care UK's breadth of services strongly supports health and social care across the UK by:

- Bringing about the UK's biggest investment in new build residential and nursing homes
- Improving customer and patient choice in both social care for older people and in a wide range of NHS services
- Delivering consistently high quality elective procedures, largely without volume guarantees, priced at or marginally below the standard NHS national tariff
- Using a unique networked clinical call centre capability to deliver improved capacity, resilience and access in general practice and greater resilience in urgent NHS care
- Providing more out-of-hours GP services than any other UK organisation
- Increasing the provision of high quality healthcare in prisons and other parts of the justice system

Since its initial incorporation in September 1982, Care UK has developed a mature portfolio of services based on a proven capability to grow and add value to differing specialist clinical and social care services, settings and models of care.

The principal shareholding in the company was acquired by Bridgepoint Capital in March 2010.

The current executive team is Chief Executive, Mike Parish (appointed 2001) and Chief Financial Officer, Phil Whitecross (appointed December 2014), supported by a senior team including Jim Easton, Managing Director Health Care and Andrew Knight, Managing Director Residential Care Services.

In July 2014 Care UK completed a full refinancing of the Group's borrowings which set a stable, long-term capital structure to support growth investment as well as reducing debt servicing costs. The refinancing incorporated a two tier floating rate bond issue of £400m in aggregate and a revised Revolving Credit Facility of £65m.

Care UK's portfolio has continually evolved to meet commissioner and customer priorities and demonstrates a detailed understanding of how to develop the capability and capacity which best supports the sectors in which the Group operates.

The Group has a positive track record of developing strong clinical and commercial operational services, and of taking clear and timely decisions to retain and grow services within the Group, or to seek alternative solutions to allow strong services to continue to develop outside Care UK.

As a significant step in corporate development, and in order to respond effectively to changes in the Group's principal markets, Care UK undertook a strategic review of its portfolio in 2014, followed by full consideration of options for the Care at Home, Learning Disabilities and Mental Health services.

In reviewing the overall direction of the portfolio, the company's principal commercial consideration was to maintain market leading positions as well as those service lines with clear innovation opportunities.

A market process identified strong external partners for all three services and disposals were

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completed during 2015, achieving an enterprise value of £130m on £12.9m LTM EBITDA.

Proceeds have been used to reduce overall debt, build sustainable leverage levels for the future and finance capital investment in Care UK’s services.

Alongside changes to the Group’s portfolio, the increased maturity of the Care UK’s operational divisions has enabled the Group to restructure its organisation, giving more autonomy to services, and shifting leadership accountability increasingly towards clinical and service leaders ensuring that operations and future development are patient, resident and commissioner centred.

Changes to the Group’s structure have enabled achievement of a £10m annualised overhead reduction benefit, contributing to future efficiency.

Following the completion of this programme, Care UK is structured as two mature and largely standalone service line based operating companies – Health Care and Residential Care Services – each performing at a market leading level within its sector. This is a steady and stable corporate structure which enables each company to address the substantial background challenges within its market. These are summarised in the table below:

Social Care	Health Care
<ul style="list-style-type: none"> We manage 112 care homes with over 7,200 beds providing both residential and nursing care for older people, particularly those living with dementia and related conditions. We run 12 day care centres, including one that is open 24/7. 	<ul style="list-style-type: none"> We provide a broad range of health care services centred around the key primary and secondary care service streams. We provide over 50 NHS primary care services including GP and walk-in services. We deliver 12 NHS out of hours services, providing health advice and support for over 10 million people. We operate 9 hospitals that specialise in elective, planned surgery with exceptional clinical outcomes and no cases of hospital acquired MRSA. Our 13 NHS 111 services handle on average 210,000 calls a month covering a population of over 11.5 million people. We are the largest provider of health care services in prisons, delivered at 10 different sites. In the past year, our treatment centres and clinical assessment services delivered over 80,000 procedures for NHS patients.

The Group’s principal sources of revenue are Clinical Commissioning Groups for NHS services and local authorities for social care services, with a rapidly growing and strategically important self-funding segment in the Residential Care Services business.

2 Care UK Health Care

Strategy

Care UK continues to plan and deliver growth as a partner to the NHS, providing high quality and efficient services in areas where independent sector provision can show demonstrable benefits to individual commissioners and to the health system as a whole.

Care UK's healthcare strategy is built on growing provision both of strong front line clinical services including elective procedures, diagnostics, health provision within the justice system and primary care services, and of strong, connected, resilient infrastructures, which can support and strengthen NHS services, including meeting the challenges facing urgent and out of hours services.

Developing and implementing innovative solutions aligned to key national policy and clinical priorities is a core part of the Group's Health Care strategy and is recognised by policy makers and senior commissioners.

Environment

Care UK recognises that, at a system level, increased demand for healthcare services is balanced by continuing constraints on overall funding for the NHS in the UK.

However, the government's 2015 spending review confirmed additional funds for the NHS, in line with the requirements of the Five Year Forward View set out by NHS England and core NHS budgets continue to be ring-fenced. The Forward View is itself predicated on the ability to make savings amounting to £22bn across the plan period, which will require commissioners to seek efficient sources of supply.

The commitment to additional funding and the importance of finding more efficient ways to deliver services should both generate demand for Care UK's healthcare services.

Growth in outsourced healthcare services in the UK has remained positive in trend but incremental in scale. 6.3 per cent of the NHS budget was spent on independent providers in 2014 compared to 6.1 per cent in 2013. The political climate post the May 2015 general election remains focused on the macro challenges facing the NHS, and on political and reputational management, but the election outcome reduces the likelihood of further disruptive reform and provides for longer term engagement with the independent sector with regard to the provision of and support for particular services. Care UK believes that providers' ability to demonstrate and achieve efficiencies will be a key driver for increased take up of outsourced services.

The procurement pipeline for healthcare services has regained some pace post-election, but remains unpredictable in key service lines. Care UK anticipates further opportunities, albeit within a tough overall NHS environment, to assist delivery of elective procedures, support urgent care and drive new access models to primary and secondary care.

Policy in both healthcare and local government continues to focus on ways to make greater integration of health and social care services to achieve greater benefits for commissioner, patients and service users.

Care UK's portfolio and capabilities are well aligned to these political priorities as well as to further integration and reconfiguration opportunities within the NHS, including unrivalled capability to support further integration of the NHS 111 service with out of hours provision and seven day access to GP practices.

Quality

Care UK's Health Care services operate within a robust, externally validated governance structure which provides a strong focus on clinical safety, transparency and learning and improvement. Care

UK's Health Care services are subject to clinical regulation by the Care Quality Commission (CQC) in England. CQC has started to inspect using a new system, as set out in section four.

Care UK's Health Care services, in common with other independent sector providers, typically out-perform other NHS services on a range of indicators. Robust measures and monitoring of outcomes, including both NHS standards and additional Care UK benchmarking, evaluate and improve clinical quality and effectiveness throughout Care UK services. A regular cycle of quality governance and assurance meetings for treatment centres and diagnostic services reviews safety, quality and performance and drives continuous service development.

In addition, the Care UK Health Care company's Responsible Officer (RO) function was inspected by NHS England in June 2015 and found to demonstrate good practice as an RO and to have higher than average rates for completion of NHS appraisals for doctors working within Care UK services. During 2015 Care UK adopted the revised NHS Serious Incident Framework and the statutory Duty of Candour.

Services and performance

Care UK provides both primary and secondary healthcare services to the NHS, supporting the needs of commissioners, primarily Clinical Commissioning Groups, and providing choice, accessibility and quality to more than 14 million patients in England. Treatment provided by Care UK Health Care is free to patients at point of access.

Primary care

Care UK provides a diverse and growing number of primary healthcare services to the NHS in England, including GP practices, health services in prisons and other parts of the justice system, clinical assessment and treatment services (CATS), diagnostic centres, urgent care centres, out of hours GP care and the NHS 111 urgent telephone service.

GP practices

Care UK treats around 50,000 registered patients at eight GP practices, alongside walk-in services which provide treatment, information and advice without appointments. Care UK's GP services are typically open seven days a week, and have been among the first to meet the government's strategic objective for greater access to primary care.

Care UK was the only national organisation awarded funding through the Prime Minister's Challenge Fund to develop new models of access for GP services. Working in six Care UK practices and one external service, the pilot has successfully demonstrated the ability for practices to make greater use of telephone consultations, provided through a Care UK clinical hub, and is now leading to commercial contracts with individual GP practices.

Urgent care

Care UK operates three urgent care centres, 12 out of hours GP services and operates a significant number of NHS 111 contracts through four clinical call centres, a combined portfolio which serves a population of more than 14 million people.

Urgent care centres complement local GP and hospital services while out of hours services are available overnight and through weekends and holidays. Both services relieve pressures on acute hospital care and can be increasingly integrated with the operation of the NHS 111 urgent care telephone line.

Uniquely among providers, Care UK's clinical call centres handling incoming calls are fully networked and are able to flex their operation to meet variations in geographic demand, providing unique system resilience and ensuring an efficient utilisation of both call handling and clinical resource.

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NHS England has set new standards for the procurement of more joined up out of hours and NHS 111 services. Care UK believes its existing urgent care configuration and infrastructure is well placed to support greater integration in service provision.

Prison healthcare

Care UK is the largest provider of healthcare services to prisons and other parts of the justice system, supporting 6,800 prisoners in 10 institutions as well as running specialist services supporting victims of crime, and has proven experience of delivering effective quality care and supporting patients' dignity within the constraints of the prison environment.

Clinical assessment and treatment services and diagnostic centres

Care UK operates clinical assessment and treatment services (CATS) which provide services including gynaecology, ear nose and throat, musculoskeletal, orology, audiology, ophthalmology and dermatology, as well more general therapy and minor surgery. In Greater Manchester, an innovative mobile service operates from seven locations.

The CATS model helps shorten NHS waiting times, offers greater convenience and easier access, and helps NHS commissioners to treat more patients in community settings rather than as hospital outpatients.

Secondary care

Care UK provides elective procedures through a portfolio of nine, well established NHS treatment centres. In total, Care UK treatment centres undertake a combination of inpatient and outpatient procedures, supporting patient choice and providing essential capacity to Clinical Commissioning Groups.

Care UK's treatment centres were initially procured in two waves under the government's ISTC programme. All of the Wave I contracts have expired and, of the three Wave II contracts, two are now operating under the expected post renewal pricing without guaranteed volumes. (See MD&A annual report for bondholders for the year ended 30 September 2015 for further detail).

Care UK's strategy is to consolidate and secure the long term future of each treatment centre in line with the NHS principles of choice and the retention of high performing clinical services, as well as to retain those contracts which commissioners retender.

Property and facilities

Care UK Health Care operates services from a variety of premises across England. Most of the premises are occupied under licenses to occupy or leased from landlords. A significant number of services co-locate in existing NHS properties. Our landlords are in the main NHS Property Services (NHS PS) or Community Health Partnerships (CHP) or, in a small number of cases, private landlords. Where possible our preference is for longer leases, however local contracting arrangements may dictate shorter leases to coincide with clinical services contracts from NHS commissioners.

The properties are maintained to very high standards which are regularly audited by Care UK and by external bodies, including through participation in the PLACE audit programme, which enables patients to make their own assessment of the premises.

3 Care UK Residential Care Services

Strategy

The market for residential care in the UK continues to see rising demand, potentially constrained by increasing pressure on public funding and continues to be fragmented.

Business

Care UK's Residential Care Services business is continuing to build a strong self-funding customer base, allied to the sector's biggest new build programme. The company is targeting a proportion of revenue derived from self-funding customers of 50 per cent by 2020, enabling choice and giving a balanced and secure revenue base for the future.

The core estate represents a mix of homes operated under long-term contracts with inflation indices and homes occupied by a mix of publically and self-funded residents. Ranked by number of care homes, Care UK is the fifth largest operator of nursing and residential care homes. Alongside the new build programme, Care UK continues to invest in the core estate to ensure that it remains fit for purpose while maximising efficiency and value.

Environment

Funding for social care has fallen substantially, placing major pressures on both commissioners and providers. Care UK's strategy as a major provider is informed by an understanding of this pressure and responds through a programme of new build investment, consequential growth in self-funding customers for residential care, nursing care including specialist care for dementia, and through a reshaping of the company's overall portfolio of services.

The impact of additional costs, particularly the National Living Wage announced in July 2015 (and effective from April 2016), has led to welcome recognition within government of the challenges faced by providers and commissioners.

The National Living Wage is initially set at £7.20 per hour for employees over 25 years of age, and rises to around £9.00 by the end of the current parliament. Care UK welcomes the recognition of the need for care workers to benefit from higher wages and believes that a legislative approach is appropriate by ensuring a level playing field between providers. Nonetheless, the social care sector will face substantial additional costs which local authorities in particular are unlikely to be able to afford. Major providers, including Care UK, have engaged government to seek sector-wide solutions. In November the government announced a 2 per cent council tax precept through which local authorities can raise additional funds for social care, as well as increased funding for the Better Care Fund. These measures will need to be monitored carefully for effectiveness, but indicate renewed government focus on the sector.

The social care precept could raise a maximum of £2bn by 2020, but the actual scale and distribution of new funding remains neither guaranteed nor certain. Care UK will continue to engage government, local authorities and other stakeholders to seek assurance that additional funding will be channelled directly and efficiently to providers and that geographical disparities will be addressed.

It is clear that in the medium to long term there are material risks to the stability and sustainability of local authority social care provision.

The major elements of the 2014 Care Act affecting social care funding, including the cap on care costs, have been delayed until at least 2019. Care UK's strategy is largely unaffected by this delay. Growing demand for specialist care for those living with advanced dementia is underpinned by demographic trends and remains a high political priority.

The direction of policy, from government, NHS England, providers, regulators and commissioners, continues to support greater health and social care integration, for which we believe provider quality, innovation and commitment, as well as Care UK's particular service model, will be key advantages.

Quality

The homes run by Care UK Residential Care Services in England are subject to quality regulation by the Care Quality Commission (CQC). CQC has started to inspect using a new system, as set out in section four.

Care UK's current CQC care home inspection ratings based on the new CQC methodology is not yet in line with our aspiration to be sector leading, but progress is being made to achieve a return to a

sector leading position. Once adjusted to reflect Care UK's mix of nursing registered homes relative to the sector, Care UK is currently comparable with average sector ratings.

Six homes in Scotland are regulated by the Care Inspectorate (CI). In September 2015, all were rated as 'good' or 'very good'. The CI quality ratings are graded using a six point scale, unsatisfactory, weak, adequate, good, very-good and excellent. All Care UK services in Scotland are rated within the upper half of the Scottish grades, which attract a premium payment from Scottish local authorities commissioning teams.

Services and performance

Care UK's long term strategy has recognised the growing importance of those families who choose and fund their own care. The Residential Care Services programme of investment in new build, modern residential and nursing care homes has already created 21 new facilities over the past three years, with at least 15 more expected over the coming three years.

The level of need and dependency of those entering residential care is continuing to increase, as a result of greater numbers of individuals living with dementia (projected by the Department of Health to reach 1.4 million by 2038) and of the higher criteria applied by local authorities in assessing individual eligibility for care.

Care UK's portfolio is increasingly focused on the provision of nursing and dementia care. This enables higher dependency needs to be met and continuity of care for individuals as their needs change, together with the ability to provide shorter periods of respite care as well as rehabilitation care for individuals who would otherwise remain in a hospital setting. Care UK's overall provision is flexible, aligned to the needs of local authorities and reflective of clinical priorities in social care, both by enabling flexibility and independence and by meeting the specific longer term needs of those individuals living with advanced dementia.

As at September 2015, Care UK operated 112 homes and 12 day centres, enabling flexible approaches to care requirements and supporting independent living within the community. The total number of beds available increased from 6,944 in September 2014 to 7,144 at the end of September 2015.

The proportion of Care UK residential services purchased directly by self-funding customers is growing. Self-funding customers are exercising choice and have expectations of standards and facilities in excess of some historic local authority provision. Care UK's strategy and portfolio has been developed to meet these market trends, and as a result, fees charged better reflect the appropriate costs of care. The proportion of revenue derived from self-funding customers has grown from 30 per cent in September 2014 to 33 per cent in September 2015, representing strong progress towards a target of 50 per cent by 2020.

More than 50 per cent of provision remains through contracts, on either a block or individual (spot) basis, with local authorities. As at September 2015, 31 per cent of Care UK's care home beds were provided through block contracts, typically with terms between 10 and 20 years, with no occupancy risk, giving clear visibility of future revenue.

33 per cent of beds are provided to local authorities on a spot basis, typically where an authority's needs exceed the capacity within a block contract, for individual residents, usually at a higher weekly fee than under a block contract.

Weekly fees are determined based on an assessment of residents' needs and the level of care provided. In circumstances where the level of care required increases, fees are reassessed and adjusted appropriately, in addition to adjustments for inflation. Average weekly fees increased from £709 to £739 for the years ended September 2014 and September 2015 respectively.

In 2012 Care UK and Suffolk County Council signed a long term contract to transform the provision of care for older people in the county, replacing 16 outdated care homes with 10 newly built facilities, each incorporating a day centre, increasing the number of beds available from around 530 to 690.

Care UK has funded the development of the new homes by introducing two independent blue chip institutional funding partners and has entered into secure long term leases for the operation of the homes.

Property and facilities

Care UK maintains a strong asset base, operating 112 residential and nursing homes which are a mix of freehold, leasehold and managed contracts.

The carrying value of the freehold and long leasehold properties is based on a valuation conducted by an external independent valuer in 2010, less accumulated depreciation and impairments. The fair value of the valuation was used as deemed cost.

The Group has commissioned an independent ‘desk top’ valuation of its freehold/long leasehold and commercial leasehold property portfolio which indicates on a current trading basis a valuation surplus of approximately £45m above book value as at 30 September 2015. Allowing for the full maturity of all homes valued, this surplus would be in the region of £115m (see MD&A annual report for bondholders for the year ended 30 September 2015 for further detail).

4 Regulation

Care UK is subject to appropriate regulation by the UK government as well as being subject to the regulations of the Department of Health. Generally, services provided to the NHS by Care UK are subject to exactly the same regulatory and quality regimes as other NHS services.

Monitor

Care UK is regulated by Monitor to provide services to the NHS. Monitor oversees the market for healthcare in the UK, including competition and procurement processes and the performance and sustainability of both providers and commissioners. Monitor’s regulatory duties include determining tariffs for key NHS services provided by Care UK.

The Care Act 2014

The 2014 Care Act provides an overarching piece of legislation addressing the way in which care is provided by local authorities and has significant implications for providers. The Act, the first part of which was implemented in April 2015, establishes a principle of wellbeing in law, sets requirements for assessment, eligibility, planning and safeguarding process, creates a market oversight process to manage provider failure, sets out future funding reforms and established a Duty of Candour with which providers must comply.

Implementation of the second part of the Act, principally addressing funding reforms, has been delayed from the planned April 2016 date.

Market oversight

The Care Quality Commission (CQC) is required by the Care Act to operate a statutory market oversight scheme in the social care sector, to assess the financial sustainability of those care organisations, including Care UK, that local authorities would find difficult to replace should they become unable to deliver services.

Care UK is included within the scheme because it meets eligibility criteria based on size, number of services and number of employees and as such provides CQC with appropriate financial and operational information.

Quality inspections in England, Scotland and Wales

Health and social care services are regulated in England by the Care Quality Commission (CQC), in

Scotland by the Care Inspectorate (CI) and in Wales by the Care and Social Services Inspectorate Wales (CSSIW). The majority of Care UK's services are inspected by CQC.

In England, CQC has now fully introduced new inspection models for health and social care services, asking five key questions of every provider or service: is it safe, is it effective, is it caring, is it responsive and is it well-led. Each question, as well as an overall rating, is judged as inadequate, requires improvement, good or outstanding.

Care UK welcomes the principles underpinning the approach and believes that an effective inspection regime is an appropriate tool to drive and secure high quality, safe services.

CQC is able to impose conditions on services which fail to meet appropriate standards of care, including placing individual services in special measures, placing embargoes on admissions to particular services, requiring and monitoring action and improvement plans and, in extreme cases, suspending or revoking operating permits.

In Scotland, similar functions are carried out by the Care Inspectorate (CI). In Wales, responsibility is held by the Care and Social Services Inspectorate Wales (CSSIW).

Adult safeguarding

The Care Act 2014 has made it a requirement for local authorities to set up a Safeguarding Adults Board. Care UK is required to co-operate with all safeguarding investigations initiated by local authorities and could face sanctions, including an embargo on admissions to a particular service, if very substantial concerns are upheld.

Mental Capacity Act 2005 and Mental Health Act 2007

The Mental Capacity Act sets out the process to determine that an individual no longer has the capacity to make his or her own decisions, and sets out the legal framework to decide the most appropriate course of action. Disputes regarding capacity may need to be decided by the Court of Protection.

The Mental Health Act 2007 sets out Deprivation of Liberty safeguards, whereby Care UK must meet the requirements and assessment set by the local authority demonstrating that care needs are met and that any deprivation or liberty is in the best interests of the individual.

Corporate Manslaughter Act 2007

Under the Corporate Manslaughter Act, Care UK would be guilty of an offence if the way in which the company's activities are managed or organised causes a death and amounts to a gross breach of a relevant duty of care. From 2011 the Act has extended to the services provided by Care UK in prisons or other parts of the justice system. Offences under this Act could lead to a fine, potentially determined as a percentage of Group revenue.

Prevention of Illegal Working

In common with other health and social care providers, Care UK employs a number of appropriately experienced and qualified foreign workers. Care UK's use of foreign workers, and in particular its recruitment processes and policies, is in accordance with the relevant legislation. Legislation changes in 2008 made it a criminal offence to knowingly employ an illegal worker.

Health and Safety and Environmental legislation

Care UK is subject to numerous separate laws and regulations relating to occupational health and safety and environmental issues. Under the Health and Safety Act, Care UK has a duty of care to employees, services users and visitors to facilities. Care UK employs health and safety specialists in both operating companies, as well as external consultancies, and continuously tests and updates its

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policies.

Care UK ensures it only uses approved and licensed waste carriers and recyclers.

Bribery Act 2010

Care UK has a clear anti-bribery policy, overseen by a Compliance Officer, and includes reference to the Bribery Act in all its standard commercial agreements. Care UK takes a zero tolerance approach to bribery and corruption of any kind, and is committed to acting professionally, fairly and with integrity in all its operations and relationships.

Insurance

Care UK carries a variety of insurance policies including property and material damage, business interruption, employers' liability, public liability, directors' and officers' liability and medical malpractice. Care UK maintains insurance coverage of the type that is customary for a business of its nature and size.

Legal proceedings

Care UK is subject to national and local regulatory scrutiny, supervision and control, and will on occasion face legal proceeding arising from individual incidents. The increased levels of scrutiny, and political and public interest, means that inquests have become more complex and claims for compensation have increased.

A new criminal offence of ill treatment or wilful neglect in health and social care came into force in April 2015. This is a wide ranging offence with no threshold set for a level of harm or detriment to have been suffered by the service user or patient.