Autumn 2013

Health & Care Focus

A helping hand for lifelong prosperity

Contents:

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Home Care Rates
in your Area

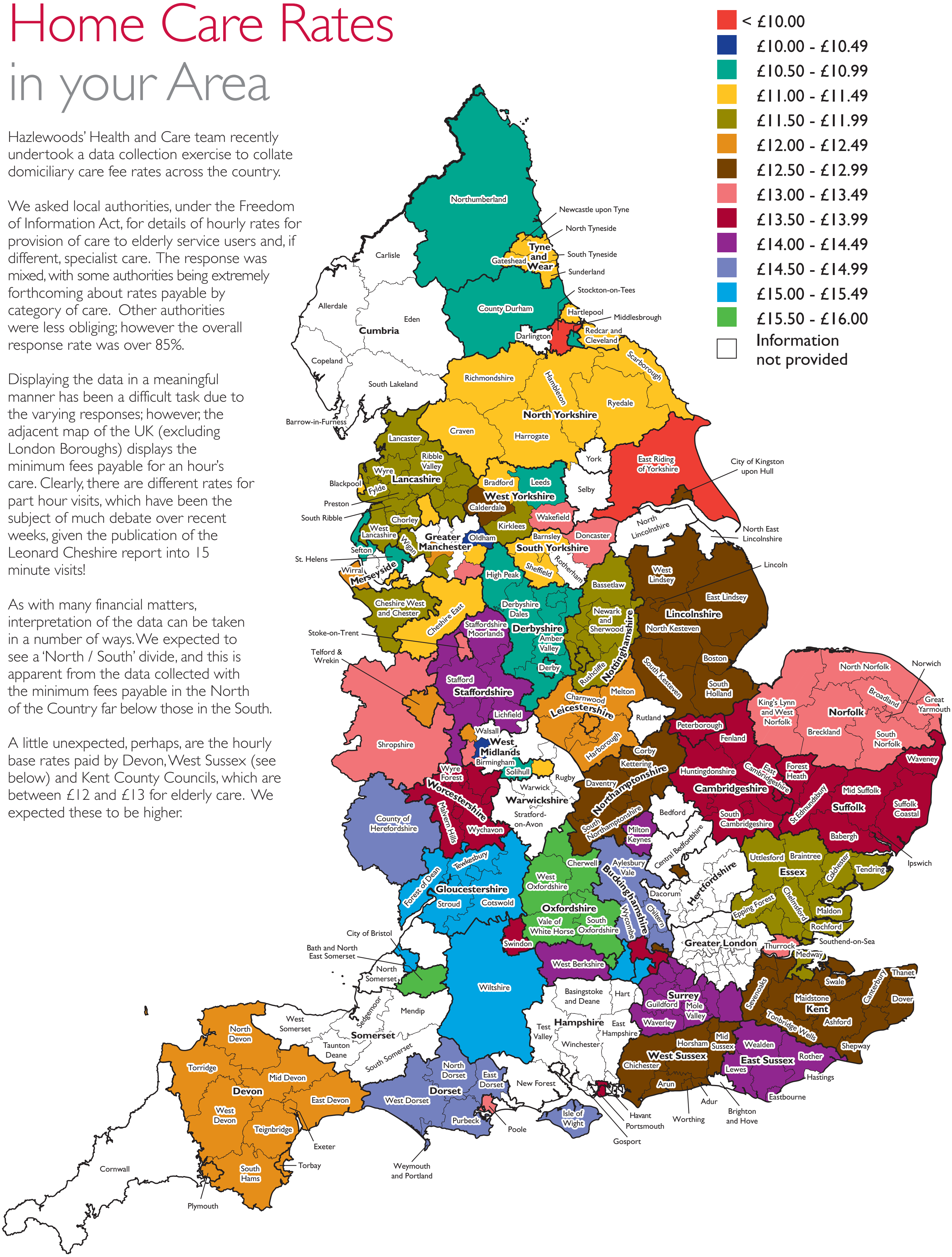
Hazlewoods' Health and Care team recently undertook a data collection exercise to collate domiciliary care fee rates across the country.

We asked local authorities, under the Freedom of Information Act, for details of hourly rates for provision of care to elderly service users and, if different, specialist care. The response was mixed, with some authorities being extremely forthcoming about rates payable by category of care. Other authorities were less obliging; however the overall response rate was over 85%.

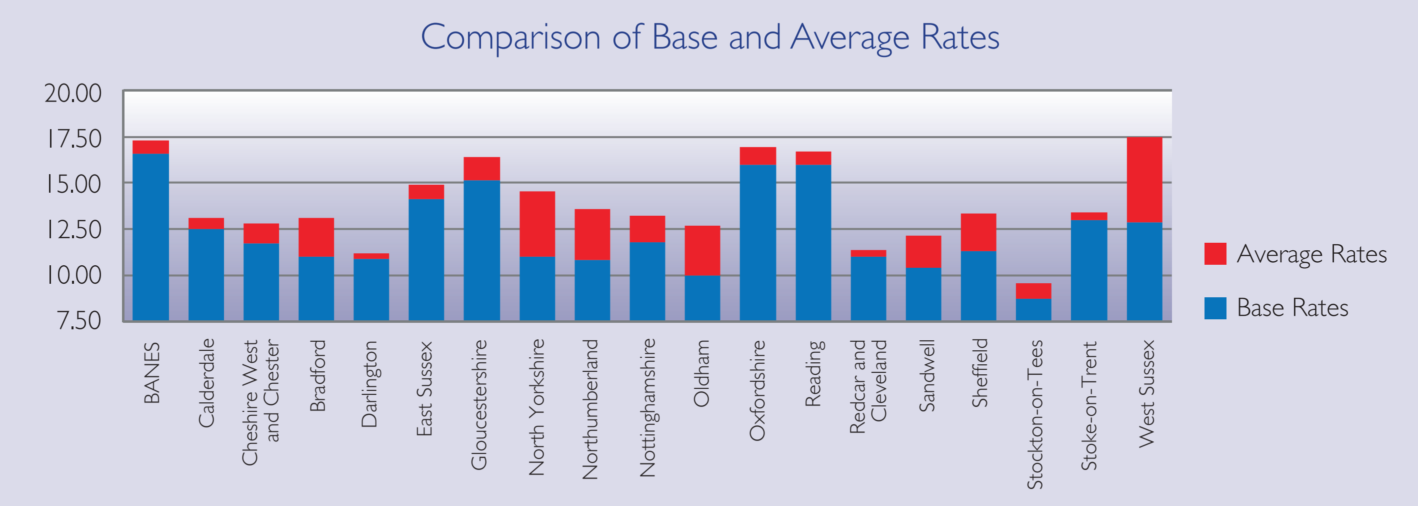
Displaying the data in a meaningful manner has been a difficult task due to the varying responses; however, the adjacent map of the UK (excluding London Boroughs) displays the minimum fees payable for an hour's care. Clearly, there are different rates for part hour visits, which have been the subject of much debate over recent weeks, given the publication of the Leonard Cheshire report into 15 minute visits!

As with many financial matters, interpretation of the data can be taken in a number of ways. We expected to see a 'North / South' divide, and this is apparent from the data collected with the minimum fees payable in the North of the Country far below those in the South.

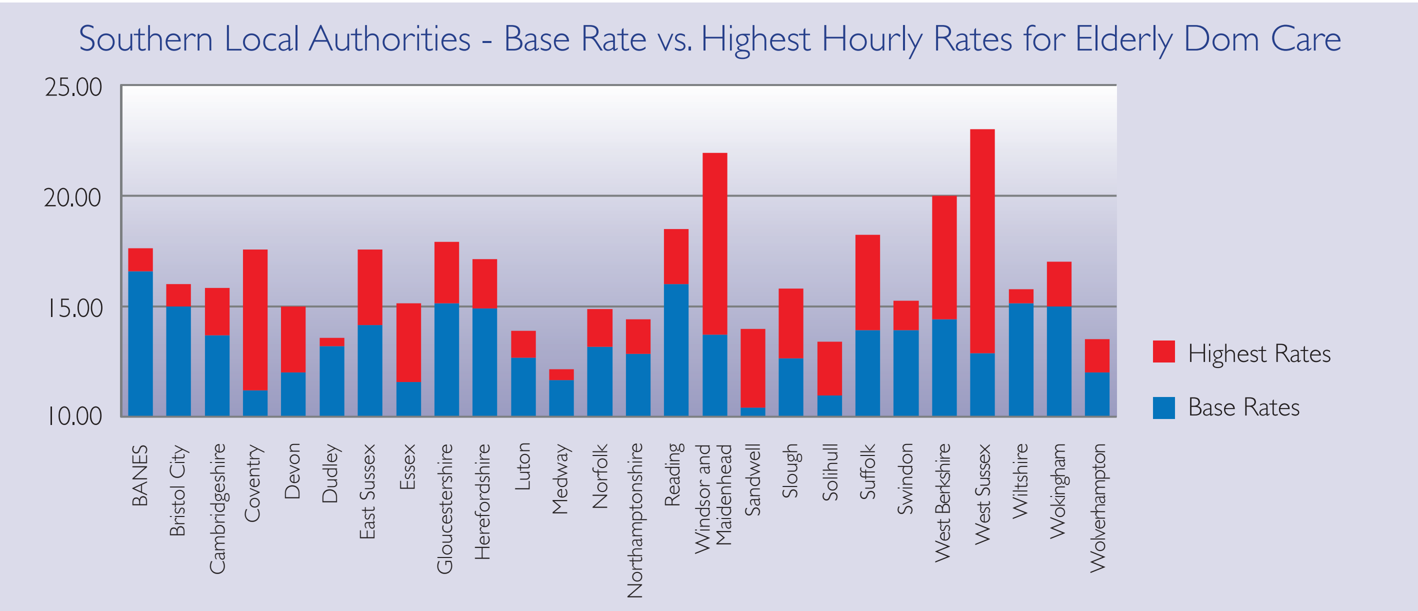
A little unexpected, perhaps, are the hourly base rates paid by Devon, West Sussex (see below) and Kent County Councils, which are between £12 and £13 for elderly care. We expected these to be higher.

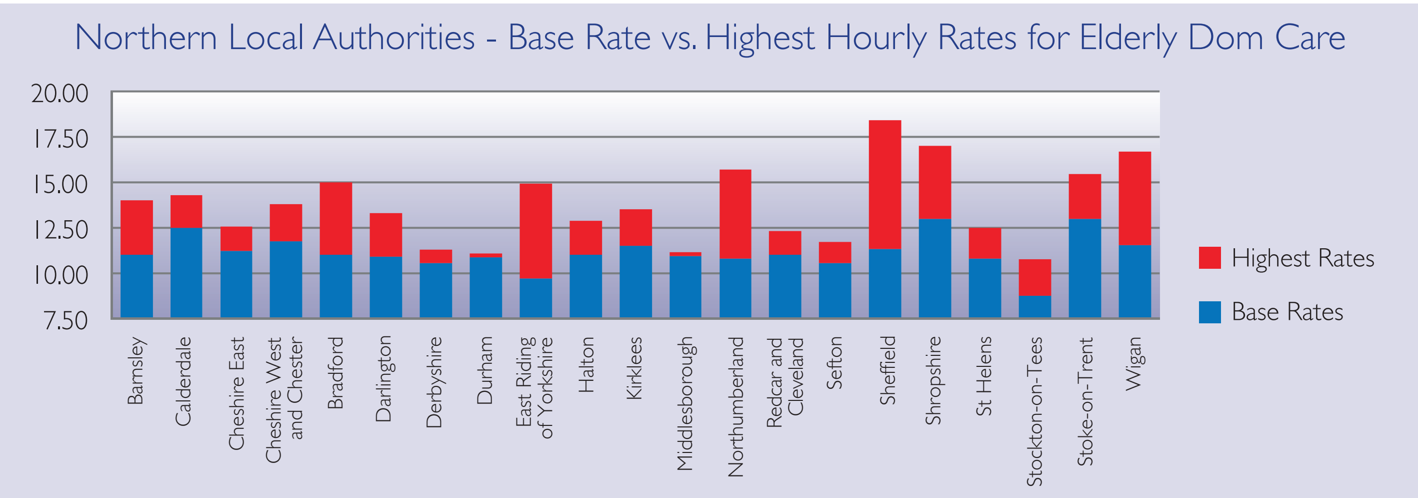


Where possible, we have compared the average fee payable to the base hourly fee rate. This highlights authorities where low rates have been tendered but they are purchasing from providers at higher rates that can deliver the hours. In the past, we have seen low rates being tendered by new entrants to an area, who then fail to recruit staff at the rate of pay they envisaged. This means they cannot deliver the hours when offered them! A summary of the authorities who provided this data is shown below:



In order to whet the appetite, set out below and overleaf are the authorities who provided information on the maximum fee rates paid, with some significant premiums over the base fees:





Specialist Care v Elderly Care

We also requested data on specialist rates as opposed to elderly rates. Where responses were provided, we have summarised the data.

A significant number of the local authorities stated that they set the base rates at the same level for both specialist and elderly domiciliary care. That said, we suggest it is unlikely that they will be commissioning provision at the same rate.

The following table summarises some of the regional data on specialist care base fee rates:

Local Authority	Specialist Lowest Hourly Rate £	Elderly Lowest Hourly Rate £	Difference for Specialist Care £
Blackpool Council	12.50	11.00	14%
Bracknell Forest Council	14.00	15.20	-8%
Cheshire West and Chester Council	11.00	11.75	-6%
City of Bradford Metropolitan District Council	13.50	11.00	23%
Darlington Borough Council	12.13	10.90	11%
Dudley Metropolitan Borough Council	11.72	13.20	-11%
Gloucestershire County Council	10.03	15.12	-34%
Hartlepool Borough Council	12.00	11.42	5%
Leicester City Council	13.29	12.14	9%
Leicestershire County Council	12.84	12.14	6%
Middlesborough Council	10.20	10.96	-7%
Norfolk County Council	15.84	13.16	20%
Oxfordshire County Council	13.52	16.00	-16%
Reading Borough Council	18.75	16.00	17%
Solihull Metropolitan Borough Council	11.88	10.96	8%
South Tyneside Council	12.50	11.00	14%
St Helens Council	12.48	10.81	15%
Stockton-on-Tees Borough Council	12.49	8.75	43%

Our analysis shows that the historical premium of specialist care to elderly care is reducing as local authorities adopt a simpler approach to commissioning. In addition, the argument that specialist care services require higher cost and more qualified staff seems to be diminishing.

We would be more than happy to discuss fee rates in more detail with you and evaluate how this aligns with your business. Please contact John Lucas or another member of the Health and Care Team.

Auto Enrolment
- Initial experiences!

October 2012 saw the introduction of automatic pension enrolment. Arguably the biggest UK pension reform in recent years, it will eventually see all employers required to include a large number of their workforce into pension saving.

Workplace pensions are changing and every employer in the UK will be required to help more of their workers save for retirement. This pension reform is really gathering pace, with the largest of employers now having to ensure that they have a qualifying pension scheme in place.

Over the next 6 months we will see "staging" dates for all employers who have between 1,249 and 250 employees, with all employers having to comply by the summer of 2017. The criteria is based on total number of staff on the PAYE scheme, not the full time equivalent.

Time is running out for you to ensure that a suitable pension scheme is place before the next batches of employers are expected to require a scheme.

Given that some pension providers are becoming unwilling to take on a scheme with less than 6 months to go before staging, there is a clear need to ensure that existing schemes are reviewed for suitability or if you don't have an existing scheme in place, the need to implement a "qualifying" scheme is growing by the day.

For further information on auto enrolment, staging dates, employer obligations, options and how we can help provide assistance in this regard, please contact Stephen Dick stephen.dick@hazlewoods.co.uk or 01242 680 000.

What can you do to minimise your Insurance cost and risk

Many of you will have experienced increased insurance premiums during the last year. This has been a common theme throughout the health and care sector and with continued pressure on fees this can only lead to margin/profit erosion. So what can be done?

We have been working with clients and a specialist insurance broker for the sector (CHIS) to look at ways of minimising premiums, whilst making sure that the cover is appropriate and mitigating the risk of premiums increasing further in the future.

This can broken down into three categories. Firstly, minimising premiums now, secondly minimising future increases and thirdly managing risk when making acquisitions and making sure you have everything in place to ensure you do not have a problem when you sell.

In terms of minimising your current premium, it is important to deal with an insurance broker who really understands your business, what cover is required and what policies could/should be in place. A broker that has experience of lots of providers will know what works and what doesn't.

It is not only about the level of cover that you have, but it is about demonstrating what you do to minimise the risk of claims. How strong are your policies and procedures and has your broker been through them in detail to demonstrate this to the insurance company?

In terms of making sure future premiums are controlled, it is important to look at those policies and procedures we refer to in the previous paragraph and make sure that they are as strong and robust as reasonably possible so as to minimise the risk of claims being made. We all know that claims occur, but if you can show to the Insurance Company how you make sure that the incidence of claims and the size of claims is minimised, this will help your premium.

If you are considering an acquisition or disposal you and your advisers need to review a number of areas including insurance. We are well versed in carrying out financial due diligence but do not cover insurance due diligence. This is an area that the large operators cover when making acquisitions, but we are not so sure everybody does!

We have seen insurance audits/due diligence being carried out for clients not only to minimise premiums and risk also on acquisition or disposal. They look specifically at, amongst other things, insurance cover, costs, exclusions, review the claims experience, identify recurring incidents, propose potential solutions and report back to the acquirer (or seller, dependent upon who they are advising) with a detailed report that helps them understand far more than just the risk and insurance implications.

The insurance due diligence process can be carried out remotely by brokers and can be done in conjunction with financial due diligence. If we are carrying out the financial work, our information request list can encompass the information needed by the broker. From this information they can then carry out an impartial review, whilst giving you a Market Update on the care sector from an insurer's perspective.

Incentivising and retaining key staff without spending cash

Motivating and incentivising key staff and encouraging them to stay with the business for the long term can seem difficult, particularly when cash is tight.

There are a range of share incentives that may be helpful in achieving such objectives. We set out below some brief details of some common schemes.

What's right for you - shares or share options?

It is possible to issue shares now, or a right or option to acquire shares in the future, at an agreed price.

Whether a scheme based on shares or share options is appropriate will depend on the company's objectives:

- Issuing shares will 'dilute' the existing shareholders rights and enable participation by scheme members as soon as they acquire shares.
- Share options defer this dilution until the options are exercised. The granting and exercising of options can also be made dependent on reaching certain targets, which can be financial, growth related and remaining an employee!

Approved or unapproved?

HM Revenue and Customs (HMRC) approved schemes enjoy tax advantages if certain conditions are met. Two common schemes are "Enterprise Management Incentives" and "Company Share Option Plans".

Unapproved share option schemes offer complete flexibility, but are not generally as tax advantageous. As such we will focus on approved options in this article.

Enterprise Management Incentives ("EMI")

EMI is a HMRC approved scheme for small independent trading companies. 'Small' means gross assets of no more than £30 million and fewer than 250 FTE employees.

Not all healthcare activities qualify, so do talk to us about whether this might work for you.

The benefits of EMI are generous and it is relatively flexible and straightforward to implement. It is, therefore, generally the preferred scheme for privately owned companies.

The key benefits of an EMI scheme are as follows:

- Employee: Tax is only payable when the employee has realised the value in the shares by selling them (and should therefore have the funds to pay the tax). The employee's profit on the shares is taxed at capital gains tax rates, often with the benefit of entrepreneur's relief at 10%.
- Employer: The company can claim a deduction from its taxable profits for the costs of establishing the scheme and the value realised by the employee on exercise of the options.

A Hazlewoods factsheet is available setting out further details. We can send you a copy if you want to find out more.

Company Share Option Plan ("CSOP")

The CSOP has more limited benefits than EMI but is potentially attractive where EMI is not available. The scheme can be more complex to implement and the maximum value of shares over which options may be granted is only £30,000 per employee.

Other share incentives

If an approved scheme is not available to you, or it does not quite fit your needs, two unapproved schemes are as follows:

Growth Shares

The employees acquire shares, of a new class, which participate only in the future growth in value of the company.

Upon issue, the value of these shares is normally low, so they can be bought at minimal cost, without triggering any significant tax liability. When properly structured the future growth in value is charged to capital gains tax when the shares are sold. This compares favourably to unapproved share options or bonus arrangements.

Partly Paid Shares

Under these arrangements, the employee acquires shares for their full value but only pays part of the price on acquisition. The balance of the share price is left outstanding as a beneficial (taxable) loan, and generally only be paid when the company or shares are sold.

These arrangements need to be considered carefully, as the employee is committed to pay the balance on the shares and is therefore at risk of financial loss if the shares fall in value.

What next?

Only once you have decided what you want to achieve commercially can you be confident about choosing a scheme that works best for you. Other issues will also need careful consideration by employees and employers before taking the plunge.

If you would like to find out more please contact a member of our team.

How do we communicate?

- Regular meetings with our clients, usually before the year end
- Regular broadcast emails to our clients advising on topical issues

  Recent topics include:
  - Tax planning opportunities including Budget and Autumn Statement follow ups
  - Hire purchase Vs leasing and the impact on the value of your business
  - Annual Investment Allowance and capital expenditure
  - VAT mitigation and planning
  - Tax efficiency of pensions
  - Child benefit
  - Benefits in Kind and P11Ds
  - Payroll Real Time Information
  - National Minimum Wage
  - Cars & advisory fuel/mileage rates
- Writing regular articles for the Health and Care press
- Running seminars and workshops
- Attendance at Health and Care events
- Our clients are supported by a team of people who have Health and Care specific knowledge

What some of our clients said:

"We invited Hazlewoods to tender along with three other firms and they stood out from the crowd due to their high level of proactivity and wide-ranging knowledge of the market compared to the others."

"Hazlewoods demonstrated a deep knowledge of the sector and were able to quickly identify and introduce us to an ideal opportunity that closely matched our acquisition criteria. Throughout the transaction Hazlewoods provided first rate advisory support and tax advice that was crucial to the successful completion of the transaction."

Because they specialised in working with firms in our industry they knew the issues that we were facing as a business and they knew how they could help us, and that was the major contributing factor for us going with them."

"Hazlewoods have got inside detail of what's going on in my world, which is very helpful."

"They seemed to have a lot more ideas than our previous accountant and were able to spot pitfalls that our previous accountant hadn't."

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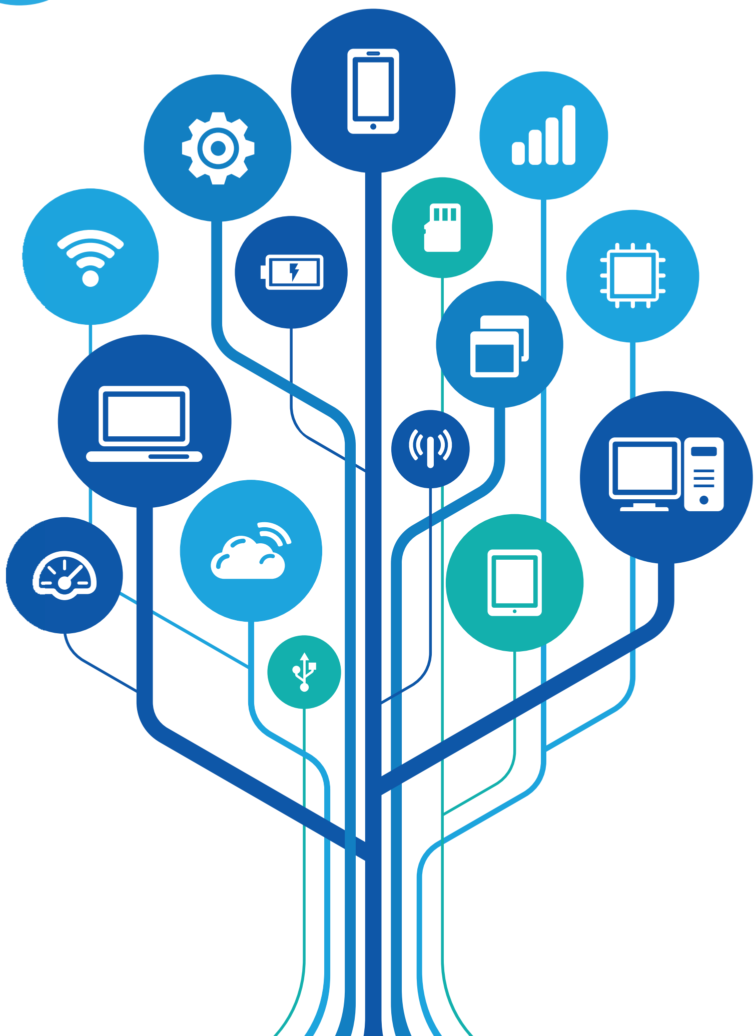

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Our Health and Care Team is happy to discuss matters arising from this newsletter, as well as any other issues relating to your business or personal financial affairs.

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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