Care Sector

Specialist Care Home Accountants

Newsletter
Spring 2016

www.hawsons.co.uk

Introduction

Welcome to our Spring 2016 care sector newsletter.

UK care homes are facing tough conditions once again and, although the tests ahead are not insurmountable, many operators will face major financial challenges over the coming months. In our latest newsletter we look at the impact on wages bills that the new wage rates will bring, review fees and the current care home market as well as looking at the bed supply squeeze and the growing pressures that brings for some local homes. Will 2016 be a happy one for care homes? It will certainly be an eventful one, that's for sure.

In this issue we look at:

- 2016 Budget care home review
- Care home fee review and market analysis 2016/17
- The National Living Wage and the impact for the care sector
- Is now a good time to outsource your payroll?
- An update on the MiHomecare home care case
- The looming care home bed supply squeeze

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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INVESTORS IN PEOPLE

2016 Budget care home review

On 16 March the Chancellor delivered his first Budget of 2016. Following on from an Autumn Statement which brought good (but not enough) news for care homes, we now look at the latest developments. In this article we summarise the key points arising from the recent Budget and focus specifically on what the changes may mean for care homes.

2016 Budget care home impact – care homes once again the elephant in the room

Scott Sanderson, Partner and Healthcare Specialist at Hawsons, commented: "This year's Budget was very much a non-event for care homes and the social care sector as a whole. The Budget was an opportunity for the Chancellor to address some of the very real concerns in the sector and provide much needed financial support. Instead, care homes were once again the elephant in the room."

"The Chancellor focused on protecting the future of the economy with 'a Budget for the next generation', but failed to take action on a struggling care sector. The key notes for care homes were probably the things that didn't get a mention – the apprenticeship levy, the new National Living Wage and the Better Care Fund. The main positive announcements were the additional help for veterans and a commercial stamp duty reforms, whilst the main negative will likely be the change to business rates and the knock-on effect that may have for fee levels."

Business rates

Whilst many small businesses will have welcomed the news to overhaul the business rate relief, it could have a long-term consequence for the care sector. The Chancellor announced that the business rate relief for small businesses will more than double from £6,000 to £15,000, which is positive news for the business community. However, looking at the implications for the care sector, the changes may leave councils to once again brace themselves for more cuts.

Estimates suggest that this will take £7bn out of the total business rate take in England over the next five years.

Councils have already been subject to considerable funding cuts in recent years and the knock-on effect of this latest change could see councils hold or even decrease their fee levels paid to care homes. Local councils may be compensated for their loss of business rates, but the details behind this are not likely to be announced for some time.

New stamp duty rates for commercial property

Following last year's reform of residential stamp duty, the Chancellor announced that commercial stamp duty will be reduced with a zero threshold for commercial properties with a value of up to £150,000 and 2% on the next £150,000. This new tax regime on commercial stamp duty came into force on 17 March 2016.

Scott added: "Despite the increasing compliance and growing regulatory burdens within the sector, healthcare remains one of the top industries targeted by companies from other sectors. This change is welcome news for those looking to enter the care sector and for those care home groups who may be looking to expand."

The Chancellor gave the example of a pub which will see stamp duty falling from £8,000 to £3,000 which highlights the potential significant reductions in tax for businesses looking to purchase another site.

Apprenticeship levy

The introduction of the new apprenticeships levy will have a significant impact on the biggest care home operators up and down the country. Introduced in last year's Autumn Statement, the apprenticeship levy will see care home groups with a payroll costs in excess of £3m contribute to the funding. The levy will come into force from April 2017. There were no additional details given about the new apprenticeship levy and how it will work in practice.

More information

Please get in touch with your local office specialist for more information and to book your free initial meeting.

You can find more information on the 2016 Budget at www.hawsons.co.uk/guide-2016-budget

Sheffield care home fee review and market analysis 2016/17

With the introduction of the new National Living Wage just around the corner this year's Sheffield care home fee review brings welcome news and some much needed support for care homes in the city. Sheffield City Council have **recommended** that fees in 2016/17 will rise by 4.32% for residential care homes and by 4.80% for nursing homes, almost double the respective 2.33% and 2.45% increases that were made last year, but at a time when operators are facing significant cost pressures.

The tables below show the proposed increased Sheffield City Council fee bandings.

Elderly	2015/16		2016/17	
Residential	£361	£400	£377	£417
Nursing	£401	£407	£420	£427

Dementia	2015/16		2016/17	
Residential	£404	£408	£421	£426
Nursing	£413	£419	£433	£439

One year on from the 2015/16 care home fee review and market analysis and we now look at the latest figures – in a report by the Sheffield City Council Communities Commissioning Service – to review each of the core key performance areas for care homes, to look at the stability and sustainability of the care home market and analyse the recommendations for 2016/17 Sheffield care homes fees. We also provide a look at the national picture, highlighting some interesting statistics that all regional care owners need to be aware of.

This year's care home fees review and market analysis follows (and provides a more in-depth look at the care home market) our recent performance benchmarking report for smaller care homes, which found that although there were positive signs moving forward, many care home operators still face an uncertain and challenging future.

Sheffield care home fee review and market analysis 2016/17 summary:

- Fees in 2016/17 to rise by 4.32% for residential care homes and by 4.80% for nursing homes
- Care homes are facing major financial pressures, largely in relation to rising staffing costs.

You can find out full 2016/17 fee review and market analysis at www.hawsons.co.uk/care-home-fee-review-market-analysis-2016

2016/17 Sheffield care home fees rise, but is it enough?

Scott Sanderson, Healthcare Partner at Hawsons, commented: "The proposed increases to Sheffield City Council's fee levels for both residential care homes and nursing homes is undoubtedly positive news and will be welcomed by the local Sheffield care home community. We have commented on numerous occasions about the growing financial pressures for care homes – including rises in payroll costs and non-payroll costs – and what it may mean for the sustainability of good quality care in Sheffield and across the UK. Let's make no mistake about it, the 2016/17 care home fee increase for Sheffield care homes will be a relief to many operators in the city and provide some much needed financial support."

"Having said that though, the care home fee review and subsequent recommended 2016/17 Sheffield council fee rises still raise a number of major financial concerns. The whole care home sector is feeling the strain of financial pressures; costs in care homes are growing at a rate faster than any before, leaving a large number of care homes unable to cover their costs. That, in conjunction with an ageing population and the looming care home bed shortage, means that the care sector is still on an uncertain course. Local councils must do everything they can to ensure that residents have access to a service which provides safe, effective and sustainable care. There is no denying that local councils are also struggling; public budgets are being cut and councils must be even tighter with their spending. However, neighbouring council Barnsley have announced that 2016/17 care home fee levels will rise by 6.45%, so perhaps Sheffield City Council can do even more to help fill the funding gap."

The National Living Wage impact for the care home sector

The new 'National Living Wage' – the minimum wage for those aged 25 and over from April 2016 – has been at the forefront of many business owners' minds since the announcement of its introduction in July 2015.

From its starting point of £7.20 per hour in April later this year (50p above the current National Minimum Wage), it is projected to rise to more than £9 per hour in 2020. The introduction of the new rate has left some business owners understandably concerned about what the future may hold, particularly those in labour intensive dependent sectors – including the care sector."

Care home impact

The care sector has faced a number of major challenges in the last 18 months and the impact of the new National Living Wage in the care sector is something we have spoken about in detail already. The impact of this new rate should really not be understated.

Scott Sanderson, Partner and Healthcare Specialist at Hawsons, commented: "Unlike other sectors, care sector operators do not always have the opportunity to raise prices in order to offset the additional costs associated with the National Living Wage. Those homes with a high number of private residents possibly can but, for the majority of homes, councils are facing their own funding constraints and cannot agree to sufficient fee increases."

"The announcement made in the recent Autumn Statement for care homes gives cautious optimism, but will likely not be enough on its own to provide the much-needed financial support operators are asking for."

Research from The Resolution Foundation (below) indicates that the wage bill increase for care homes could be as much as four times more than the average sector.

Estimated wage increases by sector by 2020 (*Source: The Resolution Foundation)*

Residential Care	2.8%
All Sectors	0.6%

Share of employees affected by the National Living Wage by sector (*Source: The Resolution Foundation)*

	2016	2020
Residential Care	43%	51%
All Sectors	18%	23%

Scott added: "With the opportunity to increase revenues few and far between, and a parallel match in additional public funding looking unlikely, the majority of care homes must prepare to absorb the significant costs that the new National Living Wage will bring."

Your next steps

As experienced Chartered Accountants our dedicated sector teams are well-placed to advise and help businesses in preparing for the new National Living Wage. We also work closely with our in-house tax and payroll specialists to provide businesses with a comprehensive and fully integrated service.

For more information please contact your local specialist.

Is now a good time to outsource your payroll?

As the tax year draws to a close we ask: what actions could you take to make your life easier from 6 April, taking some of the stress out of running your business and giving you more free time on evenings and weekend? Outsourcing your payroll will not only likely save you time and money, but it's actually probably easier than you think too.

Once you have decided to switch, let us know and we will take care of the rest. It's as simple as that.

An accurate and efficient payroll service

Many small business owners are finding running their payroll an increasingly complex and time-consuming task, particularly as the compliance obligations on employers has never been greater! Whatever size of business you run, now is a good time to consider outsourcing your payroll.

At Hawsons we provide a friendly and personal service that is accurate and will save your company time and money. We have a dedicated team of experienced staff who will liaise with you or your staff to ensure the payroll is completed by the deadline and is compliant with the ever increasing rules and regulations.

You can also be reassured that we will take care of your auto enrolment obligations and ensure your staff are paid accurately and on time.

Our team act for a large number of clients, ranging from small businesses with only 1 or 2 employees up to large business with more than 200 employees. Our aim is to replicate the benefits of an in-house payroll services, ensuring that:

- You will have the rigid benefits of an in-house payroll function i.e. flexible and responsive
- You can tailor our service to meet your specific needs and base our pricing structure accordingly, with no hidden costs!
- You will be provided with an integrated and fully comprehensive service
- You will have a dedicated personal contact that is readily available if issues arise
- We are not a bureau or call centre

Please get in touch with your local office specialist for more information and to book your free initial meeting.

An update on the MiHomecare home care case

Many home care operators will have been keeping a keen watch on the developments of the MiHomecare case, and will likely now know that the care provider has indeed settled out of court in the employment tribunal last month, for £1,250.

A quick look at the case:

- The care worker travelled to the homes of the service user clients
- She often had to travel more than 30 mins between appointments
- She was not paid for her travel time
- This effectively meant she was paid below the National Minimum Wage
- MiHomecare settled out of court for £1,250

What does this outcome mean for home care providers across the UK?

Scott Sanderson, Partner and Healthcare Specialist at Hawsons, commented: "This has been the elephant in the room for a long period of time for many home care operators and the outcome of this case is no doubt a concern for many, in an already challenging financial market. MiHomecare's settlement could now lead to thousands more care workers coming forward, claiming underpayment."

"We do not yet know the full details following the out of court employment tribunal, but the case highlights what HMRC have been saying for some time – they are stepping up their enforcement actions and penalties where they believe underpayment has occurred. With the new National Living Wage just around the corner, care providers must ensure their employees are paid and accurately and fairly."

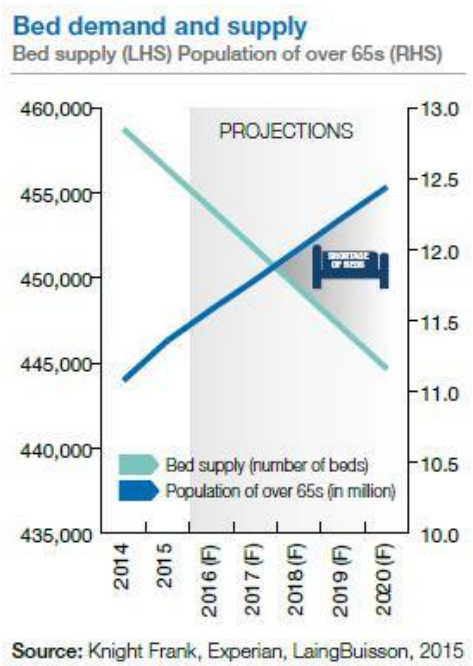
HMRC now also have the power to not only impose financial penalties, but to also 'name and shame' non-compliant employers.

The looming care home bed supply squeeze

Rising demand but a falling supply of care home beds?

We have commented numerous times how the care home sector has an optimistic future, despite its uncertain present, and this has now been compounded by recent research. The UK has an ageing population and research suggests that the number of people aged over 65 is set to rise by 10% over the next 5 years and by more than 40% in the next 17 years. Yet, during the same period, the number of beds available in care homes is forecast to fall.

Research by property consultants Knight Frank indicated that there was a net loss of 189 elderly care homes during the 12 months to September 2015. If current trends continue, Knight Frank predicts the existing care home bed supply of 456,000 will fall to 444,700 by 2020. Similarly, research from thinktank ResPublica forecasts as many as 37,000 beds (around 1,500 care homes) could be lost by 2020.



The findings underline the scale of the problems facing the care home sector.

Many care home operators are facing major challenges and, although the National Living Wage introduction has to happen to pay employees a fair wage, care homes will be arguably the biggest hit sector (almost 51% of employees will be affected by the changes by 2020, compared to the average of just 23% across all sectors).

In conjunction with this, local funding cuts and the consequent squeezes on fees paid by councils have seen many homes' income stagnate whilst their costs are rising. Research by LaingBuisson consultants found that the cost of running a care home is £554 per week; £42 more than the average fee (£512) paid by English councils.

There is a significant funding gap and it is putting the immediate financial viability of the UK's smallest care homes under very real threat.

Justin Bowden, National Officer at the GMB union, which represents thousands of care home employees, said: "You are looking potentially at several Southern Crosses in the next 12 months if something drastic is not done."

Opportunities for high performing care homes and new entrants?

The rising demand of care home beds and aging population presents good news and big opportunities for high performing care homes and new entrants into the market. Those homes that innovate, cut down costs and operate more efficiency and pragmatically will be the most likely to attract more private residents and reap the benefits of an optimistic future.

We have spoken in detail before about the opportunities for innovation and financial efficiency, including a well-designed website, renewable energy sources and the use of technology in and around the care home. Those care homes that prepare for tomorrow's service users today will be the ones who are best placed to overcome the challenges they will face over the next few months and years.

For more information please contact your local office specialist.

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