Challenging times ahead for the care home?

Many care operators are already struggling with constant pressure to improve public sector services and manage expectations. The new National Living Wage creates another challenge for operators struggling to meet standard care regulations without further funding.

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From April 2016 the minimum wage will increase by 11% as workers over the age of 25 will be entitled to £7.20 an hour. By 2020 the minimum wage will increase by a further 25% to £9.00 an hour.

On average staff costs represent 60% of overall running costs for a care home with most of these workers qualifying for the living wage.

Councils will be allowed to increase council tax by up to 2% in order to fund adult social care. This is on top of the councils right to increase council tax by 1.99% for general services.

The care sector is highly regulated with clear guidelines on staffing levels. Whilst needs are assessed on an individual basis, local authorities generally cater to service user ratios of 7:1 for residential care and 5:1 for specialist care.
The imminent care crisis

The crisis in the private residential care sector has finally reached its peak following years of inadequate funding and rise in demand. For a sector already under severe scrutiny and financial strain the impact of the living wage and lack of local authority funding is likely to see hundreds of care homes reach breaking point.

There are a number of factors at play in the UK that are continuing to have a significant impact upon residential care home operators:

- High financial gearing particularly in owner-operated and SME businesses
- The impact of assisted living initiatives on residential care
- A continuing and heightened focus on the quality of care
- Escalating costs and declining ability to pass these on to service users
- Continuing restrictions to Local Authority budgets
- Slowing growth in terms of health care spending despite the increasing and ageing population

Given these trends, the market faces a difficult and challenging period and one which will force many to close their doors. Here we explore in more detail some of the issues.

**Escalating costs and declining ability to pass these on to service users**

Whilst few would argue with the increase of the minimum wage, which is set to be brought in this April, it hits the care industry against a backdrop of other underlying issues. On average staff costs represent 60% of overall operating costs with most of these workers qualifying for the living wage. At these levels and with the present level of government funding, care homes can simply not absorb costs and as the industry is highly regulated it means there is little flexibility to reduce staffing levels. Effectively to survive many will be left with no option other than to increase fees, however local authority funded homes face a difficult outlook as councils will simply be unable to afford fee increases. Private homes will find it easier to increase fees but it is only a matter
of time before residents will be forced down the local authority route. This revenue disparity could prove disastrous for the industry and force wider implications on the NHS and councils.

**Restrictions to local authority budgets**
In November the government announced that it would be making significant cuts to council funding but did offer 2 alternatives to manage social care spending. Firstly the government has agreed that councils can increase council tax by an additional 2% per annum providing any funds generated are spent on social care. Secondly there was hope of further assistance from the Better Care Fund, a £3.2bn fund designed to get health and social care to work together. Unfortunately even if all the Local Authorities choose to increase fees by 2% it will do little to plug the funding gap and is expected to cover councils’ immediate needs of initial living wage increases rather than create a future plan for social care. Additionally it is likely that this initiative will favour wealthier communities and not all councils will take this up. Furthermore the Better Care Fund is unlikely to bring councils any immediate support as money won’t be available in 2016-17 and the majority being pledged for 2018-19.

**Heightened focus on the quality of care**
Concerns over the quality of care provided have been highly publicised and debated and continues to be a hot topic. Unfortunately it is inevitable that with profit margins at their lowest and the future uncertain, this will feed through to staffing and quality problems. Securing and retaining good staff will prove problematic, care work is often demanding and normally on a shift rota so with some of the leading supermarkets now paying the minimum wage for what appears to be a less onerous job, employers will struggle to employ good staff. Additionally with management firmly focused on staying afloat, the standards of care being delivered are likely to slip

**In summary**, it is likely that the sector will continue to consolidate and this will lead to fewer, larger, operators through either the merger or failure of smaller providers. Larger operators will benefit from economies of scale and the ability to provide a broader range of services and better placed to meet continued economic and regulatory pressures
Value creating

Strengths

- Good occupancy levels
- Content, well looked after service users and families
- Fee levels sustainable
- Costs well controlled
- Healthy profit margins
- Cash generation
- Positive public image
- Good CQC ratings
- Positive relationship with commissioning authorities
- Staff engaged and highly trained
- Low agency usage
- Well maintained facilities
- Positive relationship with lenders

Opportunities

- Limited local competition
- Potential for fee increases
- Room for expansion
- Funding available for capital expenditure/growth
- Opportunities for increase in higher value services
- Affluent and ageing local population
- Alternative planning

Consider the diagram below and think about your own or your customer’s business for a moment. Ask yourself honestly – whether all is as it should be operationally and financially.

If you identify with the factors in the red and amber quadrants it is time to act.

Owners and directors have significant statutory and fiduciary duties and a duty of care to the service users and their families. Breaching these obligations may lead to criminal charges.

HEALTHCHECK

Care Matters
The Health Check
Care Matters

The Health Check

Weaknesses

- Poor quality physical environment
- Service user complaints
- Loss making, low fee levels and limited scope for increases
- Low occupancy levels
- CQC enforcement notices and adverse reports
- Local authority embargos
- Excessive and unaffordable bank debt
- Pressure from creditors and suppliers
- Financial irregularities
- Low staff morale and high staff turnover
- Excessive use of agency staff
- Excessive staff costs
- Weak or inexperienced management team

Threats

- Better local competition
- Lack of funding to comply with CQC notices
- Lack of funding for capital/maintenance expenditure
- Lack of working capital for day-to-day operations
- Service user complaints
- Adverse publicity
- Potential for embargos
- Loss of key staff
- Fall in staff

Consider the diagram below and think about your own or your customer’s business for a moment. Should be operationally and financially

Owners and directors have significant statutory and fiduciary duties and a duty of care to the service users and their families. Breaching these obligations may mean they are personally liable and could lead to criminal charges.
Project Sunrise

MOORFIELDS RESCUE RESIDENTIAL CARE HOME IN THE MIDLANDS

Background:

The home was acquired by an inexperienced operator financed by a major highstreet lender at values which reflected a fundamentally different situation to the current state of the market. Following years of under investment there had been a number of adverse CQC reports and a local authority embargo - factors which all combined to help accelerate an apparently terminal decline in the number of service users and the fortunes of the business.

Moorfields Role

When Moorfields were appointed six out of a possible thirty four beds were occupied and the business was severely loss making. However, working alongside a specialist management company we stabilised operations to ensure the needs of the residents were met. Moorfields contacted their families, provided assurance to employees and engaged in a dialogue with the CQC and local commissioning groups.

“This strategy enabled Moorfields to market the property for sale, ensuring continuity for service users and the preservation of jobs.”

Result

Contracts to dispose of the home have now been exchanged with a purchaser already in occupation under licence making improvements and rebuilding the business.
Moorfields provides advisory, restructuring and insolvency services to a wide variety of clients including Owners, Corporates, Banks, Distressed Debt Investors and Specialist Lenders.

We have a wealth of experience in the healthcare sector and a proven track record in terms of adding value in situations where providers of residential care services are experiencing financial stress and distress.

We are able to undertake focussed reviews within the residential care sector on behalf of both borrowers and lenders in order to identify the issues affecting the business and tailor our reports so that they address the key concerns.

Working in conjunction with carefully selected healthcare operator partners, we can assist with the turnaround of underperforming care homes including both operational and financial restructuring.

In situations where a business is in terminal decline, we aim to work with all stakeholders in order to achieve the best possible outcome either through assisting with a refinance (if possible), a consensual sale or the deployment of an appropriate insolvency procedure.

We are happy to provide our initial views on any given situation without commitment and shape any formal engagement which follows to deliver the required outcomes at a competitive cost.

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