Autumn 2014

Health & Care Focus

A helping hand for lifelong prosperity

Contents:

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Domiciliary **care rates** 2014/15

The Hazlewoods Health and Care Team recently undertook a data collection exercise to obtain domiciliary care fee rates across the country. This is the second year that we have asked local authorities, under the Freedom of Information Act, for details of the hourly rates it pays for the provision of care to elderly service users. The response rates this year were extremely encouraging, although it has proved difficult to obtain all of the detail requested from all of the authorities.

Some of you may remember that in our Focus in the Autumn of 2013 we published a similar map of the United Kingdom showing the hourly rates. You will see to the side, a map showing the lowest rate payable by each authority for an hour's domiciliary care (not specialist care) for 2014/15. We would point out that many authorities pay different rates for part hour visits and in some authorities there are variations between the minimum and the maximum. We hold data on the minimum, maximum and average fee rates paid, and if you have any questions concerning this, we would be happy to talk to you further.

"What this map shows is the very substantial "North/South" divide"

Looking at the map, drawing a line from Birmingham to The Wash shows a clear divide. That said, Greater London would probably be located in the North of England if it were placed based upon fee rates payable!

We have also analysed the year on year increases in each area of the country and note a significant divergence. The largest reductions in fee rates have been seen in the North, but the same area has also seen the largest increases. If we had carried out this exercise for more than two years, we might have been able to trace whether these significant increases are a result of past reductions or a number of years without any fee uplift. Is there a catch up?

As with the results shown in last year's table, there are some anomalies in the South, outside Greater London, namely Kent and West Sussex. Remarkably low rates for the South of the country, and in certain cases, rural locations.

What can be seen, in many of the more rural southern counties are substantially higher fee rates because of the travel time involved in providing care in these counties. It will be very interesting to watch the development around the Employment Tribunal cases such as Whittlestone and how this plays out in the coming year or two.

We continue to see increases in the National Minimum Wage each October, and it is hard to see how the minimal increases in fee rates enable operators to maintain profitability and deliver good, high quality services. The data bears out the anecdotal comments from operators.

In the London Boroughs, fee rates are even lower than they are in many parts of the North of England. Some Boroughs are reporting rates only just above £10 per hour, with the highest being reported by the City of London at £12.90 (these rates are the lowest rates paid by each authority). Clearly in many parts of London there will be reduced travel time to deal with, but it is an ever increasing challenge to maintain profit margins when fees are so low in the first place.

We also requested details of the maximum fee rates payable by authorities. Of the 78 authorities who provided data on their minimum and maximum fee rates, we were able to deduce that the average premium (maximum over minimum rate) was 20%. Within the London Boroughs, this premium amounted to 32%.

It should also be borne in mind that many authorities simply pay a flat rate for the provision of elderly domiciliary care.

Specialist care

As part of our request to the authorities, we also asked for information about the rates payable for specialist care.

92 authorities provided data showing an average rate in England of £13.88 per hour. Clearly there are significant variances between the minimum and maximum rate payable given the variation in the needs of such service users. Our analysis of responses shows the following:

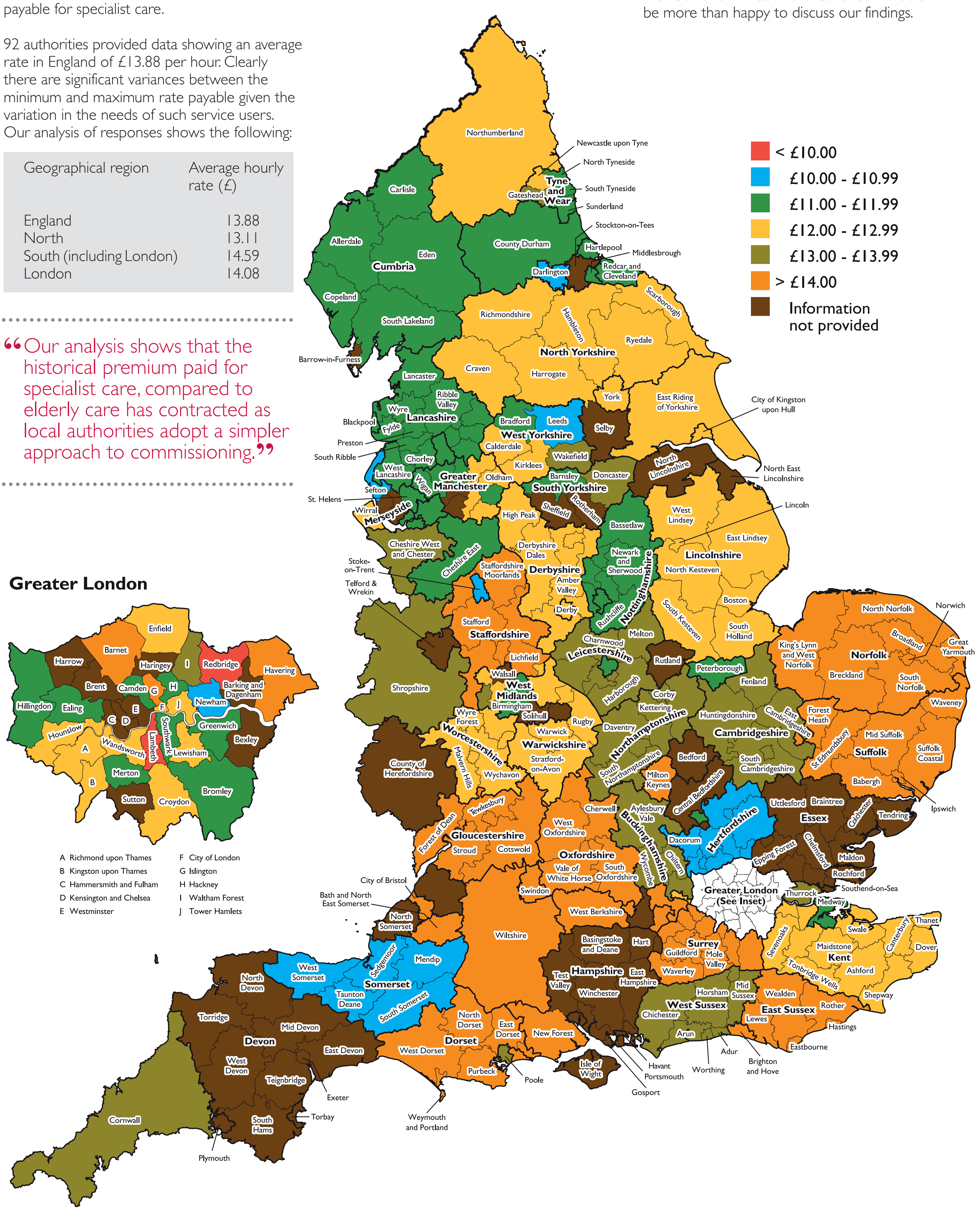
Geographical region	Average hourly rate (£)
England	13.88
North	13.11
South (including London)	14.59
London	14.08

> “Our analysis shows that the historical premium paid for specialist care, compared to elderly care has contracted as local authorities adopt a simpler approach to commissioning.”

We would be more than happy to discuss fee rates in detail with you and evaluate how this aligns with your business. Please contact either Andrew Brookes or John Lucas to discuss this further.

Foster care

We have also issued requests for fee rates in relation to the independent foster care sector and have significant data on this. If this is something that would be of interest to you, a member of our Health and Care Team would be more than happy to discuss our findings.



Property ownership - In or out?

If you own the property that is used in your healthcare business, it may be time to consider whether this structure is ideal from a tax perspective.

Many operators started their business as a sole trader or partnership, later becoming a limited company for tax reasons - the property often not being transferred into the limited company to avoid a Stamp Duty Land Tax (SDLT) charge. Why pay SDLT again, when you paid it on the original purchase of the property?

Although retaining personal ownership of the property avoided a further SDLT charge, it often caused significant personal tax issues for operators. This normally meant there was a need to charge rent to the trading company (on which personal tax is payable) in order to repay bank debt. Given the property ownership remained in personal names, in most cases the associated bank debt also did. We have met many operators who are in this unfortunate position - incurring significant personal tax liabilities as a result of much (or all) of their basic rate tax bands being utilised by rent charged to the company. This often means that the monies they take out of the company on which to live (e.g. dividends or salaries) are taxed at the higher (40%) or additional (45%) rates of personal tax.

As well as the personal income tax cost, there are other potential tax disadvantages of owning the business property personally:-

1. Inheritance tax (IHT). Upon death, it is likely that 50% of the property value would fall into the owner's estate i.e. be subject to tax, whereas if the property was owned by the company, the entire value of the shares could qualify for Business Property Relief (BPR) and therefore not be subject to IHT.

2. Capital gains tax (CGT). Upon sale of the company, and assuming all conditions are met, the shares may be eligible for Entrepreneurs Relief, resulting in a tax liability of 10% on the disposal. If the property is owned privately, the tax liability is likely to be a mix of 10% and 28%. Overall, it is likely to be higher though.

An alternative, is to consider transferring the property into the trading company. Each case would need to be carefully analysed. Considerations include:-

1. SDLT. If the property is owned as a partnership it may be possible to transfer it into the trading company, with no SDLT implications.

2. CGT. Upon ultimate disposal of the business, it is likely that the CGT position will be improved by a transfer of the property into the trading company. There may or may not be CGT to pay upon transfer of the property into the limited company, depending on a number of factors – this area would need to be looked at in detail to get the right solution for you.

3. IHT. It is possible that by transferring the business property into the company the IHT position, upon the owner's death, may be improved. The maximum saving being, to avoid 100% of the property value falling into the owner's estate.

4. Income tax. Provided that the associated bank debt is also transferred into the company, there may no longer be any requirement to charge rent, which could improve the personal tax position.

> "As with any tax planning, a transfer of property from private ownership to company ownership will not be suitable for all."

It may be that the current banking arrangement is favourable (and you don't want to give your lender an opportunity to vary the terms!), or that there is a minority shareholder and by transferring additional value into the company (the property) you would be increasing the value of their shareholding.

If you would like to discuss the above please contact Andrew Brookes or Rachael Anstee.

Changes in **the insurance sector** for all care businesses

Why have we recently seen two major UK insurers, Ecclesiastical and Hiscox, withdraw from the market for care businesses? This is down to a combination of actual claims histories and actuarial projections (mathematical formulae that account for various scenarios to predict future losses or profits).

Care as a sector is known for chasing premiums down, so quality insurers can often feel vulnerable to short term market conditions.

Will any new insurers be able to sustain the losses Ecclesiastical has suffered and Hiscox's actuaries project? History reminds us of Balva, a

Latvian insurer, which within months of becoming involved in the care sector went out of business. We don't believe anyone needs reminding of Access for Care, who were trading without the security of an insurer behind them.

If you were an insurer, would you insure your business at the premium you have? If your answer is yes, is this a qualified yes? Are there any issues you would want addressed before insuring the business? If so, what are these?

What we believe, is that, the care sector needs to promote the many examples of outstanding care providers, whose excellent work is overlooked in favour of headline grabbing stories of poor care. When was the last time a positive story about care was given a high profile by the media, or even the CQC? We need to work hard to rectify this. The opportunity to join care associations, share knowledge and reach higher standards is there and should be considered.

It is our understanding that there is evidence that care businesses that have Investor in People (IiP) accreditation make fewer employers' liability claims and the claims they do make are settled at a lower cost. Achieving IiP accreditation helps you think deeper about your organisation, and is built around making the most of your biggest asset - your people.

Care businesses have been let down by insurers withdrawing from the market place and this is a great shame. It is because they are losing money and project they will continue to lose money. As a result it is key to think about being very good at what you do, focus on where costs are going, so fees account for it and trying to manage your claims well.

> “We need to develop a partnership culture. It would help if more care businesses worked together through care associations to redress the media, and so public perception of care.”

It is vital to listen to people who can help make your business better, more caring and so less likely to make an insurance claim. Ultimately this will allow more time to concentrate on what you do well, the most important thing of all, caring for vulnerable people.

Social Care **Transactions**

- where is the activity?

Hazlewoods Corporate Finance witnessed a strong deal flow in the first 6 months of 2014 and have been busy supporting sellers and buyers alike on more than 30 Corporate Finance transactions.

Given our wide social care client base, we have helped a range of operators who have required assistance in either implementing an exit strategy or corporate buyers wishing to expand their business through acquisition.

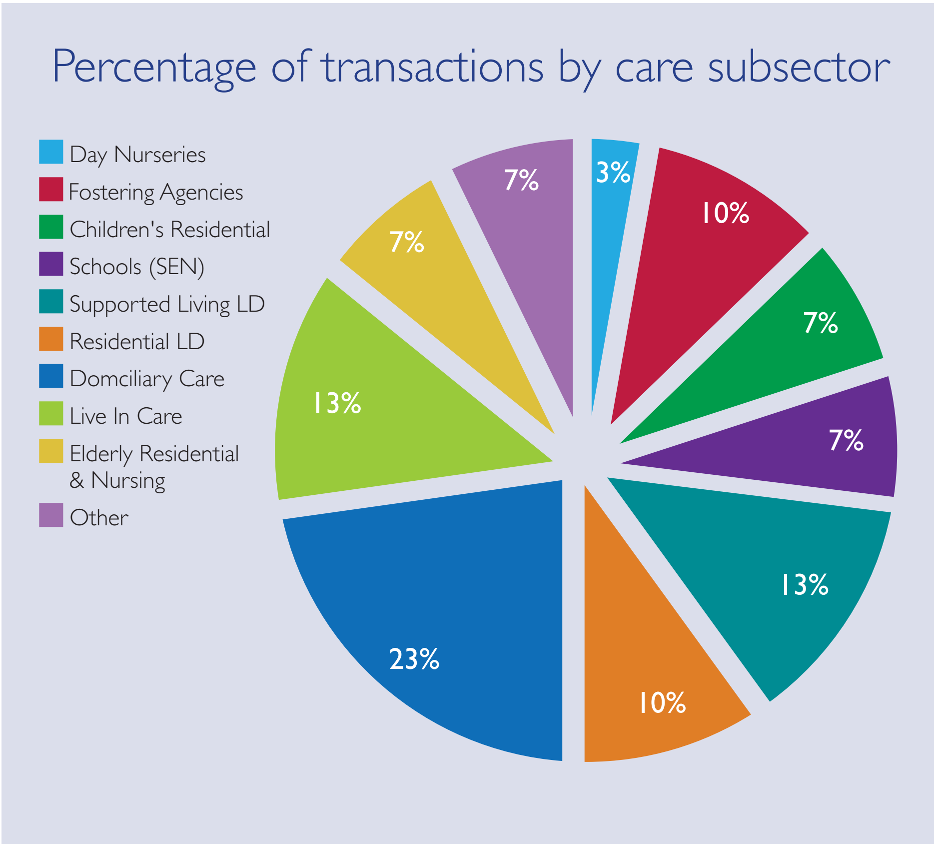
The chart opposite shows the sub sector activity.

It is clear to see from this that the key focus has been the "asset light" category i.e. businesses that do not have significant amounts of bricks and mortar. This includes domiciliary care, supported living, live in care and independent foster care agencies.

The reasons for this have been the strength of the private equity backed corporate acquirers in the market and the business models they operate, which has in recent years steered away from tying up their capital in bricks and mortar.

The remaining businesses, (residential LD, children's residential, schools, elderly residential and nursing) are predominantly asset-backed with higher levels of debt finance than private equity finance. There have been fewer transactions in this area although we are seeing a resurgence in these sectors as the banks have become very much 'open for business' particularly in recent months.

If you would like to discuss this with a member of the team, please contact John Lucas.



Our Growing Team

The healthcare team continues to grow, with many new clients welcomed over recent months.
As such we thought we should update our team photo!
If you would like to talk to us about how we might help you, please contact us.

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John Lucas
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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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