Care Sector

Specialist Care Home Accountants

Newsletter
Winter 2015

www.hawsons.co.uk

Introduction

Welcome to our Winter 2015 care sector newsletter.

Although the latest performance benchmarking show positive signs with average weekly fees and occupancy rates both rising again, the future of the sector is becoming increasing uncertain. Ongoing funding challenges, heightened by the announcement of the forthcoming National Living Wage, remain a big worry. In this newsletter we look at how homes can prepare for the new National Living Wage and provide predictions as to what may happen in the sector over the next 12 months. We also review the key details of the recent Autumn Statement and what they mean for care home operators.

In this issue we look at:

- Autumn Statement care home review
- 2015 performance benchmarking for small care homes
- Care homes and preparing for the National Living Wage
- Predictions for the care sector in 2016
- Should we embrace technology in care homes?
- Are we heading towards energy efficiency in the care sector?

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**

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Autumn Statement care home review

Last week, on 25 November, the Chancellor delivered his latest Autumn Statement. In a year which has already seen two Budgets - which have both brought big changes to the care sector (particularly with the introduction of the National Living Wage) - operators were perhaps understandably tentative about what this year's Autumn Statement might bring. In this article we summarise the key points arising from the Autumn Statement and focus specifically on what the changes may mean for the care sector.

In summary (general):

- Tax credit cuts scrapped all together
- Small business rate relief to be extended for one more year
- NHS to receive £10bn more funding a year in real terms by 2020
- Basic state pension will rise by £3.35 to £119.30 a week
- New 3% surcharge on stamp duty for buy-to-let properties and second homes from April 2016
- Doubling of housing budget to £2bn a year
- Capital funding of transport projects to rise by 50%

In summary (care home specific):

- No acceleration in the introduction of the National Living Wage
- Local authorities allowed to increase council tax by 2% to fund social care
- Local government central grant to be cut by more than a half
- The Better Care Fund will also be increased
- Axing of grants for tuition fees for student nurses
- State pension to rise by £3.35 per week
- Small businesses to be 'exempt' from apprenticeships levy

Autumn Statement care home impact – what next for the care sector?

Scott Sanderson, Healthcare Partner at Hawsons, commented: "A recent report, by ResPublica report (which is backed by the GMB trade union) indicated that the care sector will have a shortfall in funding of £1.1bn by 2020/21. This year's Autumn Statement was on opportunity for the government to address the looming funding crisis and provide the support that the care sector so desperately needs. But George Osborne failed to deliver the additional funding, which leaves the care sector in a state of uncertainty. Care homes have been hit hard by dwindling local authority funding for residents in recent years and forthcoming additional costs are piling on the financial pressure."

"The introduction of the new National Living Wage in the summer Budget was a devastating blow that will see wage costs (the largest cost facing care home operators) rise significantly. The increase in staffing costs, in conjunction with rising energy costs, is potentially crippling the industry. The devolution of powers to give every council in England the opportunity to increase council tax by 2% to fund social care is welcome, but would only raise a maximum £500m a year (£2bn by 2020) so is not enough on its own for many operators to remain viable."

"The introduction of the new apprenticeships levy will also impact the biggest care home operators. Care home groups with a paybill in excess of £3m will contribute to the funding, so only those with more than 250 employees across the group are likely to be impacted."

Other issues

Two other announcements which will impact the care sector are the basic state pension rising next year by £3.35 to £119.30 a week and the replacement of grants for student nurses with loans. Ahead of the Statement there were also suggestions that the introduction of the new National Living Wage could be accelerated, but that was not the case.

Scott added: "Some good news that came for care home operators was that the new National Living Wage's timetable would not be accelerated. The sector was caught unawares in the Summer Budget when the announcement was made and any bringing forward of the new rates would have been unwelcome."

2015 Performance benchmarking for small care homes

Care home performance benchmarking gives a unique analysis against competitors

All care home managers and owners ought to know how their business is performing against its competitors. We recognise that each care home is different and that specific challenges can vary from region to region, but an analysis of financial and non-financial indicators against the competition, including payroll costs and occupancy levels, can help highlight areas of concern or opportunities and, of course, highlight where your home is performing well.

	Average weekly fees
Residential homes	£569
Nursing homes	£671
Specialist homes	£1,437

	Average occupancy levels
Residential homes	92%
Nursing homes	91%
Specialist homes	92%

Source: NatWest Care Home Benchmarking Report 2015

Financial benchmarking

The financial performance of any business is a key focus and recent changes in the care sector have put further pressure on operators to ensure financial viability and sustainability.

This is why, while average weekly fees continue to be a challenge for many care home operators, it is good to see price increases in all care variants.

The majority of care home operators will have seen payroll costs rise in the last 12 months, with increases in National Minimum Wage (NMW) in October 2014 and again in October 2015. Going forward with the introduction of the National Living Wage (NLW) - effective April 2016 - and continued implementation of auto enrolment to impact a high number of operators. Over the last 5 years the above inflation wage increases have had a significant financial impact on the care sector, where many staff work at the NMW rate.

Non-payroll costs have once again risen in all care variants, with sustained increases in utility (particularly lighting and heat) and food costs being key factors in the reported rise. In most cases, light and heat costs count for the second biggest care home expenditure.

Non-financial benchmarking

Our last (Oct 2014) care home performance benchmarking analysis saw occupancy rates continue to rise, with residential homes, nursing homes and specialist homes all achieving over 90% for the first time since 2011. That trend continues in 2015, with occupancy rates rising across the board. Once again specialist care homes continue to lead the way.

Commenting on the results Scott Sanderson, Healthcare Partner at Hawsons, said: "Generally speaking, small care home operators are performing well. Even though it is pleasing to see average weekly fees rise in all care variants, a nationwide outlook shows that Sheffield City Region care fees are amongst the lowest in the UK. With the increased financial focus on care home operators from CQC it is important that providers review their financial processors, monitor financial sustainability and look to improve cost efficiencies wherever possible. Improving energy efficiency, in particular, is something many homes should be looking at."

"Following on from that, it is important that providers continue to attract more private clients. Occupancy rates once again stay above 90% in all care variants, but there are further opportunities through tax-efficient renovations and shrewd marketing, such as a well-designed website, which could see occupancy rise even more. We have details on both of those opportunities on our website: www.hawsons.co.uk/care"

Positive signs, but an uncertain future?

Although this latest performance benchmarking shows positive signs for the smaller care home operators in the UK, the future is arguably a lot more uncertain. With the recent introduction of the National Living Wage and the ongoing funding pressures, the marginal increase in average weekly fees will not be enough. It will be interesting to see how the sector develops over the next 12 months, that's for sure.

For more information please contact your local office specialist.

Care homes and preparing for the National Living Wage

With the introduction for the new National Living Wage set for April 2016 care home owners are understandably tentative about what the future holds. The impact of the National Living Wage on care services cannot be understated…with wages being the largest cost facing operators, averaging around 60% of expenditure, has just significantly increased and done so without much notice.

The minimum hourly rate for all workers over 25 will rise to £7.20 from April next year, increasing further to around £9 by 2020.

Where is the additional funding going to come from?

The introduction of the National Living Wage, in conjunction with rising energy costs (the second largest costs operators have) and the recent onset of auto enrolment, has left many in the sector questioning: where is the additional funding going to come from?

And rightly so. The collapse of Southern Cross still rings loud in the memory of many in the care home sector following its devastating closure in 2011, and now a similar crisis could be about to follow, unless urgent action is taken. The fee levels paid by most councils are arguably insufficient; they have actually fallen by 5% in real terms since 2010. Input costs have risen almost simultaneously with that reduction in fees, so it is unsurprising that so many care homes are struggling financially. Local councils are also struggling, therefore will need the government to provide the much-needed additional funding to support care homes through increased fees.

The government has confirmed that funding for social care is being reviewed and an announcement will likely be given in the forthcoming spending reviews. Whether or not an increase in funding will match the increase in costs remains to be seen, but a parallel rise seems unlikely. In fact, the Local Government Association itself estimates that there will be a £2.9bn annual funding gap in social care by the end of the decade. Care home operators continue to face an uncertain financial future.

How care homes can prepare for the National Living Wage?

Care home operators, the general public and, of course, the government all want to maintain the high quality of service provided in the care sector, but maintaining that service will now cost significantly more money. But, with funding unlikely to match increased costs, how can care homes prepare for the National Living Wage?

Here is a quick overview to what operators could/should be doing to prepare for April 2016:

- Evaluate the total additional costs the care home will have to pay;
- Consider possible ways the care home can improve efficiencies (e.g. technology);
- Work out how to maximise the value for money you get from staff;
- Look at performance benchmarking to asses ways to improve profitability;
- Look at news ways and review current strategies to attract new private clients;
- Consider renewable energy to counteract the cost of rising energy bills;
- Ensure accounting records and up-to-date and constantly monitor financial sustainability;
- Ensure the home maximises all available tax reliefs, particularly if refurbishing a home.

For more information on preparing for the introduction of the new National Living Wage please contact your local office specialist.

Predictions for the care sector in 2016

There are more than 430,000 residents living in care homes across the UK and the sector employs over 1.4 million people…yet, many care home operators are facing an uncertain and challenging future.

Four months ago, in our Summer 2015 newsletter, we published an article looking at what the next 12 months held for care sector. In summary, our outlook was tentative, predicting that the care sector would become a gradually more competitive and uncertain market with increasing compliance and financial scrutiny. That prediction was made previous to the introduction of the National Living Wage, which, from April 2016, will see operating costs for nearly all care homes across the UK rise significantly.

Now, we bring you our predictions for the care sector in 2016.

More care homes to embrace technology

The question of whether or not care homes should embrace technology - be that iPads, surveillance cameras or anything else - is certainly a topical one. In our last newsletter we looked at care homes' websites and now, in this newsletter, we have looked at the broad use of technology in the care sector. As the pace of technology quickens and the need for operational and financial efficiencies continues to grow, the increased use of technology in care homes is inevitable in 2016. To what extent and for what means, however, remains to be seen.

Increasing number of owners looking to exit the market

The last 12 months have seen the care sector face intense financial scrutiny, with significant regulatory changes. This mounting regulatory compliance in conjunction with rising costs (National Minimum Wage; National Living Wage; auto enrolment; energy prices) will likely result in many care owners looking to exit the market in 2016. Additionally, as some care homes are struggling to stay financially viable (between October 2014 and March 2015 the number of care home places in the UK actually fell for the first time) many owners may have to merge with another care group in order to ensure its financial sustainability. We expect to see a number of consolidations over the next 12 months.

Increasing number of new entrants looking to enter the market

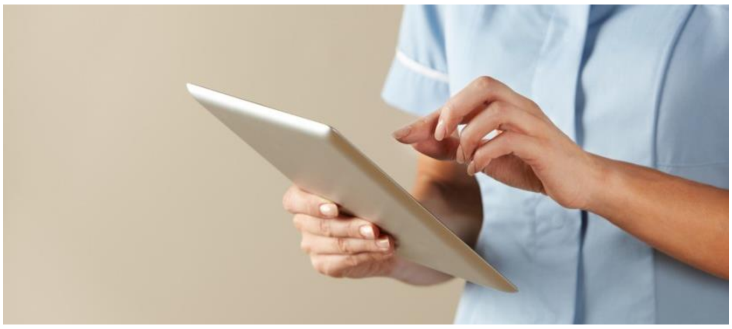
Equally, however, the care home sector remains a hot prospect for new entrants. Healthcare remains one of the top industries targeted by companies from other sectors and this is set to continue in 2016. This is perhaps not that surprising either, despite ongoing funding pressures and increasing compliance. The UK has an ageing population and research suggests that the number of people aged over 65 set to rise by more than 40% in the next 17 years. The care sector may be uncertain at present, but it has an attractive future, especially in specialist care homes.

Energy efficiency to be a key management focus

The NatWest care home performance benchmarking report confirmed what many in the sector already knew: care homes are spending too much on lighting, heat and other utilities. The report highlighted that only a small minority of care homes across the UK use renewable energy sources or, indeed, consider their energy efficiency as a whole. With the ongoing funding challenges that have been so comprehensively covered, the opportunities for cost efficiencies through renewable energies will surely not be overlooked again in 2016. Whether it's implementing energy generation systems (such as solar power) or auditing current energy management to become more efficient, this energy focus - aided significantly by the generous tax-savings available for this type of expenditure - is likely to be one of the biggest trends in the 2016 care sector.

What do you predict for the care sector in 2016? Get in touch today and let us know.

Should we embrace technology in care homes?



The number of care homes embracing technology to improve the quality of life for residents, attract new private clients or reduce administrative burdens on staff is growing.

Is the sector now fully accepting technology in care homes?

Should the sector fully adopt technology in care homes?

The use of technology is undoubtedly a developing issue in the care sector

In our last newsletter we looked at the importance of a care home's website and the impact it can have on enquiries and attracting new private clients. That article was featured in the November/December edition of Care Home Management. In that magazine alone there were three articles focusing on technology in care homes. This is undoubtedly a developing issue.

Earlier in 2015, commenting on the use of cameras in care, CQC said: "Concerns about care challenge us all to find solutions and as technology develops and becomes more accessible, many advocate it as an important part of the answer, while others disagree and promote other options."

As families, residents, members of staff and care home owners are both encouraged and concerned about the introduction of technology in care homes it is important to consider the possible implications that technology may have in the sector.

In this article we therefore revisit technology in care homes, but this time take a much broader look at how technology can, and indeed whether it should, shape the future of the sector.

Possible benefits technology may have

Improve quality of life for residents

Whether it is the opportunity to video call family and friends, stimulate the residents or the ease of providing feedback, technology certainly provides operators with the chance to improve the quality of life for residents.

For more information on technology in the care sector please visit www.hawsons.co.uk/care-sector-technology

Attract new private clients

As mentioned earlier in this article, we have previously looked at the growing importance of a care home's website and the impact that it can have in attracting new private clients. That article is available on our website at www.hawsons.co.uk/care

Reduce administrative burdens on staff

With rising input costs - particularly the introduction of the National Living Wage and increasing energy rates - operators are now more than ever looking to maximise efficiencies in order to not sacrifice the quality of care they deliver.

What can we expect in the future?

Scott Sanderson, Healthcare Partner at Hawsons, noted: "Digital technologies are transforming nearly every aspect of our lives; the way we book holidays, pay our utility bills, communicate with friends and family, buy our Christmas presents and do our accounting."

"Technology is now also a significant strategic tool in overcoming the challenges, financial or otherwise, that the care sector is facing. A better use of technology in care homes could see operators improve the quality of care and reduce the cost of care services for residents. Those are two key factors in attracting new private clients to the home, which is crucially important with the ongoing funding challenges."

"The growing use of technology in care homes unquestionably marks a major step-change for the sector as a whole. However, as a word of warning: research has shown that just having the technology in care homes is usually not enough."

"The key to maximising the potential of technology ultimately boils down to how the technology is introduced/used and also, crucially, what training and support that is given to staff and residents. Without that training and support the introduction of technology may actually have an adverse impact on the quality of life for residents and the efficiency of administrate duties."

"The introduction of technology in care homes, whether its surveillance cameras or iPads or any other device, must be thoroughly considered and planned for beforehand to maximise its potential. That of course brings additional financial challenges."

The question of technology in care homes may therefore be not necessarily whether care homes should embrace technology but rather do care homes actually have the resources available to fully embrace technology?"

Are we heading towards energy efficiency in the care sector?

The opportunities for care home operators to achieve reduced running costs by becoming more energy efficiency are considerable. In this article we look at how care homes could reduce their energy bills through energy generation systems and/or more effective energy management. The recent Annual Investment Allowance certainty, as we covered in our previous newsletter, will also significantly aid this process as items such as lighting and electrical systems all now qualify for enhanced tax relief – reducing your tax bills!

Is now the time to become more energy efficient in the care sector?

The recent NatWest care home performance benchmarking report highlighted what many care home operators already knew: they are spending too much money on lighting, heating and other utilities. Healthcare is one of the UK's most energy intensive sectors. The NHS currently spends £750m on energy costs every year; a figure which could be reduced by as month as 20% through using energy efficient measures the UK Green Investment Bank (GIB) reports. The care sector specifically could also noticeably reduce energy overheads.

There are many opportunities for care homes to generate their own energy power in the future, not only cutting the home's long-term energy overheads, but also reducing its environmental footprint. Energy generation isn't the only option either. Care homes looking for more immediate, cheaper energy efficiency can achieve it by identifying, reviewing and reducing their current energy spend and implementing much smaller systems and procedures. The NatWest report recognises that "even low and no-cost actions can usually reduce energy costs by at least 10% and produce quick returns" in the healthcare sector.

Energy generation to achieve energy efficiencies

- Biomass boilers are a potential replacement for oil/gas boilers in order to generate heat. As well as qualifying for subsidies through the Government's Renewable Heat Incentive (RHI), these boilers could reduce yearly bills by almost 50%.
- Combined Heat and Power (CHP) systems are used to simultaneously generate both electricity and heat; converting useable heat that's produced during the process of generating electricity. CHPs can increase energy reliability and reduce energy costs.
- There are a range of other energy generation sources that care homes may wish to consider, including solar power, wind power, Heating, Ventilation and Control systems (HVACs) and Air Source heat Pumps (ASHPs) to name but a few.

Energy management to achieve energy efficiencies

- Audit your current energy spend to analyse processes and identify potential opportunities to reduce energy overheads.
- Create a culture of energy efficiency. Use notices and stickers around the home to raise awareness of 'switching off' lights.
- Consider investing in LED bulbs (and any other high efficiency lighting). LED bulbs are often seen as a more cost-effective solution, but are also an extremely effective way to achieve energy-savings by upwards of 50%.

The diversity of care homes – by size and facilities used – means that there is no universal energy efficiency methodological. When thinking about implementing energy efficiency projects/processes in the care sector, consider your own energy output and operations primarily.

Big tax-savings available to care homes investing in energy efficiency

With the potential significant initial set-up costs involved in funding new energy efficient redevelopments in the care sector, the availability of generous tax-saving opportunities could provide welcome relief to operators throughout the UK. You can find more information on Annual Investment Allowance and its impact on the care sector at www.hawsons.co.uk/aia-care-home-operators www.hawsons.co.uk

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Find out more about our specialist care home services.

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