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# CARE HOMES IN WALES: PROMOTING SOCIAL ENTERPRISE

**Guide 2: Social enterprise, co-operative and employee ownership solutions when selling a care home**

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**ewmpas**



Llywodraeth Cymru  
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# INTRODUCTION



Many care home owners feel very attached to their care home business. When they decide to sell their property, it is a very personal and often difficult decision.

In Wales, when owners put their businesses up for sale, the premises are often purchased by a company which is already operating within the care home sector. Currently, there are no care homes in Wales operated as social enterprise, co-operative or employee-owned models.

This guide sets out the principles of succession planning to support care home owners that are considering selling their business to a social enterprise, a co-operative or to their employees.

There are a number of benefits to selling to a social business and these include emphasising social value, protecting local jobs and maintaining the home within and for the benefit of the local community. Guide 1 of this series provides an overview of the types of models that could be used for this type of business.

It should also be noted that the sale of a care home can be time-consuming. Every aspect of the business must be subject to the buyer's and any financing lender's regulatory, commercial, financial and legal due diligence.

## **Who is the guide for?**

This guide is intended for care home owners thinking of selling their business. It will also be of interest to prospective purchasers and particularly purchasers considering adopting a social enterprise, co-operative or employee-owned business model. More detailed information for prospective purchasers can be found in Guide 3.

The guidance contained within this booklet is applicable to all care home settings in adult and children's social care.

# PRINCIPLES OF SUCCESSION PLANNING

The paragraphs below outline the general principles of succession planning and are applicable to the majority of succession planning scenarios, as well as succession planning that involves social enterprise, co-operative and employee-owned solutions.

Succession planning is defined as the process of identifying and developing potential future leaders, senior managers and individuals required in the workforce to fill business-critical roles. The aim of succession planning is to be able to fill key roles effectively if a current post holder leaves the organisation.

Succession planning is a complex process that draws upon many business disciplines. Many privately-held businesses fail to properly plan for and complete the transition to the next generation of leaders. Even the most sophisticated and knowledgeable business professionals can get caught in a web of complicated issues. In fact, many business owners do not carry out a managed transition to a subsequent leadership team. In the case of family-owned businesses, only 30% survive into the second generation, 12% survive into the third, and only about 3% operate into the fourth generation and beyond (Deloitte).

An owner-manager usually has a personal vision to retire and sell the business “someday,” but may not have adequately considered what it will take to make that vision a reality. Even leaders who profess they will never retire have to acknowledge that no one remains at the helm forever. An unprepared new management team, or even a poorly managed transition to competent management, can trigger significant loss both in value and in reputation. It is also worth noting that a change in management and leadership is often one of the factors that leads to escalating concerns in care homes.

Succession planning is a multidisciplinary process. It does not just focus on the future, because it is impossible to plan for the future without a deep understanding of the present. Leaders must know the current reality of their businesses; how they operate, where the value lies, what their needs are, who are their most vital customers are and why, in order to prepare for new leadership and new structures that can provide sustainability continuity.

**“Succession planning is defined as the process of identifying and developing potential future leaders, senior managers and individuals required in the workforce to fill business-critical roles.”**

With a high turnover of managers and recruitment challenges across the sector, care home owners need to consider succession planning in order to protect their service by developing emerging talent into future senior leaders, managers, team leaders, care co-ordinators and deputies. For nursing homes, there are additional recruitment challenges where Registered Nurse roles and clinical lead positions are competing with the equivalent NHS positions.

Succession planning is an effective way of strengthening teams, supporting existing managers and future-proofing the business. It is also a way to help organisations deliver high standards of care, both today and in the future. If owners are thinking of selling their business to social enterprises or co-operative organisations, the existing staff and their skills are likely to be key to the future success of these business models. For these business models to be viable and self-sustaining, staff need to be qualified, ready and prepared to assume the leadership responsibilities within the care home, such as the Registered Individual and Registered Manager roles.

The table below provides some practical considerations for care home owners to approach and implement succession planning.

### Identify business critical roles



Succession planning programmes can focus on individual senior or key positions, including; Responsible Individuals, management and leadership roles. Alternatively, a more generic approach can be considered, targeting a 'pool' of positions for which similar skills are essential or desirable. An example is vital technical roles, which, if not filled quickly, could leave an organisation vulnerable. During exceptional times such as the COVID-19 pandemic, it is also wise to expand the pool of successors by identifying key individuals external to the organisation to ensure sustainable continuity if needed.

### Start planning



Consider who has the potential to be a future manager and what support they need. This will help owners to plan the long-term development of staff and start the process to develop them before they become a manager.

[\(Reference Social Care Wales requirements\)](#)

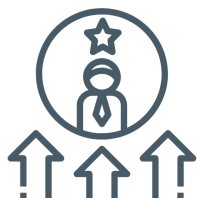
### Raise aspirations



Raise aspirations of potential future frontline managers and help them to prepare for the role.

It is important that managers arrive in post with the skills and experience they need to be successful in this position and be able to register with Social Care Wales (SCW), the workforce regulator in Wales.

### Don't leave things to chance



Whilst many services recruit their managers internally, staff should be promoted based on performance and ability rather than length of service.

Invest in and support emerging talent and provide them with a career plan enabling them to progress into new roles, including care management.

### Look for talent



Look for people who demonstrate the following:

- Leadership qualities
- Strong communication skills
- Professional manner
- Well-organised
- Self-motivated
- Resilient
- Lead by example
- Committed to continuing improvement
- Strive for perfection
- Reflect on own practice
- Excel at person-centred care

### Develop your talent



Look for practical ways to develop emerging talent:

- Help them learn from others with shadowing or mentoring opportunities
- Involve them in the development of others by becoming a subject matter champion, internal trainer or buddying with staff in inductions
- Give them the opportunity to take the lead on a project, management task or the supervision of others
- Enable them to represent the organisation at outside meetings, networks and career events
- Consider how the post-registration training and learning requirements of SCW registration can support development of new skills and competences e.g. health related tasks, positive behaviour support, leading person centred approaches and risk management.

**Succession planning is an effective way of strengthening teams, supporting existing managers and future-proofing the business. It is also a way to help organisations deliver high standards of care, both today and in the future.**



**Help new talent to become qualified**

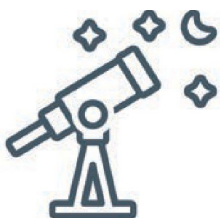


Complement growing experience of emerging talent by offering the opportunities to complete higher levels of learning and development.

Within Wales, such qualifications could include:

- City and Guilds Level 5 Leadership and Management of Health and Social Care: Practice
- Level 5 Diploma in Leadership for Health and Social Care Services (Children and Young People's Residential Management) Wales and Northern Ireland
- City and Guilds Level 4 Preparing for Leadership and Management in Health and Social Care
- Any of the Level 3 or above qualifications listed on the Qualification Framework for adult care home workers.

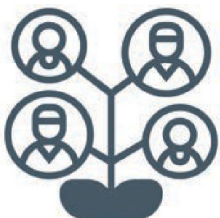
**Identify future Management potential**



The organisation will benefit from experienced and qualified staff across a range of roles.

Succession planning requires the identification of future management potential.

**Nurture new managers**



Future managers will need to be nurtured, supported and developed.

They will need both the commitment of the organisation and the dedicated time of existing managers.

Source: Adapted from Skills for Care

**The development of staff and enabling them to develop into future senior care staff, managers and clinical leads provides multiple benefits for providers, managers and those embarking on their development journey. Succession planning is a key part of ensuring services continue to provide well-led, consistent and quality care. It also benefits existing managers, who have more skilled and confident staff to support them.**

# GETTING READY TO SELL – CONSIDERATIONS FOR CARE HOME OWNERS

As owners begin to think about a sale, it is advisable to seek advice from accountants on tax planning. It is recommended to take advice at an early stage to enable any restructuring to take place. Owners should also consider contacting a solicitor to obtain legal advice. There are a number of legal firms which specialise in care homes sales.

Thought should also be given to the timeframe in which owners want or need the money from the sale. If the money is needed immediately, it is unlikely that a social enterprise, employee buyout or co-operative model will purchase it, as it will take time to plan the process and for the new owners to find funding.

Owners should also evaluate any future involvement they may want to have with the business. If care home owners would like to remain part of the business or work for the business without the responsibility of fully owning and managing it, moving to social enterprise, co-operative or employee ownership could allow them to remain involved.

The owner's role within the business and their ties to staff and the local community should also be considered when deciding to sell. Selling to a social enterprise, community-led co-operative or employee-owned model could represent the most sustainable option for the long-term viability of the business, keeping it grounded in the community.

It is also advisable to speak to Care Inspectorate Wales (CIW), the local authority (LA), and the local health board (LHB) where the care homes provides nursing – funded nursing care and/or nursing care for people eligible for Continuing NHS Healthcare funding to inform them that the business is likely to be placed up for sale. The responses provided by statutory bodies is also likely to influence the decision on selling the care home as a going concern or selling for an alternative purpose. There should not be an assumption that LAs and / or LHBs will automatically assign or novate contracts to a new owner, which may have an impact on their decision to purchase or the value of the care home.

To begin to gauge how much the business is worth is, it is important to research the market and become familiar with the prices at which other care homes are selling. Changes in the sector, such as the impact of COVID-19, can make it difficult to gauge an appropriate asking price for the business, its assets and facilities. Owners may also wish to ascertain the value of the premises if sold for alternative purposes, such as residential use or redevelopment.



## The value of the care home is affected by a number of factors:

### 1. The property



The success of a care home business is inextricably linked to the premises from which it operates or has operated. The nature and condition of those premises, therefore, has a significant effect on the valuation of the business as a whole.

#### Factors to consider include:

##### 1. Freehold or Leasehold?

If the property is freehold, this gives business owners exclusive occupation of the premises, offering long-term security together with the potential to alter and/or extend the premises to accommodate the growing needs of the business as well as satisfy changes in legislation. As such, freehold care home businesses command a significantly higher price than those which operate from leasehold premises.

A leasehold property limits the tenants' occupation and use of the premises for a specific period of time. The value attributed to a leasehold property will, therefore, depend very much on the terms of the lease, including; length of the remaining term, rent provisions, projections for repair costs and maintenance obligations.

Generally, modern purpose-built care homes and nursing homes command a higher value than those operating from older adapted and/or converted premises. Older, poorer-quality premises require more capital expenditure and investment. There may also be environmental or planning issues to consider.

##### 2. Fixtures, fittings, furnishings, equipment and digital technology

A care home's inventory of assets will be extensive and is likely to include; mobility equipment, hoists and lifts to specially-equipped en suite bathrooms, fire safety infrastructure, CCTV monitoring equipment and alarm systems. Identifying what is included in the sale, and establishing a current value according to its condition, is an important part of assessing the overall valuation of the business. Consideration should also be given to depreciation cost, on-going maintenance and the cost of replacement equipment.

### **3. Registered capacity**

Ultimately, the operating capacity of a care home business is dictated by the physical constraints of the premises and whether or not there is scope to extend. Whilst the number of registered beds should not be used as the sole guide for valuation, it serves as a useful benchmark when comparing valuations for similar properties in the same area or when considering the cost of buying an existing care business versus the cost of building a turn-key solution from scratch.

### **4. Location**

Location is key for businesses in the care sector and will impact directly on the demand for the services and the ability of the business to achieve a profit. Local socio-economic factors will also affect the valuation.

Accessibility, in terms of parking and public transport, is also an important factor and will impact on the ability of the business to attract both residents, including self-funders, and staff.

Premises in attractive locations are likely to be able to generate additional income by offering premium accommodation e.g. rooms with sea views.

## 2. The business

In addition to assessing the business premises, the valuation will take into account the actual and potential trading performance of the business.



### Factors to consider include:

#### 1. Reason for sale

The reason for selling the business will affect the value. A forced or distressed sale, not uncommon in the care sector, will result in a discounted valuation.

#### 2. Financial performance

Key to determining the value of a care business will be an assessment of its profitability. With a growing elderly population, in some areas demand for nursing care and dementia care may outstrip supply. However, this demand may not be the same for a residential care home, where older people receive extended periods of care and support at home, in supported housing or a similar semi-independent environment..

The formula normally used to value a care home business is a multiple of the weighted average of the business's earnings before interest, tax, depreciation, amortisation, rent and management fees (EBITDARM). The multiplier used will depend on market forces at the time of sale.

#### 3. Occupancy rates

Large care homes offer greater capacity and benefit from operational economies of scale. However, the physical operating capacity of a care home does not always translate to consistent occupancy rates. A care home business that is poorly operated, managed, marketed or which has location/access issues, may have low occupancy rates.

## **2.4 Reputation**

The reputation of the care home will also be a key factor when deciding on a valuation and forms part of the 'goodwill' of the business. The most recent Care Inspectorate Wales inspection outcome is obviously important but will form only part of the picture.

Brand identity, customer base, customer satisfaction and employee satisfaction all contribute to the reputation of the business and will be considered when assessing the value of the goodwill.

## **4. Staff**

The number of employees, their qualifications as well as their terms and conditions of employment (e.g. pension liabilities) will impact both on the number of residents the care home can accommodate currently and on the overheads of the business. The care industry is facing a shortage of suitably-qualified nurses and carers. However, a care business with a particularly high turnover of staff is likely to be hiding other issues.

## **5. Competition**

The valuation of the care home will also be affected by the number of other care homes or nursing homes in the locality, their reputation, their facilities and their rates.

It is also worth considering if there are any possibilities of future co-operation or consortia arrangements, with other care homes.

Source: Adapted from True Legal Solicitors, 2020

### 3. Preparing to sell



#### Factors to consider include:

##### 1. Contacting an agent

If an owner decides to go ahead with the sale, they should contact one or more agents to discuss putting the business on the market in the short to medium term. An agent will be able to advise about the local market conditions, conduct their own due diligence on the saleability of the business, give an idea of current valuations and suggest steps that can be taken to increase the value of the business.

##### 2. Due diligence

During the process of preparing to sell the business, an owner should also consider the process of due diligence and legal requirements. The due diligence process is likely to be painstaking, with the business vendor having to respond to enquiries as well as manage the business. It can help to delegate responsibility for the due diligence process to a trusted senior manager, where appropriate. Sometimes it will seem as though the buyer and its advisers are asking a never-ending number of questions. Whilst this is normal, solicitors who organise the due diligence questions and responses on behalf of the vendor, will be able to make the process smoother and less burdensome. It may be possible for an owner to start preparing information as soon as they decide to sell.

An owner preparing to sell also needs to be aware of the legal requirements of the sale in respect of Care Inspectorate Wales assessments. If there were outstanding issues or improvements needed following the last Care Inspectorate Wales inspection, have these works been completed? Will they be completed prior to the sale?

# SELLING TO A SOCIAL ENTERPRISE, CO-OPERATIVE OR EMPLOYEE-OWNED BUSINESS

When initial research has been completed and options have been evaluated, if an owner is thinking of selling the business to staff or the community, they should make them aware of their plans and begin discussions to see if there is any interest in buying the care home. This community awareness raising is likely to involve discussion with community councils, local councillors and key third sector organisations working in the locality. It would be advisable to identify any potential sources of support they can draw on, should they be interested in exploring the purchase. There are a number of social value benefits associated with selling to a social business and these include:

- maintaining jobs in the local community
- local knowledge, including language and culture
- potential for innovation
- access to local supply chains with embedded and localised Green Agenda and Corporate Social Responsibility factors
- sustaining a local facility.
- embedding principles of the triple bottom line; a balance of people, planet and profit. Additional information about the principles of the triple bottom line can be found [here](#).

## Models for social enterprises in the care home sector

There are a variety of legal structures that social enterprises and co-operatives can adopt. However, there are four models which are particularly relevant for use in the care home sector:

- Social enterprise model
- a community benefits society (CBS)
- an employee-ownership model
- a multi-stakeholder co-operative.

These models are detailed in Guide 1 of this series “An introduction to social enterprise and co-operatives for the care home sector.”

## Business Support when selling to a social enterprise, co-operative or employee ownership

Within Wales there are a number of organisations that specialise in business support, if an owner is thinking of selling to a social enterprise, a co-operative or to their employees; organisations such as Social Business Wales and EO Wales. The business support services will be able to provide advice and guidance to both the owner and the potential purchasing organisation. The majority of this support is available fully subsidised, and the advice and guidance given will be tailored to your particular needs and circumstances.



# LINKS TO EXISTING SOURCES OF INFORMATION AND RESOURCES

Skills for Care: [Guide to developing Leaders and Managers](#)

## **Business support**

[Wales Co-operative Centre](#)

[Social Business Wales New Start](#)

[Employee Ownership Wales](#)

[Employee Ownership Association](#)

[Co-operatives UK](#)

[The Hive](#)

[Social Enterprise UK](#)

## **Care sector**

[Care Inspectorate Wales](#)

[Care Inspectorate Wales – Registration guidance](#)

[Care Forum Wales](#)

## **Relevant legislation and guidance**

[Regulation and Inspection of Social Care \(Wales\) Act 2016](#)

[The Regulated Services \(Registration\) \(Wales\) Regulations 2017](#)

[The Regulated Services \(Service Providers and Responsible Individuals\) \(Wales\) Regulations 2017](#)

[The Regulated Services \(Annual Returns and Registration\) \(Wales\) \(Amendment\) Regulations 2019](#)

[The Regulated Services \(Penalty Notices\) \(Wales\) Regulations 2019](#)

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## Useful reports

[https://socialcare.wales/cms\\_assets/file-uploads/The-Economic-Value-of-the-Adult-Social-Care-Sector\\_Wales.pdf](https://socialcare.wales/cms_assets/file-uploads/The-Economic-Value-of-the-Adult-Social-Care-Sector_Wales.pdf)

[https://careinspectorate.wales/sites/default/files/2018-06/180627-statistical-release-services-places-en\\_0.pdf](https://careinspectorate.wales/sites/default/files/2018-06/180627-statistical-release-services-places-en_0.pdf)

<http://ppi.w.org.uk/files/2015/11/The-Care-Home-Market-in-Wales-mapping-the-sector.pdf>

<https://gov.wales/sites/default/files/publications/2019-03/measuring-the-mountain-final-report.pdf>

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