Autumn 2012

Health & Care Focus

A helping hand for lifelong prosperity

Contents:

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

Highest baseline fee uplift
for three years defies expectations

Community Care Market News (CCMN) recently published its survey of UK Local Authority Baseline Fee Rates 2012/13 which showed a 1.6% uplift on average across the UK, albeit with significant regional variations.

We summarise below some of the key findings from the CCMN report for those who have not already seen the survey.

The 1.6% uplift in fee rates in 2011/2012 offers a small degree of relief to Care Home operators who might have been expecting a repeat of last year's 0.3% rise, or worse. The rise, however, falls short of a margin neutral 2.5% increase which CCMN calculated is needed in order to keep pace with cost inflation.

The latest survey results mean that from 2010/2011 fees for Council funded older residents have fallen by a cumulative 4.8%, in real terms, over the period (after allowing for Care Home cost inflation).

It is thought that part of this year's improved offer can be credited to a series of Judicial Reviews, some of which have forced Councils to rethink processes through which they review and apply their fee structures.

Results Breakdown

A summary of baseline fee rate changes, by authority (from those who responded to the survey), is set out in the first table opposite, with 2.0% to 2.9% being the fee revision necessary to be margin neutral. It is interesting to note that of the 23 authorities increasing baseline fees at a margin enhancing rate of 3% or more, 10 of these authorities are in Wales where the Pembrokeshire Judicial Review judgement appears to have had the greatest effect.

CCMN expect to see further movement from providers seeking to bolster margins by repositioning to a privately paying clientele. Options are, in practice, limited for many operators by reason of geography or existing client base. We would be happy to discuss strategy with you and help you decide how to maximise the potential in your business.

Regional breakdown

As in previous years, CCMN found significant variations in baseline fee uplifts offered by Councils around the regions. Care Homes in London experienced the lowest uplift in baseline fee rates, with Wales faring by far the best for the second year running.

A summary of the regional findings is set out in the second table opposite:

Conclusion

This is the third year that baseline fees have been set well below the level estimated to keep pace with cost inflation. Potentially Local Authorities need to give increases, on average, more than half as much again to ensure providing care for publicly funded service users is a viable option.

Now, more than ever, operators need to know the way in which care may be funded in the future so that state funded placements are a cost effective option.

Additionally, operators need to think very carefully about the cost of care they are providing. We are working with many clients to benchmark costs, help reduce costs (some significant savings are being found!) and to assess what the real cost is. If you have assessed the actual cost of care you will be ready for the discussions that will surely be forced through in time. We would be delighted to talk to you about this subject.

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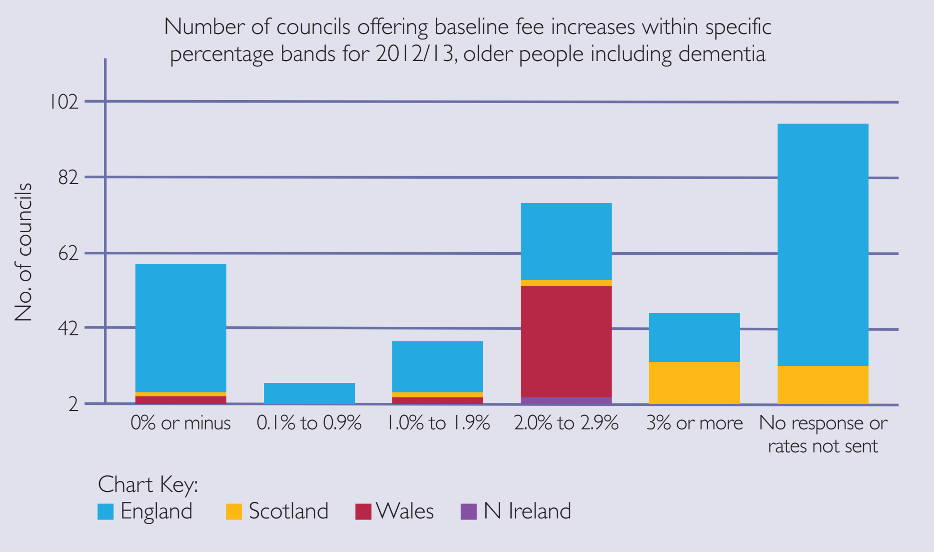

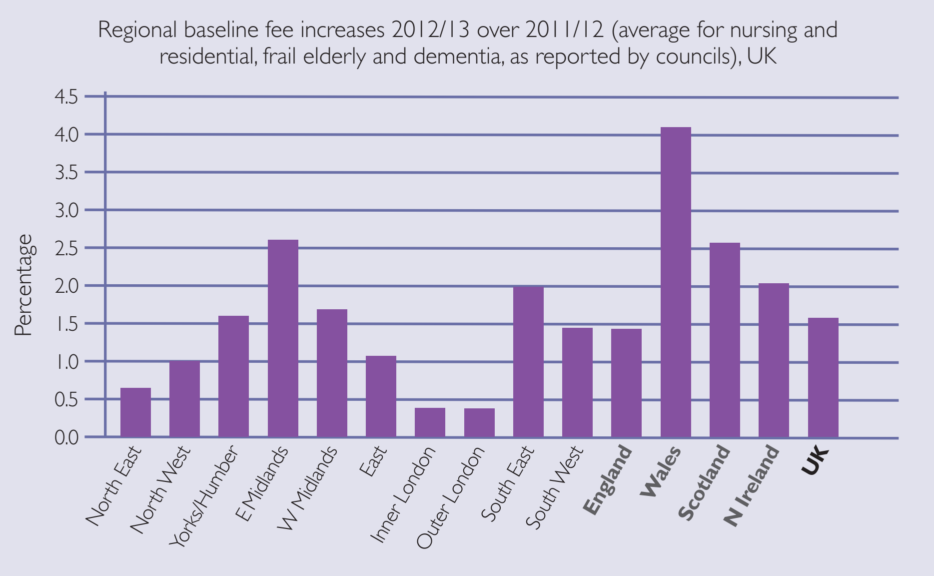

Challenge your costs and take care of your profits

With the ever increasing challenges of running a business in the care sector it is important to take the time to formally review your costs. Most care businesses do not do this and so miss out on profit.

In the past five years we have experienced unprecedented rises in the cost of electricity, gas, food, vehicle fuel and staffing. There seems to be no immediate end to this trend, meaning businesses need to adapt their working practices to focus on cutting all possible spending waste.

One method of checking that you are not overpaying for essential services is by engaging the services of a cost reduction specialist. Their extensive supply chain enables them to get the best possible rates and tariffs available on the market, particularly for small groups or single home care operators who may be unable to achieve these rates directly. At Hazlewoods, we work with such professionals and their "free to use" service has seen an average saving of 27% in recent cases.

The process is simple. The cost reduction specialists will look at your bills (on a no-cost, no-obligation basis); review the expenditure on current overheads; create a proposal of where savings can be made and handle the whole process of transferring any contracts (if you decide to go ahead). As a minimum, you will receive a free business cost health check but more likely you will see an improvement in your bottom line profit, without an increase in weekly fees or improved occupancy!

Cash management

In these uncertain times keeping cash on deposit might feel the most reassuring thing to do. The press and internet will give best buy rates but then the questions begin:

- Who is offering the best rate, once you take out fixed term bonuses, reduced interest for monthly payment and withdrawal penalties?
- How can you make sure you always have the best or near best rate?
- Is that institution safe and is it covered by the Financial Services Compensation Scheme, or is it guaranteed by the Government of its origin instead?
- Is that Bank part of a group with which you might already have deposits?
- Do you have the time or the inclination to trawl the internet or High Street regularly opening new accounts?

We receive daily enquiries from clients asking who offers the most competitive cash deposit rates and/or where is the safest place to invest.

We have negotiated access for our clients to a specialist cash management service. Accounts are opened in the client's own name with cash placed direct dependent upon the brief for access and term. The accounts and the institutions that offer them are then monitored.

Cash is moved when better accounts are launched or when concerns arise about an institution. The client therefore gets the best rate without the need to monitor it themselves. The service is relevant for personal, corporate, trust and charity cash.

If you are interested in learning more about the Hazlewoods Cash Management Service then please speak to your Hazlewoods Contact or call Beverley Lavin, Financial Planning Partner, on 01242 680000 or email beverley.lavin@hazlewoods.co.uk.

Sick bed or sun lounger?

On 21 June 2012 the Court of Justice of the European Union issued the following judgement:

'A worker who becomes unfit for work during his (her) paid annual leave is entitled, at a later point in time, to a period of leave of the same duration as that of his (her) sick leave.'

In practical terms the entitlement to sick leave takes precedent to arranged paid annual leave. Should the two periods of absence coincide then the employee may schedule the portion of their paid annual leave whilst sick for a later date even, if necessary, outside the normal reference period for annual leave.

The Court pointed out that the 'purpose of entitlement to paid annual leave is to enable the worker to rest and enjoy a period of relaxation and leisure. The purpose of entitlement to sick leave is different since it enables a worker to recover from an illness that has caused him (her) to be unfit for work'.

Employers may consider it prudent for their HR policies & procedures to contain a section that covers sickness during annual leave. This may include guidance on the timing of reporting a period of sickness and the requirement for a statement of fitness to work issued by a GP or medical practitioner to be provided when returning to work.

We have a payroll bureau service with staff focussed on health and care businesses and would be delighted to speak to you about your payroll processing. Please contact us if this is of interest.

Could we talk to you about your accounts and tax

We have a team of over 25 staff with many years of experience dedicated to advising health and social care businesses. This experience has resulted in recognition through awards received for our services to the sector.

We are able to help clients not only minimise tax liabilities but develop, grow and exit their businesses. We are confident that we add value to all our clients.

We would be delighted to meet with you to talk about the sector and how we can help you. Please contact Andrew Brookes on 01242 237661 or andrew.brookes@hazlewoods.co.uk

Tax saving opportunities

With the dust having settled on the March 2012 Budget, now is good time to take stock and review what opportunities there are for you and your business to save tax. Here are some ideas to consider.

Reduction in the additional rate of income tax and increase in the personal allowance

From 6 April 2013, the "additional rate" of income tax for individuals with income of over £150,000 is due to fall from 50% to 45%. The additional effective rate of income tax on dividends is due to fall from 36.11% to 30.56%.

From 6 April 2013, the personal allowance (tax free amount) increases to £9,205 (presently £8,105).

If you are likely to pay income tax at the 50% rate in the tax year ending 5 April 2013, you should consider ways to legitimately defer income to the following year, so that you are taxed at the lower 45% rate. Possible ideas could include:

- stream income to your spouse/civil partner where they are paying a lower rate of income tax, to ensure that both of you are taking full advantage of your personal allowance and lower rate tax bands;
- if you are a director/shareholder of a company, defer remuneration until after 5 April 2013;
- draw money out of a company as a loan during 2012/13, rather than receiving income. The loan could be repaid after 6 April 2013 (consideration needs to be given to benefit-in-kind, company tax implications and commercial matters);
- If you trade as a sole trader or as a partnership, accelerate capital expenditure in your business, so that taxable profits are lower in the year ended 5 April 2013. You need to consider the Annual Investment Allowance (see later); or
- If you trade as a sole trader or a partnership, reward deserving staff with a bonus.

Reduction in the main rate of Corporation Tax

From 1 April 2012 the main rate of Corporation Tax has been reduced to 24% (down from 26%), with a proposed reduction to 23% in 2013 and 22% in 2014.

If a company's profits sit in the "marginal" band (between £300,000 and £1.5m) the effective rate of tax on profits above £300,000 is currently 25%.

For a company with no associates, with profits less than £300,000, the current rate continues to be 20%.

The relatively low rates of corporation tax, by comparison to what are considered by many to be punitively high income tax rates, mean that if your business is currently setup as a sole trader or partnership, there may be considerable tax savings arising from incorporating and trading through a limited company or having a company in your business structure.

Pensions

Every individual is entitled to an annual allowance for pension contributions of up to £50,000 per tax year. An individual's annual allowance for a tax year might be increased by the amount of any unused annual allowance in the previous three tax years.

Company contributions (which are not limited by reference to your earnings) count towards the £50,000 allowance.

In theory, therefore, if you have not made a contribution in the current tax year, nor in the previous three tax years, the business could make a contribution of £200,000 on your behalf now.

If you are a 50% tax payer, then it may be worth accelerating/increasing the contribution in the tax year to 5 April 2013 to benefit from relief at 50% rather than 45%.

Capital Allowances the Annual Investment Allowance ('AIA')

The AIA - which provides 100% tax relief on expenditure on capital items such as plant and machinery (but not most cars) - reduced to £25,000 (previously £100,000) from 1 April 2012.

It is now more important than ever to plan your business' capital expenditure appropriately in order to maximise the relief available.

Summary

The good news is that despite the frequently gloomy outlook painted about the economy, there are currently many simple and effective ways in which you and your business can minimise your tax liabilities.

We would be delighted to talk to you to establish if there are ways in which you may be able to reduce your tax bill. For more information, contact Andrew Brookes on 01242 246670 or email andrew.brookes@hazlewoods.co.uk.

The White Paper: Care Compare

The recently published White Paper received a great deal of media attention for the proposals, or perhaps lack of proposals, for funding of residential and home care in the future.

What was less well publicised was the commitment by the Government to give the general public access to "clear and comparative information about the quality of care provided and the options they offer so that people are empowered to make informed decisions".

Essentially this means that the Government has started to use an information portal which, by the end of April 2013, will give people a fuller picture of the quality they can expect from a care provider. How many of you have looked at your own entries for this comparison website?

http://www.nhs.uk/carersdirect/guide/practicalsupport/pages/carehomes.aspx

You will need your postcode to find your profile. At the moment, there is limited information but the information that will be shown is likely to include:

- Staff turnover (home care and care homes)
- Ratio of trained to untrained staff (home care and care homes)
- Compliments and complaints (home care and care homes)
- Percentage of residents developing new pressure ulcers (care homes)
- Percentage of residents who have a fall (care homes)
- Percentage of medication errors (care homes)
- Percentage of appointments missed (home care)
- Percentage of appointments started late (home care)

A small number of large providers have signed up to this, but many smaller providers may not know that this level of detail about their business will eventually exist online. This may also include the "views of users of the care provider and their families pooled from high quality feedback websites".

You might wish to position your services to take advantage of this development. However, you might also want to ensure that you manage the quality of information provided. We would be happy to discuss this further with you and evaluate the steps you need to take.

Taken from an article prepared by Ridouts LLP.

Company Corner

New Audit Exemption Rules - Do you qualify?

The rules relating to exemption from the statutory audit of annual accounts have changed with effect from financial years ending on or after 1 October 2012. Many care businesses that have previously been required to have a statutory audit only because the balance sheet value of their assets exceeded £3.26 million; might not need an audit in the future.

Under the previous rules, a Company or Limited Liability Partnership ("LLP") was exempt from having a statutory audit of its accounts only if both its annual turnover was not more than £6.5 million and the total value of its assets was not more than £3.26 million.

Many care companies, therefore, required an audit only because of the high value of property included on their balance sheet, which caused the total value of their assets to exceed the £3.26 million threshold.

The new rules have aligned the audit exemption criteria with the qualification thresholds that apply in establishing whether a Company or LLP qualifies as a small company or LLP entitled to the accounting exemptions available to such entities. These exemptions include various relaxions from disclosure requirements in annual accounts and the entitlement to file abbreviated accounts at Companies House.

A company or LLP will be entitled to benefit from the new audit exemption criteria with effect from years ending on or after 1 October 2012 if it meets two out of three of the following conditions:

- Annual turnover less than £6.5 million.
- Total assets less than £3.26 million.
- Less than 50 employees.

Many companies that were not previously exempt from the audit requirement will therefore now qualify. It might also be possible to extend an accounting period ending before 1 October 2012 to take advantage of the new exemption criteria, though there are certain restrictions.

This change could result in cost savings for some care businesses. It should be noted, however, that whilst some care businesses may be entitled to take advantage of audit exemption, they need to consider carefully whether audited accounts might be required in order to comply with banking covenants or when tendering for contracts.

We would be delighted to discuss these changes with you.

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Our Health and Social Care Team is happy to discuss matters arising from this newsletter, as well as any other issues relating to your business or personal financial affairs.

The services we provide include:

- Accountancy and bookkeeping
- Taxation planning
- Management accounts
- Strategic planning
- Audit
- Raising finance
- Acquisition searches and advice
- Financial and taxation due diligence
- Confidential business disposals
- Sage advice and training
- Financial planning
- Payroll assistance to include bureau service
- Benchmarking and profitability advice
- Incorporation

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