Care Sector

Specialist Care Home Accountants

Newsletter
Summer 2016

www.hawsons.co.uk

Introduction

Welcome to our Summer 2016 care sector newsletter.

With Brexit now confirmed no one really knows what's coming next or what it could all mean in the long term. Brexit has created an air of uncertainty for the majority of UK businesses and care homes are no different. In this newsletter, we look at how care homes can increase profitability in an uncertain and challenging market. We also look at auto enrolment, rising wages and the new apprenticeship levy.

In this issue we look at:

- Buying or selling a care home – key accounting and tax considerations
- National Minimum Wage to rise again in 2016
- Brexit: implications/tips to increase profitability
- £17m training fund for the Sheffield City Region
- Hawsons launch new exit planning service
- Beware auto enrolment fines – Swindon Town case
- Apprenticeship levy for care home groups

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.

Scott Sanderson
Healthcare Partner

E: ss@hawsons.co.uk
T: 0114 266 7141
M: 07824379502
LinkedIn: www.linkedin.com/in/scottsandersonhealthcare
Twitter: @HawsonsHealth

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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Advice on buying or selling a care home

If you are about to purchase a new care home or embark on the sale of an existing care home, this article is a worthwhile reminder of some of the key accounting and tax-related considerations you should be thinking about.

Buying a care home considerations

The care home sector presents potentially lucrative business opportunities for those with sufficient capital to invest. The first port of call if you're looking to purchase a care home is to carry out financial due diligence; a process done to assist a prospective purchaser (and/or funder) to make an informed judgment as to whether to proceed with a proposed transaction or not. The due diligence will cover all relevant aspects of the past, present and forecasted future of the care home and include things such as historical trading results, accounting policies, projected cash flow, tax computations and key business weaknesses.

The amount of due diligence conducted will be dependent on a number of factors, including the experience of the buyer, the size of the transaction, the funding structure for the acquisition and the risks involved. Once a financial due diligence has been conducted and the buyer is satisfied with the price/risks, the buyer will need to seek advice to structure the transaction in the most tax efficient way. Transactions tend to have complex tax implications so this is an extremely important part of the purchasing process.

Selling a care home considerations

If you have been waiting for a healthy environment to sell your care home, then now may be a great opportunity to realise best value…but, as with many aspects of business life, having a plan of how you are going to exit your business and executing that plan over a period of time generally leads to a better outcome than when things are dealt with in an ad hoc way. From a tax perspective, there are many aspects to consider, including Entrepreneurs' Relief, Capital Gains Tax and Inheritance Tax. You may also wish to restructure the business to save tax and take advantage of a potential more beneficial tax position. Additionally, as the buyer is likely to conduct a financial due diligence investigation it is important that all of your financial information is accurate, up-to-date and presented in the best possible light for your care home. Get yourself organised early and put yourself in the buyer's shoes. This often makes the selling process more efficient, cost effective and secures the best sale price – you often only get one chance to get it right. Away from the accounting and tax-related considerations, it is important to think about the full spectrum of business issues when selling your care home, including marketing, administration, room cleanliness, employee engagement and working procedures. Even the smallest changes can reap the rewards and help you to differentiate from other care homes on the market.

How we can help

As well as the technical excellence you would expect from a firm of chartered accountants, here at Hawsons we have dedicated teams of corporate finance and tax specialists who have extensive experience in the processes of buying or selling a business.

Buying a care home: We have the flexibility to tailor our services whilst being able to offer a full deal advisory service including, identifying targets, initial approach, negotiation of terms, due diligence, tax efficient structuring and raising finance.

Selling a care home: The sale of a business is often the culmination of a lifetime's work. This will usually be a once in a lifetime transaction – with only one opportunity to get it right and achieve the maximum reward. Expert advice should therefore be sought at the earliest opportunity. At Hawsons we have recently launched an exciting new exit planning service and, alongside the new service, we have set up a free-to-use "business attractiveness" test to help business owners find out how attractive their business is to a prospective buyer and identify any areas where the business can be improved to increase its value. For care home owners looking to sell, this could be a particularly important tool for managing and streamlining the sales process, as well as maximising the best price for your care home. Find more information about our business attractiveness test at: www.hawsons.co.uk/exit-planning

National Minimum Wage to rise again in 2016

The government announced increases to the National Minimum Wage, effective 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) will rise by 3.7% from £6.70 to £6.95 per hour. This is an important issue for the care sector and follows the recent introduction of the new National Living Wage, from April 2016, and a rise in the National Minimum Wage in October 2015.

The National Minimum Wage rates will increase from 1 October 2016 as follows:

	Current rate	Rate from 1 October 2016
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.*

A four-step checklist for employers following the announcement:

- Know the correct rate of pay (including the National Living Wage)
- Find out which staff are eligible which rates
- Update the company payroll in time for 1 October 2016
- Communicate the changes to staff as soon as possible

Moving forward – more compliance for employers

A government review has concluded that both the National Minimum Wage and the National Living Wage rates will increase from the same effective date come April 2017, rather than the usual October change for the National Minimum Wage. 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, this will see be the fourth 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.

Care sector threatened with fines

The government has recently published a report on paying the National Minimum Wage (entitled ‘ensuring employers comply with National Minimum Wage regulations’) and has singled out the care sector as a consistent offender of non-compliance. The report also revealed that the Low Pay Commission continues to assess it as ‘high risk’ for failing to pay workers correctly.

The National Living Wage – an update from the care sector

In contrast, a couple of months on from the introduction of the new National Living Wage and it is good to see many care operators using the new rates in a positive way. What we have seen is that maintaining the wage differentials between domestic staff and nursing staff is the right thing to do and this being implemented across a number of different homes.

In addition to this - which may perhaps be surprising to some given ongoing financial constraints – what we are also seeing is that where two employees are carrying out the same roles but one is 24 years old and the other is 26, for example, the living wage is being paid to both, even though the 24-year-old doesn’t technically qualify for the new rates. Essentially, employers are recognising that if they want to keep their staff motivated and with a sense of value then the differentials will need to be maintained.

If you are looking to outsource your payroll, please get in touch with your local office specialist. Alternatively, please visit our website at www.hawsons.co.uk/payroll where you can meet our payroll team and request a free initial payroll quote.

Brexit: implications/tips to increase profitability

It is impossible to predict the full impact that Brexit with have on the care sector at this stage – many questions still remain unanswered. The impacts could be wide ranging, bringing about both opportunities and challenges. The key areas likely to be affected are government funding, recruitment and retention, administrative burdens and the retirement income of private fee payers. Much of this, however, will depend on the terms that the government is able to negotiate post-exit. This article provides guidance on the steps care home owners can take to maximise their profitability in an uncertain and challenging financial market, rather than focus solely on possible Brexit implications.

New non-residential Stamp Duty Land Tax rules

As well as yearly National Minimum Wage increases, the introduction of the new National Living Wage, the ongoing onset of auto enrolment and the forthcoming apprenticeship levy (which will impact large care groups when introduced in April 2017) have put significant pressures on many care operators. This, in conjunction with government austerity public spending cuts, growing CQC requirements and the uncertainty created from the UK's decision to leave the European Union, means that there are now many care operators up and down the country who are increasingly financially vulnerable and face the very real risk of failure. It is suggested that almost one in three companies that operate a care home is at risk of failure. The financial profile of the care sector makes for gloomy reading, but the good news is that there are ways in which care homes can relieve the pressures and maximise opportunities for growth: care homes have navigated around obstacles and financial challenges in the past.

Tips for increasing care home profitability

Costs and administration: Both payroll costs and non-payroll costs are presenting major financial challenges for the care sector. Payroll costs, which are the single biggest cost for operators (typically absorbing up to around 60% of care home fees), are a particular concern. From nurses, to caterers, cleaners, administration staff and receptionists, payroll costs largely unavoidable for care homes. But the burden of administration and compliance often takes up more time than it should and is a key area where care homes should be looking to minimise time and money spent. To reduce administrative costs, care homes should not only look at outsourcing bookkeeping and payroll matters but also look at internal processes and how unnecessary costs can be eliminated and staff time maximised. This could include implementing software/systems to improve efficiencies and save costs in the long term.

Tax: From a pure tax perspective, no one relief or allowance will be enough to change the thinking of many care home operators, however; there are attractive tax planning opportunities available to encourage UK care homes to invest and grow. The recent changes to non-residential stamp duty and the certainty given to the Annual Investment Allowance have both brought about attractive tax planning opportunities for care homes. The certainty given to Annual Investment Allowance, in particular, could help those homes that are looking to complete refurbishments and update their facilities. This could have a knock-on effect on profitability too, as very often the look at feel of the home has a bearing on performance, with newer facilities typically outperforming less modern ones. Please seek professional tax advice before taking any action.

Marketing: Having an up-to-date and friendly website is key to attracting more private fee payers. Many care homes have outdated websites and this may be a good time to start thinking about an update, or even a complete redesign. 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. 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. You may be surprised at how such small changes can have such significant influences.

How we can help

This article only really scratches the surface of ways to maximise profitability in the care sector. There is of course no "one size fits all" approach and each care home should carefully consider their own financial standing and look internally at areas in which they can improve. We would recommend that you also seek specialist advice – the team at Hawsons can guide you as you consider how you can maximise the profitability within your care home. Our specialist care home accountants can assist your home in a variety of ways, including taking care of the bookkeeping or payroll matters, providing tailored tax planning advice, financial modelling and advising you on way of potentially mitigating the impact of administrative costs. For more information, please get in touch.

£17m training fund for the Sheffield City Region

Do you know about the new Skills Bank for the Sheffield City Region? The Skills Bank is a government/LEP initiative aimed at workforce training and development in the Sheffield City Region. It is a £17m fund – new for 2016 – comprising of funding from the European Social Fund and Growth Funding.

What is the Skills Bank?

The Skills Bank is an exciting new service which invests in skills and expertise to drive business growth, and will run from Spring 2016 until March 2018 to help local businesses develop skills and grow.

The Skills Bank is a facility to help improve the skills base of the workforce in the Sheffield City Region, whilst also changing the way the skills system operates – placing the purchasing power for skills in the hands of employers. The £17m support will be used to either fully fund or partially fund the training and development needs of local employers.

The employer (i.e. you) may be eligible for funding, but will still likely be required to make a cash contribution towards the cost of training. The employer's cost of the training and development will depend upon the number of learners, the duration of course, the method of delivery and the course content.

The Skills Bank is an opportunity for employers in the Sheffield City Region, comprising of nine local authority areas: Barnsley, Bassetlaw, Bolsover, Chesterfield, Derbyshire Dales, Doncaster, North East Derbyshire, Rotherham and Sheffield.

What does the Skills Bank mean for employers?

The Skills Bank will support employers who have training and development needs in the Sheffield City Region.

The process of the Skills Bank works as follows:

- Identify what training and development you need to grow your business;
- You can do this by completing the "skills assessment" on the Skills Bank's website;
- Visit the Skills Bank's "online marketplace" to find the training courses that suit your needs;
- There are over 1200 courses already available;
- If you are unable to find a course for your needs, the Skills Bank will help you find a solution;
- The solution could mean a new course option becomes available, depending on demand;
- Consider how, where and when you want your training delivered;
- You will work with the Skills Bank to build a "skills deal" for your business;
- This will involve agreeing your Skills Bank funding, your own costs and your training provider;
- Complete your training and development with your training partner;
- Submit feedback and a review on the learning that has taken place.

This is an exciting opportunity for all employers in the local region, particularly for those who have very specialised training and development needs, which may not be cost-effective to provide in-house.

Can the Skills Bank support your business?

A new website has been launched for the Skills Bank in the Sheffield City Region. Please take the time to visit the website to understand how the Skills Bank can support your business and check whether you are eligible for a skills deal.

You can quickly complete the "eligibility checker" and register your business for training opportunities.

Find more information at www.sheffieldcityregionskillsbank.co.uk

Hawsons launch new exit planning service

Hawsons are pleased to announce the launch of a new exit planning service. The service is aimed at owner managed businesses looking to realise the maximum value of their business as they exit the business in the next 5 years. It puts a structure to the advice and guidance that we have been providing to clients through our corporate finance function.

Pete Wilmer, Corporate Finance Partner at Hawsons, said: “Our expert exit planning service is designed for businesses of all types and sizes to help them ensure their business is ready for sale, at the best possible value.”

“The advantage of our successful exit planning methodology is that it looks at the full spectrum of business functions – from processes, to marketing and intellectual property – to add real value to the business. Sometimes the true value of a business lies with an individual, rather than the business itself, and this is where we can work closely with business owners to set out a proactive plan to lower the risk for the prospective buyer and, in turn, increase the value of the business.”

“Typically, selling a business is a once in a lifetime transaction – one shot to get it right – and, whilst the majority of business owners recognise that exit planning is an essential part of any business, it can be quite a daunting task. Our exit planning service is all about executing a plan over a period of time, looking at finances in advance and preparing the business for sale.”

As part of our new exit planning service we are also launching a business attractiveness test. The test uses a series of tools to see if there are any areas that could improve the value of your business. Find more information and take the test at www.hawsons.co.uk/exit-planning

Beware auto enrolment fines – Swindon Town

On the back of The Pensions Regulator fining Swindon Town Football Company £22,900 after it failed to put eligible workers into a pension scheme, this article is a worthwhile reminder of auto enrolment fines. Regardless of the size of your business, non-compliance could mean an initial £400 fine, with the possibility of further escalating fines. Escalating auto enrolment fines are daily penalties that are imposed in addition to the initial £400 fixed penalty and could be as much as £50 per employee.

Example: Your business has 10 employees and you miss your staging date. Your auto enrolment fines could be:

- £400 fixed penalty
- £50 x 10 = £500 per day escalating fines

By delaying your staging date by just one week you could face auto enrolment fines of £3,500.

Free auto enrolment workshops

If your business does not satisfy the rules i.e. have a pension scheme in place, have a system to record the relevant information, or you miss your staging date, The Pensions Regulator will send you a statutory notice in the last quarter of 2015 The Pensions Regulator issued more than 2,500 statutory notices to businesses, over 1,000 fixed penalty notices and 24 escalating penalties.

We recommend that you start talking to your pension adviser as soon as possible to build a timescale and agenda to make sure it all falls in to place. We would welcome the opportunity to work with you and your business and would like to invite you to attend one of our free, no-obligation auto enrolment workshops. We have been running these 2 hour long workshops across each of our three offices in Sheffield, Doncaster and Northampton for the last 12 months, with around 70 small business owners attending so far.

We have now added additional dates for August and September across our three offices. We expect these sessions to be extremely popular and spaces are limited to 5 per workshop. We recommend you book your place early: www.hawsons.co.uk/workshops

Apprenticeship levy for care home groups

In April 2017 the way the government funds apprenticeships in England is changing, with the introduction of the new apprenticeship levy. The government first announced the new apprenticeship levy in the 2015 Autumn Statement, but has since provided details on how the levy will work. This is an extremely important issue for large care homes and care home groups in the UK.

How will the apprenticeship levy work?

Starting 1 April 2017, the apprenticeship levy will be set at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against the levy, so only employers with a wage bill in excess of £3m will be affected. All employers operating in the UK with a wage bill of over £3m will therefore need to pay the new 0.5% levy, regardless of whether or not apprentices are employed. It is expected that 2% of UK companies will have to pay the levy.

What is the levy allowance?

As mentioned above, all employers will receive a £15,000 apprenticeship levy allowance. This allowance will operate on a monthly basis (£1,250 a month) and will accumulate throughout the year. Your allowance can also be carried forward if it is not fully used in one month so, for example, if your levy charge in month A is £800 you will not pay the levy and your allowance in month B will be £1,700. If your levy charge in month C is £800 you will again not pay the levy and your allowance in month C will be £2,150, and so on.

What about connected companies and groups?

Based on the additional details the government has now published, there appear to be wider consequences for connected companies and groups than initially expected. The government has confirmed that: "where a group of employers are connected they will only be able to use one £15,000 allowance" to offset against the levy. The group can elect which of the connected companies receives the £15,000 allowance. This is similar to the employment allowance connected persons' rule.

The government has also announced that it intends to introduce an amendment to the Finance Bill 2016 to the £15,000 levy allowance for connected companies. The amendment will mean that if a company is part of a group of connected employers, the group must decide what proportion of the levy allowance each employer in the group will be entitled to. This decision to split the allowance must be taken at the beginning of the tax year and will be fixed for that tax year.

It was initially drafted that the allowance could not be split between connected companies, meaning that many smaller groups would have had to pay the 0.5% levy. This amendment is therefore a positive announcement for smaller groups. Larger groups of connected companies, however, will still likely be caught by the apprenticeship levy….even those connected companies that have paybills below £3m when the group total paybill exceeds £3m.

How we can help

As you can see, the new apprenticeship levy brings some detailed and complex rulings, particularly for connected companies and could have wider consequences than originally thought. Whilst the apprenticeship levy will not start until 2017 and the draft legislation is subject to change (the government's guidance says further details on the apprenticeship levy will be released in June, October and December this year) we recommend that all organisations begin to examine if and how the new rules will affect them now. The team at Hawsons can guide you as you consider the impact that the new apprenticeship levy may have on your business. Our experienced employment tax specialists and in-house payroll team can assist your business with preparing for the new levy, including preparing your payroll system, dealing with associated payroll administration, financial modelling and advising you on way of potentially mitigating the impact of the new costs. For more information, please do get in touch with your local office specialist.

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Your local specialist:

Sheffield

Scott Sanderson
Partner
0114 266 7141
ss@hawsons.co.uk

Doncaster

Martin Wilmott
Partner
01302 367 262
maw@hawsons.co.uk

Northampton

David Owens
Partner
01604 645 600
davidowens@hawsons.com

Find out more about our specialist care home services.

Please call your local office or visit:

www.hawsons.co.uk/care

Sheffield
0114 266 7141

Pegasus House, 463a Glossop Road, Sheffield, S10 2QD

Doncaster
01302 367 262

5 Sidings Court, White Rose Way, Doncaster, DN4 5NU

Northampton
01604 645 600

Jubilee House, 32 Duncan Close, Moulton Park, Northampton, NN3 6WL

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