Mac Research and Consultancy Limited

How Care Consultancy Can Support Operational Due Diligence

Why operational quality matters when financing a care home

By Arlene Bunton, Director of Mac Research & Consultancy Limited

Guest article: This article was contributed by Arlene Bunton of Mac Research & Consultancy Limited. The views expressed are those of the author.

When lenders finance a trading care home, they assess more than the value of the property. The sustainability of the underlying business is also an important consideration because its trading income will generally be expected to service the borrowing.

Care homes operate within a statutory regulatory framework. Inspection outcomes, governance, leadership and operational quality may influence occupancy, reputation and, in some circumstances, financial performance.

Depending on the lender and the circumstances of the transaction, specialist care consultancy may form part of the operational due diligence undertaken when financing a care home. An independent quality and compliance review can provide additional insight into regulatory and operational risks that may not be apparent from financial statements, forecasts or property valuations alone.

Care home valuation and operational due diligence

A specialist care home valuation provides an opinion of value at a particular date and for a stated purpose. Depending on the transaction and the valuer's instructions, the assessment may consider the property, the care business and its trading performance. Valuations are commonly commissioned in connection with acquisitions, disposals and lending and may also be required for financial reporting or taxation purposes.

In the care sector, trading performance can be influenced by regulatory compliance, governance, leadership and quality of care. A deterioration in these areas may affect inspection outcomes, occupancy and profitability, although the extent of any impact will depend on market conditions, the operator's response and other business-specific factors.

An operational review does not determine the value of a care home or replace a professional valuation. It can, however, complement legal, financial and valuation advice by providing additional insight into operational factors that may affect the sustainability of future trading performance.

Why regulatory quality matters

Care services operate within regulated environments. In England, providers are regulated by the Care Quality Commission, while services in Scotland are regulated by the Care Inspectorate. Different regulatory bodies and requirements apply in Wales and Northern Ireland.

Inspection reports are publicly available and may be considered by commissioners, residents and families when selecting a care provider. Regulatory assessments may therefore influence referrals, occupancy and reputation, although they will be only one of several factors affecting these outcomes.

Where concerns arise regarding governance, staffing, medicines management, safeguarding or leadership, a provider may experience operational challenges requiring additional management attention and resources.

For a lender, these considerations may be relevant when assessing the resilience of future cash flow alongside historical financial performance, forecasts and other due diligence.

Understanding operational risk

Historic financial statements explain how a business has performed in the past. Financial forecasts set out management's expectations and assumptions for future performance.

Operational due diligence can complement this information by helping the parties understand whether the home has the governance, leadership, staffing and quality-assurance arrangements needed to support its operations. It cannot predict future performance, which will depend on a range of operational, regulatory and commercial factors.

An independent care service review may consider areas including:

- Governance arrangements
- Business continuity and contingency planning
- Leadership capability
- Regulatory compliance
- Staffing resilience
- Medicines management
- Safeguarding arrangements
- Quality-assurance systems
- Preparedness for future regulatory inspections

Reviewing these areas may identify matters requiring further investigation, improvement or monitoring and provide additional insight into operational risks that could affect future business performance.

The scope and depth of any review should reflect the nature of the service, the acquisition structure, its regulatory history and the requirements of the parties commissioning the work.

The role of independent care consultancy

Specialist care consultants provide sector-specific expertise that can complement the work of legal, financial, property and other professional advisers.

Their work may include:

- Operational due diligence before an acquisition
- Regulatory-readiness assessments
- Mock inspections
- Governance reviews
- Quality-improvement programmes
- Compliance audits
- Ongoing independent quality-assurance reviews
- Support with operational and regulatory action plans

These services do not replace the responsibilities of the provider, registered manager or relevant professional advisers. Used appropriately, however, they may contribute to a broader understanding of the home's operational arrangements, risks and development needs.

The usefulness of a consultant's findings will depend on factors including the consultant's experience, the agreed scope of work, access to relevant information and the quality and currency of the evidence reviewed.

Supporting lender due diligence

Depending on the lender and the circumstances of the transaction, findings from operational due diligence may inform its consideration of matters such as:

- The overall deliverability of the business plan
- Areas requiring further investigation
- Remedial actions to be completed before or after funding
- Conditions attached to the lending
- Reporting and monitoring requirements
- The timing and management of operational improvements
- Ongoing portfolio oversight

Each lender will apply its own credit policies, eligibility criteria, due-diligence requirements and risk appetite. An operational review does not determine whether finance will be available or replace the lender's own assessment.

Independent operational insight may nevertheless contribute to a broader assessment of the business alongside legal, financial, valuation and other specialist advice.

Support following completion

Operational reviews do not need to end when an acquisition completes or funding is advanced.

Regulatory expectations evolve, leadership teams change and services may improve or deteriorate over time. The transition following an acquisition may also place additional demands on management, staff and governance arrangements.

Periodic independent reviews may help an operator identify emerging issues, monitor the implementation of agreed actions and consider whether further remedial measures are required.

Where commissioned by a lender or investor, this information may also support portfolio monitoring alongside existing financial reporting and oversight. The nature and frequency of any review should be proportionate to the circumstances of the business and the risks identified.

Conclusion

Independent care consultancy can complement financial, legal and valuation services by providing specialist insight into operational quality, governance and regulatory compliance.

When appropriately scoped and undertaken by an experienced consultant, an operational review may help lenders, investors and care providers understand areas of operational risk that warrant further investigation, improvement or monitoring.

As regulatory expectations continue to evolve, organisations involved in financing or acquiring care businesses may place greater emphasis on understanding the operational and regulatory factors that can affect business resilience.

Operational due diligence is not a guarantee of regulatory compliance, improved business performance or the availability of finance. It is one component of a wider due-diligence process and should be considered alongside appropriate professional advice and the parties' own assessments.

About Mac Research & Consultancy

Mac Research & Consultancy Limited is an independent specialist health and social care consultancy operating across Scotland and England.

Its services include regulatory compliance reviews, quality assurance, mock inspections, operational due diligence, policy development, governance reviews and interim leadership support for care operators, investors and lenders.

Important information

This article is provided for general information only and reflects the author's views at the date of publication. It does not constitute legal, regulatory, financial, investment, valuation or lending advice and should not be relied upon as the basis for any lending, investment or commercial decision.

References to operational due diligence and independent care consultancy provide general information about potential areas of operational assessment. They should not be interpreted as suggesting that a particular review, methodology or consultancy provider will improve regulatory outcomes, business performance or lending decisions.

Any lending or investment decision remains the responsibility of the relevant lender or investor and will be subject to its own due diligence, credit assessment, regulatory obligations and risk appetite.

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