Care Sector

Specialist Care Home Accountants

Newsletter
Autumn 2015

www.hawsons.co.uk

Introduction

Welcome to our Autumn 2015 care sector newsletter.

The care sector continues to be challenging for operators with increased compliance and funding pressures. The recent announcement of the National Living Wage only adds to those pressures. It is now more important than ever that care operators look towards the future and plan for tomorrow's service users today. In this newsletter we also consider some of the biggest tax changes in the sector and how they may impact you and your home. Happy reading!

In this issue we look at:

- Care sector outlook 2015/16 – what does the next 12 months hold?
- Technology in the care sector – is your website effective?
- The impact of the National Living Wage
- Care home profit improvement strategies (free workshops)
- Annual Investment Allowance – good news for care operators?
- Big dividend income changes for care home company owners

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**

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 (available on our website)– 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 carryout financial inspections, in addition to care related inspections. This growing regulatory compliance, coupled with rising costs in wages (with National Minimum Wage increasing from October 2015, together with the recently announced introduction of the National Living Wage from April 2016) 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, care remains one of the top sectors 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.

Technology in the care sector – is your website effective?

Are you ready for tomorrow's service users today?

Whether you run a small home in the local area or have a group of homes with a national focus, it is time to start considering the implications technology may have on your care home, before you fall behind. Many care homes have outdated websites and this may be a good time to start thinking about an update, or even a complete redesign. In this article we talk to Scott Sanderson, Healthcare Partner at Hawsons, to discuss what makes a good care home website and how homes can stand out from the competition.

Q&A with Scott Sanderson – what makes a good care home website?

How important is a good website for a care home?

"The importance of a well thought-out and carefully designed website should not be overlooked in any sector, and it is becoming particularly important for care homes. Choosing a care home for a loved one is a huge decision and this is a decision which is increasingly - at least initially - being made online. A care home's website is central to new enquiries and provides operators with an opportunity to attract private fee payers – first impressions count! Care homes must therefore ensure that their websites are up to scratch, both from a technical standpoint and prospective service user's point of view."

What makes a good care home website?

"There are a number of things that make a good care home website. In particular, I would look at it from a prospective service user's viewpoint – what do they want to see? Testimonials from current residents, latest CQC reports, accreditations and awards, pictures of the interior and exterior of the care home, a list of key features the home has e.g. lifts, en-suites and activity areas and contact information should be included on all care homes' websites."

What makes a care home website stand out?

"Testimonials should really not be overlooked. Now, as many as 78% of people trust online reviews as much as recommendations from friends – that is an amazing statistic. Going beyond that, I would like to see more care homes include videos on their websites – either providing a tour of the home or further information from the owner or carers – as seeing the people behind the home really can make that vital difference. I would also like to see more websites include a FAQ section. Many people who are looking for a care home have never done so before, so it's understandable they have so many questions. Make the process as simple and as reassuring for them as possible."

What do owners need to know from a technical standpoint?

"The technical elements of a website need to also be considered. In this day-and-age your website simply has to be mobile-friendly. By that I mean that your website should work responsively on a mobile or tablet with no sideways swiping to read a page. Google recently confirmed that there are more mobile search queries than desktop – and have recently made changes to their complex algorithms to align with that. If your website isn't mobile-friendly you won't rank as well on Google. There are a number of other technical SEO (Search Engine Optimisation) considerations you will also have to make which determine how well you rank on Google. If you outsource the production of your website, the developer will help with these."

For more information or advice please contact Scott on ss@hawsons.co.uk or 0114 266 7141.

The impact of the National Living Wage

The government recently announced the introduction of a new National Living Wage (NLW) for working people aged 25 years and above. The impact of the National Living Wage will vary significantly across different businesses, but will be particularly significant for the care sector, and comes after unprecedented regulatory changes have been implemented in across the sector.

What will the National Living Wage mean for the care sector?

Scott Sanderson, Healthcare Partner, said: "In a year with significant regulatory changes, increasing compliance and funding burdens, this announcement places further pressure on care home owners to balance the books and keep an eye on their finances. This introduction will no doubt have to be factored into the annual budgets and, with the year ahead looking set to be another challenging one for care homes, it will have a significant impact on many operators."

"With CQC now recognised as the financial regulator for the sector and an increased focus on the financial aspects of operators, this rise further compounds the need to prepare annual budgets and keep accounting records up-to-date, in order to monitor the home's risks and ensure financial sustainability. One particularly important focus of care homes should be that of performance benchmarking, which can help highlight areas of concern or opportunities and, of course, highlight where your home is performing well."

For more information, or to receive the latest performance benchmarking report, please contact Scott on 0114 266 7141.

Care home profit improvement strategies (free workshops)

Free workshops in Sheffield

In a year with significant regulatory changes, increasing compliance and funding constraints (including the recent announcement of the National Living Wage), the care sector continues to be challenging for operators. There has never been more pressure on care home owners to balance the books and keep an eye on their finances, particularly with CQC tightening their inspection criteria in this area.

We would therefore like to invite you to one of our workshops, highlighting and discussing profit improvement strategies for care homes (these are free to attend), with Scott Sanderson, Healthcare Partner at Hawsons.

The workshops will run on Wednesday 23 September and Tuesday 6 October from 4pm – 5pm, with time for questions and networking after Scott's presentation.

The location of the workshops is the Hawsons Sheffield office (Pegasus House, 463a Glossop Road, Sheffield, S10 2QD), and free parking will be available.

The workshops will focus on:

- Maximising revenues
- Controlling costs
- Performance benchmarking
- Technology in the care sector
- Embracing change
- Monitoring risks to financial sustainability

To register for one of these free workshops please visit our website at:

www.hawsons.co.uk/care-workshop

If you have any further questions please contact Scott on ss@hawsons.co.uk or 0114 266 7141.

Annual Investment Allowance – good news for care operators?

The Chancellor announced in the Summer 2015 Budget that the Annual Investment Allowance (AIA) will be set permanently at £200,000 from 1 January 2016. George Osbourne had previously said that this would be included in the Autumn Statement, but this early announcement provides welcome certainty for care home operators across the UK who are considering funding new developments or refurbishing existing homes.

Could AIA provide a generous tax saving on the cost of refurbishing homes?

The AIA provides a 100% deduction for the cost of fixtures/fittings as well as most plant and machinery purchased by care operators, up to an annual limit and is available to all businesses. This is certainly an attractive prospect for care home operators, particularly as items such as lighting, electrical systems, cold water systems and lifts may all now qualify for AIA – reducing your tax bills!

The AIA was increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses until 31 December 2015. However, it was due to reduce to £25,000 after this date. Instead, the announcement was that the level of the maximum AIA will now be set permanently at £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016.

Where your chargeable period spans 1 January 2016 there are transitional rules for calculating the maximum AIA for that period which operate as on previous occasions when the AIA has dropped. There will be two important elements to the calculations:

1. A calculation which sets the maximum AIA available to a business in an accounting period which straddles 1 January 2016
2. A further calculation which limits the maximum AIA relief that will be available for expenditure incurred from 1 January 2016 to the end of that accounting period.

It is the second figure that could catch you out, as demonstrated by the following example. If a company has a 31 March year end then the maximum AIA in the accounting periods to 31 March 2016 will be:

• 9 months to December 2015 (three quarters of £500,000)	£375,000
• 3 months from January 2016 (one quarter of £200,000)	£50,000
• Total annual AIA using first calculation	£425,000

This is still a generous figure. However, if expenditure is incurred between 1 January and 31 March 2016 the maximum amount of relief for will only be £50,000. This is because of the restrictive nature of the second calculation. Alternatively, the business could defer its expenditure until after 31 March 2016. In the accounting period to 31 March 2017, AIA will be £200,000. However, tax relief will have been deferred for a full year. With the significant costs involved in refurbishing homes and funding new redevelopments in the care sector, this announcement could provide welcome relief to operators throughout the UK.

Are you thinking of investing? For more information please contact your local office specialist.

Big dividend income changes – what is really means for care home company owners

The Chancellor, George Osborne, announced in the Summer 2015 Budget a shake-up in the way dividend income is taxed from April 2016. As the announcement has added to the complexity of the current dividend system the reaction has been, unsurprisingly, one of confusion over how the new tax will work in practice. As a care home company owner, how will the changes impact you?

How will the new tax work?

Following the announcement, all taxpayers will have, when the new tax comes into effect, a tax-free dividend allowance of £5,000 a year. The first £5,000 of dividend income in each tax year will be tax-free, and dividend income above this allowance will be taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers and 38.1% for additional-rate taxpayers.

This will replace the current system, where those receiving dividends benefit from a tax credit. The tax credit means that basic-rate taxpayers are currently taxed at 0%, higher-rate taxpayers at 25% and additional-rate taxpayers at 30.6%. The changes are highlighted in the table below:

	2015/16	2016/17
Basic-rate taxpayer	0%	7.5%
Higher-rate taxpayer	25%	32.5%
Additional-rate taxpayer	30.6%	38.1%

Will everyone be worse off under the new regime?

No. While it's true that the new system will see many pay more, a new £5,000 allowance for all taxpayers and the removal of tax credits will create both winners and losers. The biggest losers may be those basic-rate taxpayers who receive more than £5,000 in dividends a year, large-scale investors and business owners who currently mix their remuneration between salary, bonus and dividend. The winners, on the other hand, will be small-scale investors who receive less than £5,000 dividends in a tax year and higher-rate taxpayers who have a dividend income below £21,667. We have provided some examples at: www.hawsons.co.uk/dividend-income

I operate my care home using a limited company structure, how does this affect my remuneration and profit extraction planning?

Many care home company owners are paid a small salary by the company and receive further income by way of dividend. These changes will significantly reduce the tax advantage of taking dividends rather than salary, but for most owners it is still likely to be more efficient. Other factors may also be relevant, so this may be a good time to review the planning and timing of extracting income from your company.

If you do not operate using a limited company structure then these changes do not affect you.

What should I do now?

As the new tax rules bring challenges to many, they also bring opportunities – tax planning opportunities – and it is crucial you carefully consider your options in regards to ISAs, pensions, VCTs and how you structure your overall income.

- Review investments after proper investment advice to maximise the use of the £5,000 exemption.
- Review dividend policy in your owner-managed care business with us well before April 2016.
- Consider moving shares around the family to maximise the use of the £5,000 exemption.
- Possibly advance dividends to before the rule change in April 2016.

For more information please contact your local office specialist.

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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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