

Applying Restructuring & Insolvency (R&I) expertise in the care homes sector

When a care home experiences financial difficulties, Moore Stephens understands the complex business and human challenges that result. We apply our R&I, business and accounting skills to these issues, always mindful of the human side of the situation. Two recent examples illustrate our approach in action.



Creating a viable business for sale

Moore Stephens' R&I team was recently appointed to handle the administration of a residential dementia care home with capacity for 42 residents located in the South of England. At the time of the appointment, the home had 90% occupancy but was under an admissions embargo enforced by the Care Quality Commission (CQC) due to under investment in its facilities. The home was operating consistently at a financial loss due to its high staff costs, a result of its excessive use of agency personnel.

Having considered the benefits of a potential sale of the home as a going concern rather than closing it down, the Moore Stephens R&I team decided that it was appropriate to continue trading in order to improve the performance of the business. "This depended on the bank agreeing to provide ongoing financial support to cover the losses that would be generated in the short term, which we managed to secure," says Neville Side, a director in Moore Stephens' R&I team. "We also appointed a specialist management team, with expertise in care homes, to run the day-to-day operations of the home for the duration of our appointment."

Over the next five months the occupancy level fell to around 70% as a result of the admissions embargo, but Moore Stephens and the management team took steps to address the home's loss-making position. These steps included reducing the levels of agency workers and recruiting more permanent staff. Meetings were also held with the CQC and local authorities to address the concerns that had led to the admissions embargo, which was subsequently lifted. "The home's occupancy level then returned to 95%," Neville notes. "This factor, together with the reduced costs, resulted in the home being able to support a sustainable business plan." Just eight months after its appointment, with performance much improved, Moore Stephens was able to approach the market to seek a buyer for the home. "We have now exchanged contracts to sell the home," Neville says. "Through our stewardship and this sale we expect to secure a successful future for the business and the residents of the home."

"This factor, together with the reduced costs, resulted in the home being able to support a sustainable business plan."

In addition to the factors affecting the home itself, as a result of their investigations, the Moore Stephens R&I team also uncovered payments of illegal dividends to shareholders that had taken place prior to their appointment. Moore Stephens took steps to recover this money and negotiated a settlement for the payment of a significant sum from the shareholders. This will result in a much improved outcome for the benefit of the Company's creditors.



Taking care of residents' interests

When a home for adults with learning disabilities got into financial difficulties, Moore Stephens R&I team was appointed to handle its administration. Although the home had capacity for 52 residents, its occupancy level had fallen to under 50% at the time of the appointment. An admissions embargo imposed by the CQC and local authorities had been in place for over two years.

The Moore Stephens team weighed up the going concern premium – the additional value that could be achieved if the business could be turned around and the home sold as a going concern, against the costs that would be incurred in the process. "It was quickly clear that the home was not viable, given its low occupancy and the embargo," Neville says. "We had meetings with the CQC and local authorities, but they indicated they were unwilling to lift the admissions embargo for the foreseeable future either for us or for another care home operator. We still tested the market to see if a buyer could be found, but it was apparent nobody would take the home on in its predicament."

Based on this assessment and the lack of market interest, the decision was taken to close the home down. Moore Stephens gained the financial backing of the secured creditor, which agreed to continue supporting the home for the two months needed to complete its closure.

Some local authorities had already begun finding new homes for residents. Moore Stephens then took action on behalf of the others, giving their responsible local authority and next of kin 28 days' notice to make other arrangements, notifying all staff of the closure plan, and then working with all the parties to plan and implement a coordinated rehoming process.

"We successfully found new homes for all residents within the target 28 days."

"We successfully found new homes for all residents within the target 28 days," Neville says. "In the course of our work we also discovered around £125,000 of bank account monies which was being held on behalf of 18 of the residents. With the support of their responsible local authorities and their next of kin, we went beyond the ordinary duties of our role to make sure this money was safeguarded and repatriated to the residents concerned. In such ways we managed to achieve a sympathetic closure of the home, mindful of the needs of the residents."

"We went beyond the ordinary duties of our role to make sure this money was safeguarded and repatriated to the residents concerned."

We also proactively dealt with media enquiries regarding the decision to close the home which achieved understanding of the decision with least distress for all parties concerned.

Neville Side – Director

T +44 (0)20 7651 1736

neville.side@moorestephens.com

Moore Stephens LLP

150 Aldersgate Street, London EC1A 4AB

T +44 (0)20 7334 9191

www.moorestephens.co.uk