



Care Sector

Specialist Care Home Accountants

Newsletter

Spring 2015



www.hawsons.co.uk

Introduction

So far 2015 is continuing the trend set towards the back half of 2014, with care homes facing increasing financial and regulatory pressures. The recent announcement of 'Priority 3' and the onset of Auto Enrolment means that it is now more important than ever for care homes to take necessary action to ensure the sustainability and thus, profitability, of the home.

In this issue we look at:

- Unprecedented compliance changes – are you ready?
- National Minimum Wage set to rise again
- Care home performance benchmarking
- Do you have adequate finance in place?
- Free Auto Enrolment workshops

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.



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Hawsons are specialist care home accountants

At Hawsons our dedicated team of specialist accountants and tax advisors offer a wealth of experience in the care sector, including residential homes, nursing homes and other specialist care services.

Our in-depth knowledge and understanding of the sector is applied and we work closely with our clients, ensuring that changes in the care sector are recognised promptly and appropriate strategies implemented and actions taken. We recognise that no two homes are the same.

For more information on our care home expertise, including the services we offer and our experience, please visit: www.hawsons.co.uk/care-home-accountants

HLB International

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Unprecedented compliance changes

Are you ready?



As part of the revised compliance standards to be implemented by Care Quality Commission (CQC) it is vital for home operators to be aware of the financial aspects that the changes in legislation mean for them. From 1 April 2015, CQC will be recognised as the financial regulator for the sector, meaning it will now have the power to enquire in to operators' financial information.

The forthcoming changes are some of the biggest the sector has seen and, as expected, largely revolve around the delivery of care and the safety of the service users. However, the implementation of financial compliance reviews will now form part of the inspection process.

This briefing will talk about the financial aspects of the upcoming compliance changes, including what has prompted the changes and what you can expect from the new standards.

Why the changes?

Following a number of recent failures there were recommendations that the Government should do more to monitor the finances of care home operators in the UK. As such, the Government has reviewed the current mechanisms in the UK care sector and, following a public consultation, the current legislation as defined in *Outcome 26* is not considered to be sufficient. This has led to the implementation of *Priority 3: Approach to monitoring the finances of some providers*, which comes into effect on 1 April 2015.

The failure of Southern Cross in 2011 is undoubtedly a key reason that the Government and regulator are taking this proactive approach to monitoring the financial fundamentals of some operators and linking this with being able to deliver quality care and to protect the service's users.

The standard pre April 2015

Outcome 26 requires the service provider to take all reasonable steps to carry on the regulated activity in such a manner, to ensure the financial viability of the carrying on of the activity. The legislation goes on to 'prompt' providers to consider:

- Does the provider have the necessary financial resources?
- Does the provider have the necessary insurance and indemnities?

More importantly, this is NOT one of the Core 16 Quality and Safety Standards

Priority 3: Approach to monitoring the finances of some providers comes into effect for all CQC regulated care providers from 1 April 2015 and will see 'some' providers financially monitored.

Some providers is not defined, but larger providers will almost certainly be monitored. Smaller providers, depending on local or regional concentration and specialism of services, may also be monitored. For providers operating in specialist care or rural areas, who would be difficult to replace, the chances of your home being on the financial compliance radar of CQC are almost certainly increased.

The new legislation has two key objectives:

- To clarify duties on local authorities, ensuring continuity of care if the provider fails. Failed homes will be then managed by the local authority to protect the service users. Currently there are around 40 homes managed by local authorities.
- To establish CQC as the financial regulator of the sector; with the power to regulate the financial aspects of providers as well as the care aspects.

From April 2015 CQC will:

- Require regular financial and relevant performance information from some providers.
- Provider early warning of a provider's failure, to "ensure a sustainability plan can be implemented to manage and reduce the risks of failure."
- Seek to ensure managed and orderly closure of failed homes.

For more information on the changes, including the key action points that care home must consider when managing the changes, please visit our website:

www.hawsons.co.uk/care-home-accountants

National Minimum Wage set to rise again

The National Minimum Wage is set to rise by 3 per cent after recommendations from the LPC were made to the Government.

The LPC recommended a further 3 per cent increase in the UK minimum wage adult rate to £6.70 an hour, following the increase from £6.31 to £6.50 in October 2014. The adult rate applies to adults over 21 and would take effect in October. The LPC also recommended a 3.3 per cent increase in the 18 to 20 year-old rate to £5.30, a 2.1 per cent increase in the 16 to 17 year-old rate to £3.87 and a 2.6 per cent increase in the apprentice rate to £2.80.

Care home performance benchmarking

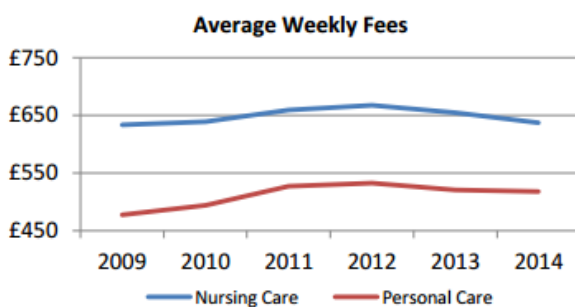
All care home managers and owners ought to know how their business is performing against its competitors.

We realise that each home is different but an analysis of margins, costs etc. against the competition can help highlight areas of concern and, of course, highlight where your business is performing well.

Financial benchmarking

The financial performance of any business is a key focus for any owner and manager. The financial results will almost certainly impact on fundamental operational decisions, CQC recognise this and legislation is in place that requires operators to consider the financial viability and position of their homes to ensure that care standards are not impacted due to financial constraints.

Average weekly fees continue to be a challenge for many operators, with price freezes in both nursing and personal care by many local authorities. Many of our clients have benefitted from increases in specialist care income streams, but this is highly dependent on the needs of residents and the demand on providers in the local area.



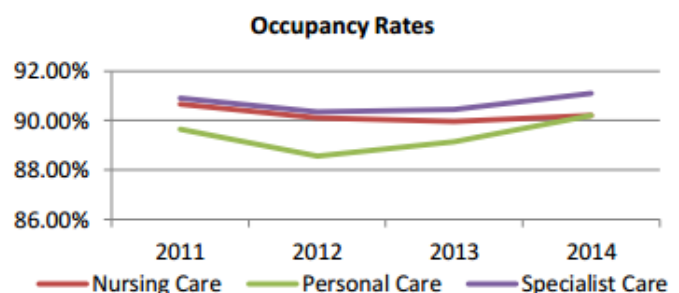
Payroll costs for nursing care continue remain largely unchanged, with a marginal decrease to 56% from 56.3%. Going forward we expect the increase in the National Minimum Wage (effective from 1 October 2014) to impact on a high number of operators, together with additional pension costs following the implementation of Auto Enrolment.

Non-payroll costs have risen in all care variants, with continued increases in utility and food costs being key factors in the reported rises.

Profit margins (EBITDAR) continue to be a challenge for operators as a result of funding pressures and rising costs. Nursing care margins remain consistent at 28.7%, however personal and specialist care have fallen to 31.1% (31.7%) and 31.5% (32.7%) respectively.

Non-financial benchmarking

Non-financial benchmarking is equally important to any care home; whether it be occupancy levels, local reputation or the findings of a CQC inspection, all will have a significant impact on your business. Occupancy rates continue to rise, with both nursing and personal care achieving over 90% occupancy for the first time since 2011. Specialist care continues to lead the way, achieving 91.1% occupancy in the first half of 2014.



Get in touch with Hawsons today

If you have any questions on anything in this article, or want to find out how one of the leading care home accountants in Sheffield, Doncaster and Northampton can help you, please do not hesitate to get in touch.

Do you have adequate finance in place?

A financial forecast is invaluable in identifying potential funding issues in a timely manner so that these can be addressed before it is too late. It is much easier to raise finance in advance of an issue arising than waiting for it to occur. This demonstrates management competence, whereas attempting to raise finance at the last minute reflects poorly on management and makes it more difficult to secure funding.

Every care home needs to plan ahead to ensure success, but daily pressures often delay the forecasting process. At Hawsons, we can help prepare a financial forecast, which enables you to forecast your profit levels and cash flow requirements and provide a benchmark against which you can measure your actual results. We will challenge the assumptions used and provide a sense check on the numbers based on our vast experience of helping clients go through this process.



Questions to ask yourself

- How long can your home continue to run in periods of lower occupancy?
- How adaptable is your cost base to sudden changes?
- Acquisitions - does the business have access to sufficient resources to take advantage of any opportunities that arise during the year?
- Dividends/remuneration - How much free cash will be available to increase the rewards to the owners of the business?
- Potential losses - does the business have sufficient funding in place to cover potential losses?
- Cost savings - Where can costs be cut to improve profitability or reduce losses?

Free Auto Enrolment Workshops

- You may already have been notified of your date by which time you are required to have in place a pension scheme for all your employees. This is your staging date.
- You may already have received a reminder to appoint someone in your company to be responsible for the implementation.
- You may already have an existing pension scheme that you feel "will do the job".
- You may think "it doesn't affect me".

Free workshops in Sheffield, Doncaster and Northampton (every month)

There are hundreds of thousands of smaller companies approaching their staging date and the ability of pension providers to provide solutions is becoming a real issue of capacity. It is not usually about just having a pension scheme, but having the process and systems in place to collate the data required to present and report to the Pensions Regulator.

If you don't satisfy the rules, have a pension scheme in place, have a system to record the relevant information, or miss your staging date, the fines can soon build up. We would recommend you start talking to your pension adviser as soon as possible, preferably with more than nine months to your staging date (ideally twelve), to build a timescale and agenda to make sure it all falls in to place.

We would be happy to help and would like to invite you to attend one of our free Auto Enrolment workshops with our specialist from Hawsons Wealth Management.

There are limited spaces available for each workshop, which are run on a monthly basis, so please book early.

We expect these sessions to be very popular.

For more information and to register, please visit www.hawsons.co.uk/workshops



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Your local specialist:

Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.



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Find out more about our specialist care home services.

Please call your local office or visit:

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