Care Sector

Specialist Care Home Accountants

Newsletter
Winter 2017

www.hawsons.co.uk

Introduction

Welcome to our Winter 2017 care sector newsletter.

Last year in June, Britain voted to leave the EU. However, with Britain still waiting for Article 50 to be triggered, there are still many questions that need answering. In this newsletter, we look at what the future holds for the care sector along with a review of 2016, and we also ask how your home is performing?

In this issue. we look at:

- Care sector 2016 review – what does the future hold?
- Reported increase in Care Home fees
- Rising wage costs for employers
- How is your home performing?
- Autumn Statement
- Making Tax Digital
- Cloud accounting

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**

HLB International

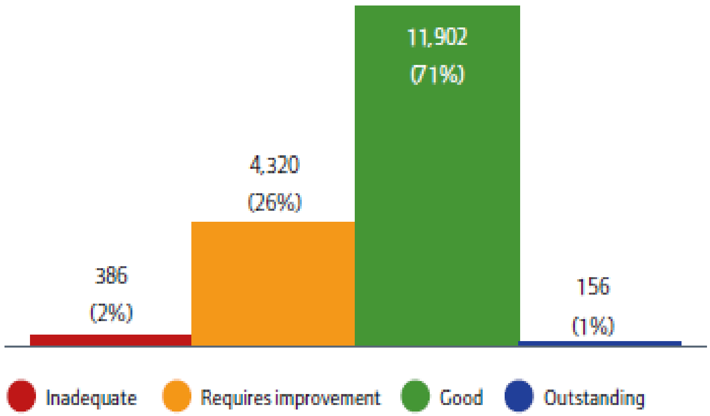
Care sector 2016 review – what does the future hold

Care sector 2016 review

Scott Sanderson, Partner at Hawsons and Care Home Specialist gives his thoughts on the events of the past year: "Throughout 2016 the care sector continued to be challenging for operators, with staffing shortages in nursing care, continued funding pressures from local authorities and rising wage costs. Yet, the sector continues to be an attractive option amongst wealthy new entrants looking to develop purpose built homes, together with existing operators looking to expand or re-develop existing sites to remain fit for purpose in future years.

However, for smaller operators, we have seen a growing number choosing to leave the sector due to the continued compliance demands and funding constraints. The Care Quality Commission ("CQC") recently published their report on The State of Health Care & Adult Social Care in England 2015/16, in the report CQC acknowledge the above noted concerns facing operators, commenting *"that smaller providers are particularly susceptible to closures".*

Phillip Hammond's Autumn Statement also did little to support the funding gaps in the adult social care sector either, however more positive signs for the sector were announced at the back end of 2016 with 95% of all local authorities planning council tax rises of between 3.9 per cent and 3.99 per cent. Local authorities have warned that despite the planned rises they will still not have enough money to cover the burgeoning cost of social care, at the same time as absorbing continuing cuts from central government.



CQC - The State of Health Care & Adult Social Care in England 2015/16

On compliance matters, CQC's annual report shows a significant increase in standards across the sector with 72% of adult social care homes being rated as either Good or Outstanding, up from 60% from 2014/15. For those operators who were rated as either Requires Improvement or Inadequate, upon re-inspection 77% of which had their ratings improved."

What will 2017 bring for the sector?

One certainty for 2017 is that we can expect the next 12 months to be equally as challenging!

With a growing number of smaller home owners thinking of exiting the sector, new entrants continuing to show interest, improved willingness for banks to lend and an attractive tax regime, we expect the next year to involve an increasing number of acquisitions and disposals, both nationally and locally. If you have been waiting for a healthy environment to sell your care home or enter the sector, then the next 12 months may be a great opportunity for you to make that move. **Read more about this at** www.hawsons.co.uk/care-home-buying-selling

The care sector is also set to become a gradually more competitive and uncertain environment, as the new entrants challenge the status quo. It is therefore crucial that care home owners within the sector see the increased compliance and growing emphasis on financial sustainability as an opportunity to highlight key areas where their home can improve and, critically, implement new policies and procedures to work towards a stronger, sustainable financial future.

5.2% reported increase in care home fees

Care home fees have seen a substantial increase, rising by over £1,500 over the past year, according to national provider Prestige Nursing Care. This year's growth rate is the largest since the company began collecting data four years ago, and the annual growth rate has more than doubled from previous years.

The figures

In 2012, the annual shortfall between the cost of care homes and pensioner income was at £14,196. However, four years later, this number has increased by 16% and now sits at almost £16,500 (£317 p/w), making the total cost of care homes per year total 114% of the average pensioner's income after tax.

Where in England has the highest cost?

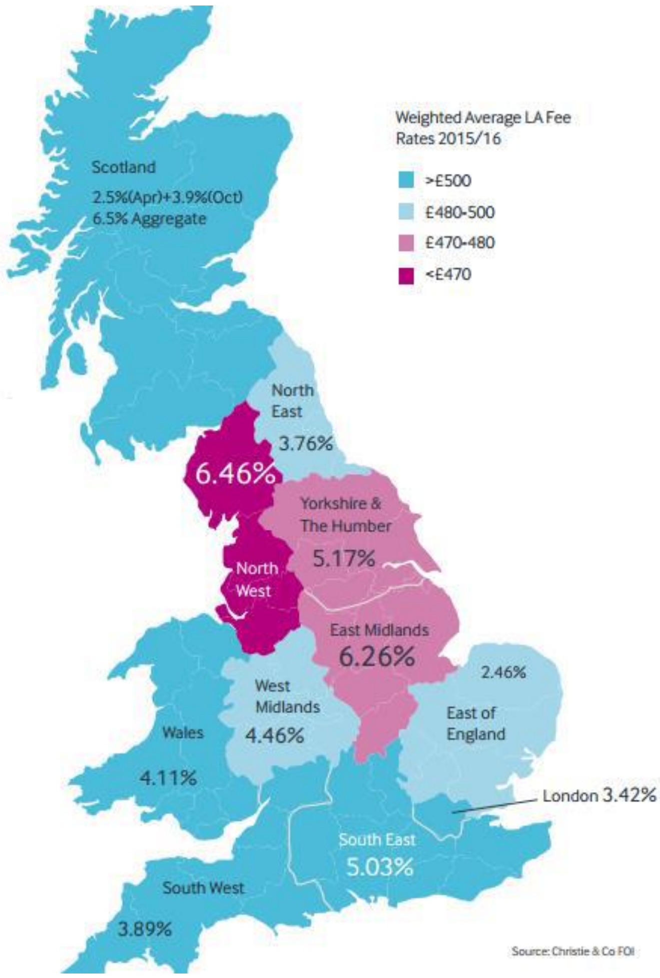
London, for the first time, has overtaken the East of England with the cost of care homes averaging almost £40,000 per year. The East of England recorded average costs of £37,908 in the last year, with London seeing the biggest increase in care costs annually in any UK region totalling 19%.

The cost of living in London is extremely high as it is, so although there has been a 2.9% rise in basic state pension in the last year, that does not amount to the increase in care home costs that service users now face.

However, the East of England still remains the region with the highest gap between care cost and income, seeing a £4,004 (21%) increase amounting to £23,828 in the last year.

With the shortfall being rather high, there is, however, *potential* that your city's Council, depending on your circumstances and the Councils funding, for the council to make up for that shortfall and meet the price of the care home. As stated, this depends on personal circumstances and funding.

Scott Sanderson, Partner at Hawsons and care home specialist, had this to say: "Whilst the headline focuses on an increase in income levels being reported nationally on care fees in truth the increases are not, in real terms, keeping up with the increasing expenses operators are faced with. The introduction of the National Living Wage and Auto Enrolment for pensions, rising utility costs, the apprenticeship levy, to name a few – the increase in care fees is very much needed within the sector."



Rising wage costs for employers

National Minimum Wage

The government announced increases to the National Minimum Wage which came into effect on 1 October 2016, after accepting recommendations for the new rates from the Low Pay Commission (LPC).

The main National Minimum Wage rate (for 21- 24 year olds) has risen by 3.7% from £6.70 to £6.95 per hour, as the table below shows.

	Current rate	Rate from 1 October
21-24 year olds	£6.70	£6.95
18-20 year olds	£5.30	£5.55
16-17 year olds	£3.87	£4.00
Apprentice rate*	£3.30	£3.40

*This apprentice rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age.

The table below shows the historic wage increases for the National Minimum Wage:

Year	21 and over	18-20	Under 18	Apprentice
2015	£6.70	£5.30	£3.87	£3.30
2014	£6.50	£5.13	£3.79	£2.73
2013	£6.31	£5.03	£3.72	£2.68

The National Living Wage

From 1 April 2016, following the introduction of the new National Living Wage, all workers aged 25 and over are legally entitled to at least £7.20 per hour. This was, however, until the Chancellor delivered his Autumn Statement, where he announced that the National Living will increase by a further 30p from April 2017 to £7.50 per hour. The National Living Wage rates are set to increase gradually alongside rises in the National Minimum Wage, and is projected to rise to more than £9 per hour in 2020.

A four-step checklist for employers following the announcements is:

1. **Know the correct rate of pay (including the National Living Wage)**
2. **Find out which staff are eligible which rates**
3. **Update the company payroll and keep an eye out for future announcements**
4. **Communicate the changes to staff as soon as possible**

Moving forward – more compliance for employers

National Minimum Wage and National Living Wage rates will now change every April, as opposed to every October and April respectively.

This is a positive change, but does mean that the above rates will only be effective up until 31 March 2017.

Following the introduction of the new National Living Wage in April 2016, and the imminent increase of the NLW, this will see be the fifth round of wage increases (in some form) in just two years. It is therefore unsurprising to see that many small (and indeed large) business owners are finding running their payroll an increasingly complex and time-consuming task. The compliance obligation on employers has never been greater and there has never been a better time to consider outsourcing your payroll.

How is your home performing?

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.

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.

UK Care Home residents by main funding source

Funding sources have remained consistent over the past year with 48% of care homes being funded by local authorities, 40% are privately funded whereas only 12% are funded by the NHS or CCGs. This follows the trend of previous years in which the private fee paying market is continuing to increase, especially in the South East of the country. Many operators face the same dilemma with regards to private fee levels being used to subsidise lower paying local authority funded services users and have no option but to take a commercial view on this to remain viable.

48% - Local authorities

12% - NHS/CCGs

40 % - Privately Funded

Fees – Elderly Care

Average weekly fees continue to be a challenge for many operators, with funding pressures 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

Some local authority fee rates are indeed increasing due to a new number of reasons, and these are:

- Judicial reviews
- Integrated budgets
- Better care fund

Average Weekly Fees	Nursing	Personal/Residential
East of England	£738	£585
East Midlands	£643	£597
London and South East	£813	£722
North East England	£568	£483
North West England	£570	£522
Scotland	£660	£558
South West England	£782	£687
Wales	£608	£527
West Midlands	£670	£632
Yorkshire & The Humber	£545	£492

JLL Elderly Care Homes KPI 2015/16

Payroll costs

Payroll costs present a mixed picture, with falling levels in personal care homes but rising levels in the more specialised nursing and specialist sectors. Going forward we expect the increase in the National Minimum Wage (effective from 1 October 2016) and National Living Wage (effective from 1st April 2017) to impact operators, together with additional pension costs following the implementation of Auto-Enrolment.

Wage costs

% of total revenue	⇩ PC	⇧ NH	⇧ SP
2016 H1	50.7	56.9	55.7
2015 H2	51.0	56.1	56.5
2015 H1	50.8	56.1	55.0
2014 H2	51.7	56.2	53.8

How is your home performing? Continued…

Non-Payroll costs

Non-payroll costs across all forms of care have fallen, largely due to income increases across the board. These costs do tend to relate to operators fixed costs and therefore this trend is not surprising to see. Nursing care, for the first time, is showing a sub-fifteen percent average of non-payroll costs, which we expect being a result of the FNC increases during the past year.

Non-Payroll costs

% of total revenue	⬇ PC	⬇ NH	⬇ SP
2016 H1	17.0	14.9	14.8
2015 H2	17.1	15.0	14.6
2015 H1	17.2	15.1	15.8
2014 H2	17.1	15.0	15.9

EBITDAR

There have been modest profit increases for EBITDAR (Profit Margins), with percentage of total revenue for personal care rising to 32.3% in 2016, up by 0.5% from 31.8%. However, nursing homes feel the pressure of wage increases and show a fall in profitability, with profits reducing by 0.7% to 28.2%, down from 28.9% in 2015.

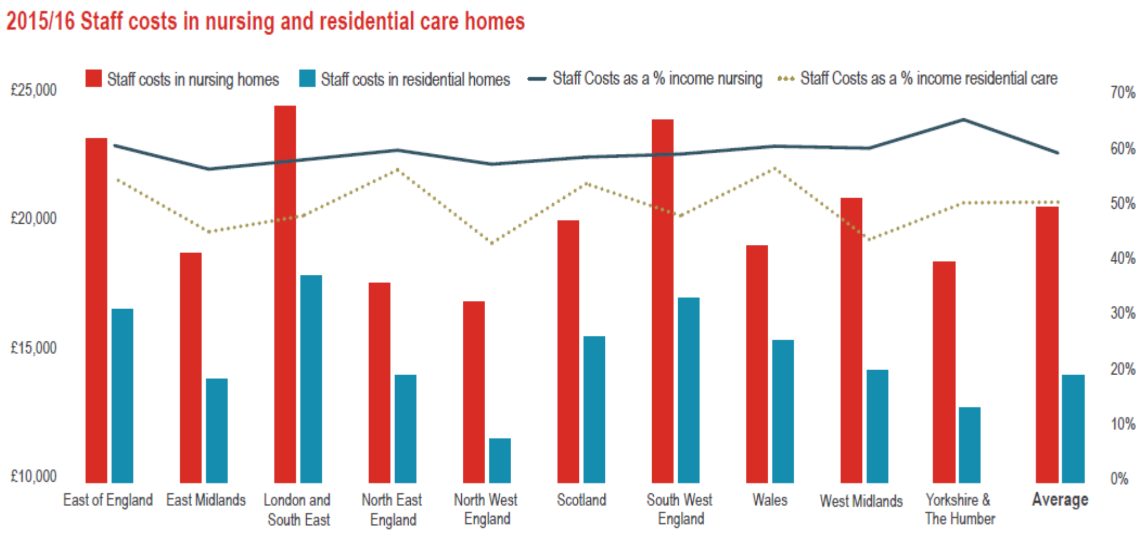
EBITDAR (Profit margins)

% of total revenue	⬆ PC	⬇ NH	⬆ SP
2016 H1	32.3	28.2	29.6
2015 H2	31.8	28.9	29.0
2015 H1	32.0	28.9	29.3
2014 H2	31.1	28.7	30.2

Colliers Healthcare Market Review 2016

The impact of nurse shortages

The national shortage of nurses doesn't just impact the NHS; it impacts the private sector as well. This is partly down the fact that there is a high cost of agency staff, as can be seen from the graph opposite. The cost of agency staff in the East of England, London and the South East and the West Midlands all come to more than £20,000.



JLL Elderly Care Homes KPI 2015/16

Autumn Statement

Philip Hammond delivered his Autumn Statement on Wednesday 23rd November 2016. His speech set out both tax and economic measures the government will implement. In this article, we summarise the key points arising from the Autumn Statement and focus on what the changes may mean for the care sector.

In Summary (general):

- The government reaffirming the objectives to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this Parliament.
- Reduction of the Money Purchase Annual Allowance.
- Confirmation of falling Corporation Tax rates to 17% from April 2020.
- Review of ways to build on research and development tax relief.
- Tax and National Insurance advantages of salary sacrifice schemes to be removed.
- Anti-avoidance measures for the VAT Flat Rate Scheme.
- Confirmation that future budgets will be in Autumn annually going forward.

In summary (care home specific):

- National Living Wage to rise from £7.20 to £7.50 an hour from April 2017.
- No extra funding for social care in England from national government.
- No extra ring fenced funding for social care in England from local authorities.
- No planned changes to VAT for the sector.

Problems facing the care sector?

Scott Sanderson, Healthcare Partner at Hawsons, commented: “This year’s Autumn Statement was a chance for the new Chancellor to address the looming crisis in funding for the care sector, instead the focus was very much on devolution and housing at the expense of health and social care. The Chancellor, Philip Hammond, failed to deliver any significant funding proposals to help ease the problems currently facing the sector, with the care sector facing an uncertain future, leading to widespread criticism from senior figures.”

“The one thing he did speak about – the National Living Wage – is to rise from £7.20 to £7.50 per hour from April 2017, which wasn’t unexpected, but is a devastating blow to the care sector in the absence of any funding rises. This increase will see wages rise in a sector that already doesn’t have enough money to operate at peak efficiency and on the back of the National Minimum Wage rises in October 2016, this Autumn Statement was a chance to address these issues, but there was nothing from the Chancellor and instead, the statement was conspicuous for what it left out.”

Care England’s Chief Executive Martin Green, said: “The increases to the living wage, which do not appear to be funded by increases in social care funding, could lead to significant numbers of job losses. The Chancellor has absolutely ignored social care yet again, and he must be prepared for the impact this will have on families, local economies, and the NHS.”

Making Tax Digital

HMRC have recently published six consultation documents on the 'Making Tax Digital' strategy – the biggest shake-up of the personal tax system in 20 years. These documents set out HMRC's plans to move to a fully digital tax system by 2020, with the aim of making the tax system more efficient. The government first announced the project in the 2015 Budget but has now provided additional details of the proposals for consultation.

The consultation documents

The six consultation documents cover:

- Bringing business tax into the digital age
- Simplifying tax for unincorporated businesses
- The simplified cash basis for unincorporated property businesses
- Voluntary tax payments in advance of liabilities being due
- Tax administration
- Transforming the tax system through better use of information

In summary

HMRC plan to make fundamental changes to the way tax reporting is carried out. Business owners and landlords will be required to keep records digitally and update HMRC more frequently than is currently the case. These reforms will be introduced from April 2018.

By 2020 most businesses and landlords will have to use software or apps to keep their records and report to HMRC on a quarterly basis. Tax returns will be replaced by an End of Year declaration which will need to be filed within 9 months of the end of the period of account.

HMRC also intend to make changes to some of the underlying tax rules for businesses and amend HMRC's compliance and enquiry powers. This will include the introduction of a new regime for late submission penalties, late payment sanctions and proposals to align interest across taxes.

Those taxpayers who are likely to be exempt from the changes include:

- All unincorporated businesses and landlords with an annual income of less than £10,000;
- Charities and Community Amateur Sports Clubs (CASCs) and;
- Those who cannot engage digitally

Reaction

Craig Walker, Senior Tax Manager at Hawsons commented: "The proposals are radical and wide ranging, and clearly significant consultation is required. There are deep concerns within the profession and the business community that HMRC's plans are overambitious and unrealistic, the proposals will place additional burdens and costs on businesses, and the current timetable for implementation is unworkable."

"Although the concessions for businesses with income below £10,000 are welcome, much more still needs to be done by HMRC to address the legitimate concerns of businesses."

More on Making Tax Digital

Over the coming weeks and months, we will provide further details on the new initiative, commenting on the new consultation documents and what they mean to taxpayers and the personal tax system.

Cloud accounting

Cloud accounting is the use of accounting software where your data and software is stored on the cloud rather than your hard drive. It can be accessed remotely from any device that has internet access, much like your internet banking. As your business grows, one of the key questions you will ask yourself is: "how can I prioritise my time?" and rightly so, with not having enough hours in the day is one of the key challenges many small business owners face. This is where Cloud accounting can help your business. Here are just a few ways where our online client accounting software can help your business:

Prioritise your time – online accounting brings new working practices. Bank fees that automate the postings into the software from entries on your electronic bank statement, the emailing of pictures of receipts on to your system and the scanning of supplier invoices all reduce the time in data inputting.

IT Services – The Cloud service providers deal with much of the IT maintenance such as the backing up of your data, installing software updates and this in turn reduces the need for on premise servers.

Flexibility – In today's environment, people are mobile working outside of their office hours and away from their office locations, usually on mobiles or tablets or other devices. It is also essential that you can securely access business software and data as and when needed, wherever in the world that may be.

Moving to the Cloud couldn't be simpler, working on the Cloud will give you the opportunity to reduce the amount of time you spend on tedious and time consuming administrative tasks, allowing you to concentrate on what you do best which is running and growing your business. After all, you started a business to run a business, not to be an accountant or a book-keeper. With Cloud accounting, you can do just that.

Our Cloud Accounting services

We will work with you to find out which Cloud accounting software best suits your needs. We work with a range of the leading traditional and Cloud accounting software providers:

- Xero
- Sage One
- KashFlow
- FreeAgent
- QuickBooks

We will help you move to your new software and make the data transfer as automated as possible. Next, we will provide you with training on your cloud accounting software so you know how to use it efficiently and get the benefits as quickly as possible.

Ongoing Cloud accounting services

Once you are up and running we are available to help at any time answering any questions you may have. With your permission, we can log into the software at the same time as you and even take control of your screen to help you with any questions you may have.

How secure is the Cloud?

Charles Kavazy, Director of IT Services at Hawsons says: "It depends. Of course, that's not a very helpful answer, but much depends on many factors including your attitude to risk, the nature of your data and the strength of the security including the processes carried out by the company hosting your data. Some people argue that storing your data on the Cloud can be more secure than storing it on your desktop or an on-site server. The level of physical and electronic security that Cloud service providers offer may be higher, depending on the risk involved, and the duplicated continuous backup processes of Cloud providers are probably going to be better than most businesses would implement."

Wherever you store your data, there are always security issues, as Charles adds: "Most Cloud computing providers take great measures to ensure your data is safe, including backup power supplies, firewalls, data encryption software and regular, third-party security audits. They can also protect your data against floods and fires by having multiple servers in different locations."

Charles summarises: "The Cloud service providers take great care to protect your data, but ultimately each business needs to consider its attitude to risk, the data being stored and the implications of a security breach. If you decide the benefits of the Cloud outweigh the risks and you are happy to accept the risk, then you need to ensure you choose your Cloud provider carefully and implement robust procedures to mitigate the risk of problems. For example, controlling access rights, regular password changes and training your staff on security risks."

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