

Measuring what matters: The KPIs behind high- performing care homes



A successful operator in the care sector is driven by a successful financial and operational business model. One of the best ways to monitor and have oversight of the business to ensure it is on track is to **establish a set of criteria or KPI's that you can track over time.**

Certain financial KPI's also play a key role in driving profitability and influencing the value attributable to the business making them powerful analytical tools in the industry, especially on any prospective sale/acquisition of a business.

In this factsheet, we set out the key KPI metrics and operational areas that are critical to driving value in the industry, along with additional observations to assist in understanding true profitability and comparability between care providers.

1. Occupancy (or voids)

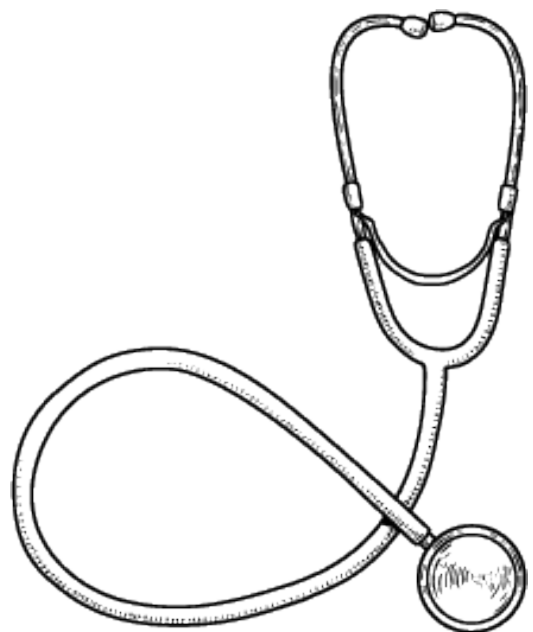
Strong occupancy levels are a clear indicator of success in the care sector, and most profitable businesses run with occupancy levels of at least 85%. But we also believe it is as important to consider the flip side of occupancy, voids.

The metric around voids is how quickly you can fill them and what does it cost. If you have a waiting list or local authority feed, then this timeline and cost may be very short and small. On the other hand if you don't, and you don't have a waiting list of private residents, how long does it take, on average, to fill a void and what does that cost on average. Understanding the speed with which a void can be replaced with a paying resident can add value to the business – the shorter the timescale, the more profitable the business model.

2. Salary costs as a percentage of fees

Care salaries are proportionately the highest cost to any care business and keeping a track on salary costs to fees will provide a useful metric to monitor the ratio and compare against other organisations. This can sometimes lead to positive marketing positions (staff headcount per resident is higher and a perception of greater care) or it could give rise to risks if the metric results in too high a number which could indicate overstaffing.

Alongside salary costs, care homes should also monitor the split of permanent staff to temporary or agency staff. Agency staff provide flexibility, but they are normally more expensive. A high agency cost also gives rise to concerns – why agency staff are needed? Is it local availability of care workers, or is it more profound and internal – salaries and work packages, lack of career opportunities, the working environment and/or job satisfaction? These can be addressed and it might be financially more beneficial to have a better package for permanent staff than incur the unpredictability and additional costs that agency staff can bring.



3. Quality of fees

Care homes provide services that vary depending on residents' needs. A care home that provides only basic accommodation and care provision is likely to have a lower fee per resident than a care home that provides a wider variety of services and care packages. Offering a broader range of packages increases your ability to minimise vacancies, as it makes your care home appealing to a wider pool of prospective residents.

Whilst higher fees are indicative of higher value resident packages, it has to be carefully balanced with understanding the cost base of delivering each aspect of more complex care needs. You will need a model that captures the on cost and price differential to ensure that the increase in price more than offsets the increase in delivery costs. These additional complex services should be premium pricing opportunities and not cost drains for the business model.

4. Property treatments

When comparing the cost base of a care home, it is important to understand the property strategy. There have been different accounting treatments allowed depending on whether you own the property or whether it is occupied under lease.

The new financial reporting standards now closely align the two treatments by requiring leasehold strategies to account for the full value of all outstanding lease payments on balance sheet, and represent the other side as a right of use asset. That means the asset is then depreciated in the same way as if it was an owned asset.

When looking at past performance as part of any due diligence or profitability assessment, it's important to consider that previous approaches may have produced financial outcomes that differ from those expected under current or future requirements.

The new standards also need to be carefully considered when looking at how the entity is funded, and bringing the future lease payments onto the balance sheet will change significantly the net current asset position of the business, and may impact any banking covenants in place.

5. Property maintenance and capex

A well-managed care home, like any other business that involves the occupation of a building which is critical to delivery, should have a 5 – 10 year property plan in place, fully costed. This represents best practice, as it provides a clear understanding of both historic and future approaches to property maintenance, particularly for critical capital expenditure, and ultimately making planning, budgeting and forecasting more effective and accurate.

It can also be vital in understanding the cash needs of the business and the peaks and troughs that might occur in future, and the requisite for additional finance.

6. Quality ratings

A care home is only as good as its rating with the CQC. Latest reports on the individual care home or a selection of homes if there are more than one in a group will give you a good understanding of the business ethos towards quality management. Without this mark of quality, the financial results should be read with a large pinch of salt.

Corrective measures can be costly and the reputational damage can last a number of financial years, depending on the nature of the breaches. The CQC results currently fall into one of three categories depending on the responses to five key questions below.

Inspectors assess if services are:

- ✦ Safe: Protected from abuse and avoidable harm.
- ✦ Effective: Care meets people's needs and reflects best practice.
- ✦ Caring: Staff involve and treat people with compassion and dignity.
- ✦ Responsive: Services are organised to meet people's needs.
- ✦ Well-led: Leadership, management, and governance assure high-quality care

Each area is scored and the results of those scores are graded:

- ✦ Outstanding (88–100%)
- ✦ Good (63–87%)
- ✦ Requires improvement (39–62%)
- ✦ Inadequate (less than 38%)

Quality is not just a regulatory outcome, it is a value driver.

At HaysMac we have a dedicated team of professionals specialising in the care sector. We offer a comprehensive range of services including compliance (external and internal audit, Corporate Tax and VAT), corporate structuring, benefits advice, corporate finance, due diligence and back office support, helping you manage your business from inception, through operation to eventual sale.

Additionally, we support acquirers looking to grow and expand their business. Get in touch with a member of our team to find out how we can help.

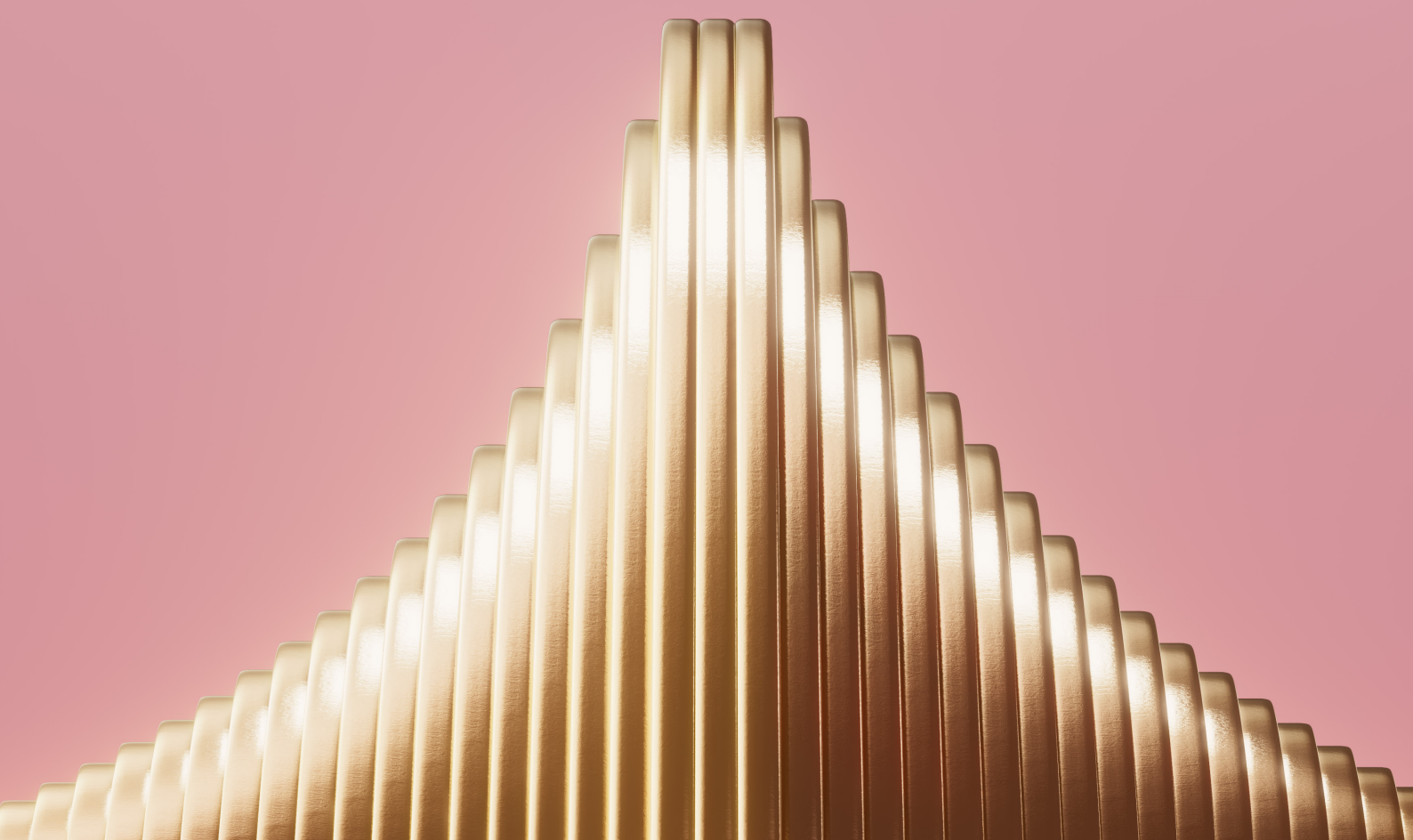


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