



Care Sector

Specialist Care Home Accountants

Newsletter

Summer 2015

Introduction

Welcome to our Summer 2015 care sector newsletter.

The care sector continues to be challenging for operators, with changes in CQC regulations coming to effect on 1 April 2015, coupled with rising costs in wages and pensions, the second half of 2015 promises to be eventful for all involved in the sector.

In this issue we look at:

- Care sector outlook 2015/16 – what does the next 12 months hold?
- A welcome rise in local authority fees for Sheffield care providers
- Care home fees & market analysis 2015/16
- Thinking of selling your care home?
- Auto Enrolment – is your home ready?

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



www.hawsons.co.uk



Care sector outlook 2015/16 – what does the next 12 months hold?

The care sector continues to be challenging for operators, with significant regulatory changes coming into effect on 1 April 2015, coupled with increased compliance and funding pressures. Yet, the sector continues to be hot amongst wealthy new entrants looking to develop purpose built homes, together with multiple home operators looking to add to their existing portfolios. However, for smaller operators we expect to see a growing number choosing to leave the sector due to increased compliance demands and means of testing.

Compliance, compliance, compliance!

Although care home challenges can vary from region to region – as highlighted in the ‘care home fees & market analysis 2015/16’ article through occupancy and fees – care providers across the UK are facing increasingly detailed and complex compliance regulations, leading to unrelenting pressures to contain costs and demonstrate financial sustainability.

The recent changes to the inspection criteria, effective 1 April 2015, have given the Care Quality Commission (CQC) increased power enabling it to enquire into an operators’ financial information and carry out financial inspections, in addition to care related inspections. This growing regulatory compliance, coupled with rising costs in wages (with National Minimum Wage increasing for the second time in 12 months in October 2015) and the recent onset of auto enrolment, result in care homes operating in an increasingly competitive and uncertain environment.

Furthermore, with continued funding constraints within elderly care due to come into force in April 2016, impacting already tight margins, and mounting complexity through technology changes and increased government scrutiny, many care owners may be considering exiting the sector.

New entrants to the market – increased appetite and quick conversion opportunities

Despite the increasing compliance and growing regulatory burdens within the sector, healthcare remains one of the top industries targeted by companies from other sectors. The sector is hot amongst new entrants and we are seeing a considerable interest in the acquisition of care homes, whether they are performing well or in need of a turnaround solution. We are also seeing an increased appetite in entrants looking to organically grow in the sector through opening new care homes, with one of the main incentives being the increasing availability of large empty buildings, which can lead to a quick conversion.

This is not particularly surprising as, despite the growing financial and non-financial challenges many in the sector are facing, there are considerable opportunities to achieve success through striking a delicate balance between providing quality care and maintaining financial stability and sustainability.

What does this mean for the sector?

We expect the next 12 months are certainly going to be eventful for all involved in the sector!

With many care home owners thinking of exiting the sector, new entrants continuing to show interest, improving 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.



A welcome rise in local authority fees for Sheffield care providers



Following a recent report by the Sheffield City Council Communities Commissioning Service, 'Fees and Market Analysis: Care Homes 2015/16', residential care home and nursing home fees in Sheffield are set to rise by more than 2% for the contract year 2015/16.

Local authority fees in Sheffield have been frozen for the past two years, but as staffing and other non-payroll costs have continued to rise, Sheffield Council's cabinet have recommended a rise of 2.33% in residential care home fees and a rise of 2.45% in nursing home fees.

Although wage inflation in the UK is currently running at less than 0%, as many of the staff who work within the sector are working at the National Minimum Wage level the increases to staffing costs have been more significant, as the below table shows. With National Minimum Wage set to rise again this year, following a 3% increase in October 2014, the council recognise that the increase is needed.

Challenging times

There have been five care home closures in Sheffield in the past year alone, with three of those unplanned, which goes to show how tough it has been for operators.

The report reveals that the maximum fee for residential care homes in Sheffield for 2014/15 is £391 a week – but is set to rise to £400.11 a week when the fee increase of 2.33% goes ahead. For nursing homes, with a planned rise of 2.45%, the maximum fee is set to increase from £507.89 to £517.62.

The increases still, however, leave residential fees in Sheffield amongst the lowest in the region (including Doncaster and Rotherham) and, indeed, amongst the lowest in the UK

Further analysis

For more information on fees and comparisons, please read the next article, 'care home fees & market analysis 2015/16'.

Year	% Fee Increase	Minimum Wage % Increase
2000	1.73	2.8
2001	3.39	10.8
2002	2.85	2.4
2003	7.35	7.1
2004	6.56	7.7
2005	4.47	4.1
2006	3.97	5.9
2007	3.14	3.2
2008	2.75	3.8
2009	2.39	1.2
2010	1.00	2.2
2011	-1.00	2.5
2012	3.00	2.0
2013	0.00	1.9
2014	0.00	3.0
Overall: last 5 years	3.00	11.6

Source: Sheffield City Council Communities Commissioning Service, 'Fees and Market Analysis: Care Homes 2015/16'

Care home fees & market analysis 2015/16

A recent report by the Sheffield City Council Communities Commissioning Service, 'Fees and Market Analysis: Care Homes 2015/16' highlights some interesting statistics that all regional care owners need to be aware of.

The report sets out key demographics and performance-related indicators for Sheffield region homes. Linking to research from leading market analysts, Laing & Buisson, the document also sets out key demographics and performance-related indicators for care homes across the UK.

In summary (Sheffield):

- The numbers of older people living in Sheffield is projected to increase year on year.
- Occupancy levels in Sheffield have generally risen as a result of the reduction in supply (5 care home closed last year – the closures this year have cancelled out increases from the previous three years)
- There has been no increase in local authority fees for the last two years; the main cost increases are staffing (minimum wage rose in October 2014 and is set to rise again later this year)
- "We" should therefore raise the fees by at least the impact of wage and CPI inflation

In summary (The national picture):

- The number of people aged 74-84 in the UK is projected to grow by over 800,000 and the over-85s by 400,000 between now and 2021.
- Over the last 18 months capacity in the market rose by 3,600 beds to an estimated 487,800 residential beds nationally. However, demand over the same period rose by 10,000 to an estimated 432,000 beds.
- Average fee levels are approximately 4.8% down in real terms over the last 3 years.
- The big four national care providers account for 18.4% of the national market and in localised areas this can be more than 25% of the market.
- Single or widowed women over 85 are most likely to become residents in homes. However, as residents are entering care homes at an older age, the average length of stay is falling.

In more detail

Occupancy:

The report revealed that average occupancy in Sheffield remains on a similar level to other regions. The overall trend has risen from 88.3% to 88.57% since 2012/13.

In the consultation with providers, it was noted that the impact of low occupancy is experienced differently by different sized homes. As high levels of occupancy remain a key challenge for smaller care homes, who need a consistently high level to survive, many are considering taking residents with increased care needs. Although this is likely to have a positive impact on occupancy levels, the home must also take into account the potential impact on increased staffing costs and the risks associated with residents with increased care needs. Medium and larger homes, on the other hand, are proportionally more secure and are often better equipped to manage reduced occupancy levels.

Costs:

Both staff and non-staff costs are rising for care homes in line with national levels of inflation. Non-payroll costs have risen in all care variants, with continued increases in utility and food costs being key factors in the reported rises.

Payroll costs for nursing care continue to remain largely unchanged, with a marginal decrease to 56% from 56.3%. Going forward we expect another increase in the National Minimum Wage to increase (effective from 1 October 2015) to impact on a high number of operators, together with additional pension costs following the implementation of Auto Enrolment.



Fees:

As the tables below show, residential fees in Sheffield are amongst the lowest in the region and in comparison with other core cities in the UK. Nursing fee levels compare more favourably, however.

Authority	Reg.	Elderly £/wk		Dementia £/wk	
		Min	Max	Min	Max
Sheffield	Nursing	£501.89	£507.89	£513.89	£519.89
	Residential	£353.00	£391.00	£395.00	£399.00
Doncaster	Nursing	£434.67	£434.67	£486.41	£486.41
	Residential	£414.71	£414.71	£431.48	£431.48
Rotherham	Nursing	£521.89	£521.89	£618.89	£618.89
	Residential	£393.00	£393.00	£442.00	£442.00
Barnsley	Nursing	£479.18	£479.18	£520.49	£520.49
	Residential	£369.39	£369.39	£399.86	£399.86
Wakefield	Nursing	£522.89	£522.89		
	Residential	£416.00	£416.00		

Source: Sheffield City Council Communities Commissioning Service, 'Fees and Market Analysis: Care Homes 2015/16'

Authority	Reg.	Elderly £/wk		Dementia £/wk	
		Min	Max	Min	Max
Sheffield	Nursing	£501.89	£506.79	£513.89	£519.89
	Residential	£353.00	£391.00	£395.00	£399.00
Liverpool	Nursing	£480.51	£563.19	£471.23	£552.47
	Residential	£366.82	£449.51	£366.82	£449.51
Manchester	Nursing	£402.62	£443.48	£402.62	£443.48
	Residential	£375.88	£415.42	£395.88	£435.42
Newcastle	Nursing	£447.95	£492.32	£467.43	£511.79
	Residential	£447.95	£492.32	£467.43	£511.79
Leeds	Nursing	£459.00	£479.00	£463.00	£484.00
	Residential	£429.00	£446.00	£442.00	£464.00
Nottingham	Nursing	£417.90	£456.96		
	Residential	£396.36	£441.66		
Birmingham	Nursing	£461.00	£461.00	£461.00	£461.00
	Residential	£405.00	£405.00	£405.00	£405.00

Source: Sheffield City Council Communities Commissioning Service, 'Fees and Market Analysis: Care Homes 2015/16'

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.

The latest performance benchmarking report has recently been added to our website.

For more information please contact your local office specialist or visit www.hawsons.co.uk/care-performance-benchmarking

In fact, when looking at Sheffield care fees on a nationwide basis, Sheffield again falls amongst the lowest in the UK.

The below table excludes London and only shows the bottom quartile.

	Town	Residential Max	Town	Nursing Max
30	Manchester	435	Northamptonshire	549
31	halton	434	Cambridgeshire	547
32	Sefton	434	Southend	544
33	Southend	434	Warwickshire	541
34	Wolverhampton	432	Sefton	537
35	Doncaster	431	Derby	536
36	Rutland	431	Lincolnshire	535
37	Derbyshire	430	Calderdale	529
38	Bradford	427	Oldham	529
39	Trafford	427	Peterborough	521
40	Northamptonshire	424	Barnsley	520
41	Rochdale	421	Sheffield	519
42	Oldham	419	Wigan	514
43	Shropshire	408	Newcastle	511
44	Birmingham	405	Rochdale	499
45	Wigan	405	Salford	492
46	Calderdale	404	Doncaster	486
47	Sheffield	399	Walsall	483
48	Barnsley	393	Wolverhampton	481
49	Walsall	383	Birmingham	461
50	Salford	382	Manchester	443

Source: Laing & Buisson 'UK Local Authority Baseline Fee rates 2013/14'



Thinking of selling your care home?

As we mentioned in the first article in this newsletter, the next 12 months are certainly going to be eventful for all involved in the care sector and may provide an attractive opportunity for those looking to exit through selling to a third party.

Has there ever been a better time to sell?

There are a number of factors driving growing deal activity in the sector which makes the next 12 months a potential ideal opportunity to sell your care home, with entrants continuing to show interest, a growing willingness for banks to lend and an attractive tax regime. The increasing compliance and ever-growing regulatory burdens that care homes are now facing also means that many in the sector are thinking of exiting.

For many, the sale of a care home is the culmination of a lifetime's work. More often than not, this will be a once in a lifetime transaction – with only one opportunity to get it right and achieve the maximum reward. The tax implications that tend to arise on deals are often overlooked, with potentially considerable consequences if they are not planned and prepared for. It is therefore crucial that you seek advice if you are thinking of selling your care home, whether that is now or in the next five years.

How can Hawsons help?

Hawsons has a dedicated team of experienced Healthcare Corporate Finance specialists who provide the full range of independent deal advisory and transaction support services and can help if you're thinking of selling your care home. As part of a multi-disciplined advisory firm, we also work closely with other in-house specialists and, in particular, with our tax team on tax planning and effective structuring for each transaction.

For more information please contact your local office specialist or visit www.hawsons.co.uk/care-home-buying-selling

Auto Enrolment – is your home ready?

The onset of auto enrolment is affecting many businesses and it is crucial, if you haven't already, to start preparing now.

- 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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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:

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



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