# Health & Care Focus

**DRIVING LIFELONG PROSPERITY**

Autumn 2016

# FEE RATES ON THE RISE


**INSIDE**



HAZLEWOODS
DRIVING LIFELONG PROSPERITY

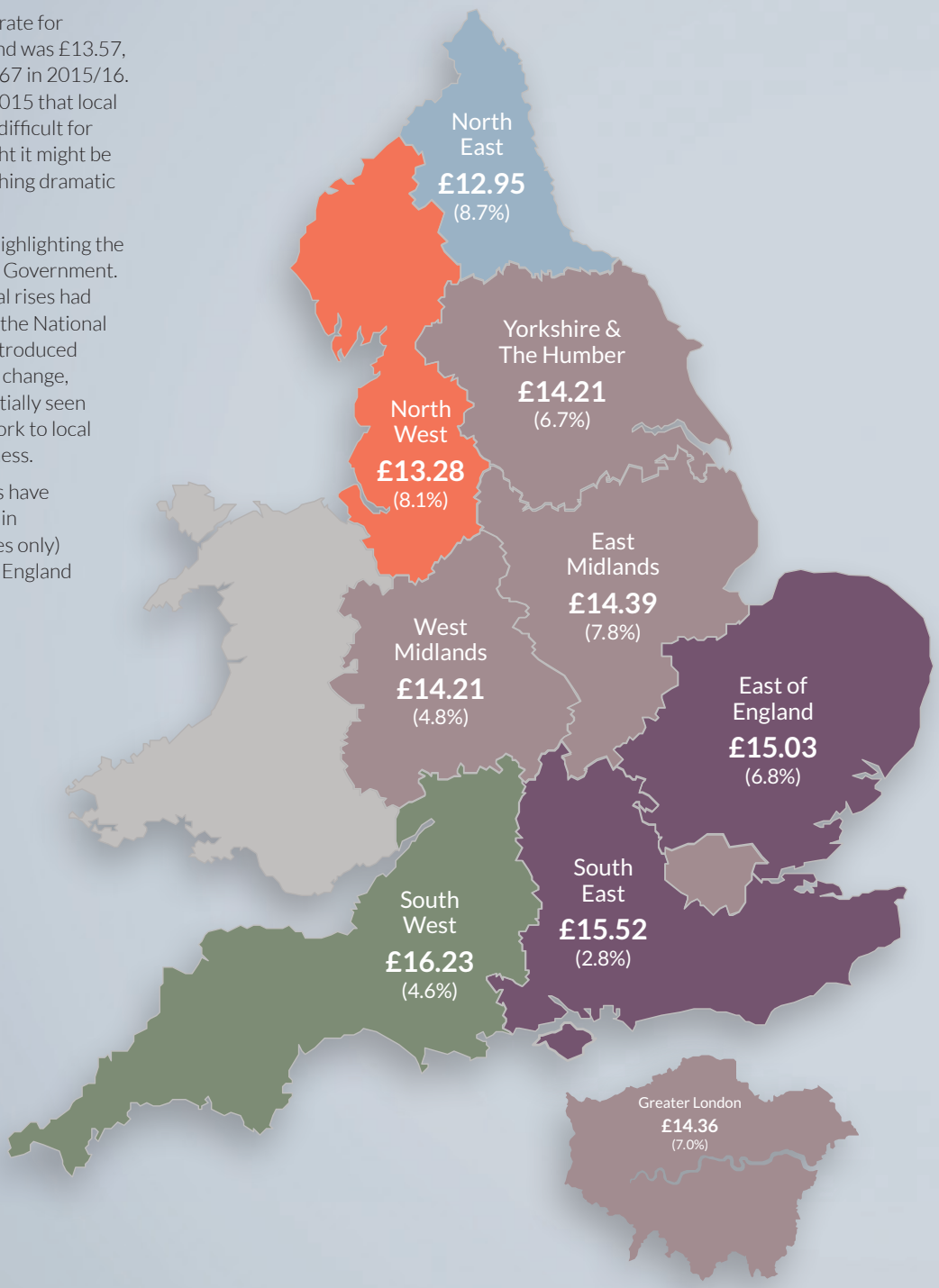
# The Homecare Deficit – What's the story?

**Over recent years, Hazlewoods has carried out Freedom of Information (FOI) requests to assess the lowest and average hourly rates paid by local authorities for elderly homecare services.**

In 2014/15, the average hourly rate for responding authorities in England was £13.57, which rose by only 0.7% to £13.67 in 2015/16. We reported in the autumn of 2015 that local authorities were making it very difficult for providers, many of whom thought it might be difficult to survive unless something dramatic happened to rates.

UKHCA did some stellar work highlighting the issues to the press and lobbying Government. This was pivotal, in that historical rises had not kept pace with inflation and the National Living Wage (NLW) was to be introduced in April 2016. Something had to change, otherwise we would have potentially seen providers handing back more work to local authorities or going out of business.

As can be seen on the map, rates have increased, with the average rise in 2016/17 (respondent authorities only) being 6.3%, giving an average in England of £14.53 per hour.




£13 / hour
£14 / hour
£15 / hour
£16 / hour
£17 / hour

(x% – increase/(decrease) in average weekly fee rate 2015/2016 to 2016/2017 for respondent authorities).

You will see from the map that the North East and North West regions saw the greatest percentage increases. What is interesting to note is that, if you refer to last year's data, these were the regions with the lowest average hourly rates and the "rate" gap has been closed on other regions of England. Newcastle City Council reported awarding a 6.76% fee increase in October 2015, which was followed up with a further 8.3% in April 2016!

Some of the London authorities also reported significant increases. Camden reported a 20% increase on spot purchase rates, whilst Greenwich stated that they had increased hourly rates by 19% under a new contract.

There were other authorities who reported that there was no increase being awarded, or that no increase had been agreed as negotiations were still on-going. It cannot be right that providers are left to wait for negotiations to be concluded (even if rises are backdated) when they are already paying higher wages to staff and costs have gone up.

Some authorities have reported uplifts in excess of the increase in average rates. This must mean that they have reduced the amount of complex packages "pulling down" the average rate paid to providers. I think we have all seen an attempt to reduce the level of support being provided to service users.

Of course, local authorities have had the 2% Council Tax Precept to help fund increases. LaingBuisson reported that "95% of local authorities in England with Adult Social Care responsibilities had utilised some or all of the 2% precept on council tax bills".

Data held by Hazlewoods indicates that care worker pay rates have, on average, increased by between 4% and 5% in 2016. Employers have had to work hard to try and limit the impact of the NLW through "pay rate compression", but we believe this has had a detrimental effect on staff retention/turnover/recruitment. It is unlikely that businesses will be able to compress pay rates indefinitely and, as a result, we think that the impact of the 2017 NLW increase is going to be greater than that felt in 2016.

We have so many things impacting costs in social care at the moment (i.e. Auto-enrolment for pensions, inflationary pressures etc.), it is absolutely critical that funding continues to be found. To name but a few, we have; National Living Wage increases to £9 per hour by 2020 (a 25% increase by 2020!) and sleep-ins to be paid at Living Wage. However, we believe there are things that can be done to help reduce the impact.

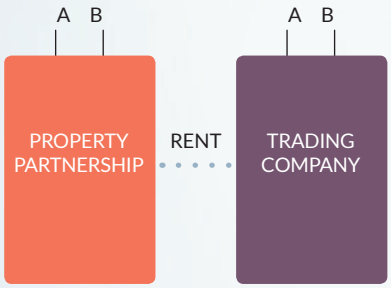
Brexit has led to the Government stating that there are likely to be more cuts in public spending and, as such, lobbying authorities and the Government is going to be critical. What is also crucial is for providers to understand their cost base and the implications of changes in cost, so that they can put their case forward to the relevant authorities. A number of respondents stated that they had not given any general increase, but awarded fee increases on an individual needs basis as put forward by providers.

We have been working with providers in all areas of social care to help assess their costs, the increases being experienced and the approach to adopt in negotiations. We would be delighted to talk to you and share some of our experiences. Please contact either Andrew Brookes or John Lucas to discuss this further.

# 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.**

The diagram below is a common structure of a care business – A and B (often husband and wife, although it doesn't have to be) own the property or properties from which the business trades, and rent it/them to the trading company, which is also owned by A and B. This structure often arose upon incorporation from a traditional partnership with a view to avoiding a Stamp Duty Land Tax (SDLT) charge. After all, why pay SDLT again, when you paid it on the original purchase of the property or properties?




We have met many operators who are in the above or a similar position and although not widely realised, there are a number of potential tax disadvantages of this structure:

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 20%. Overall, it is likely to be higher though.
3) **Income tax (IT).** In many cases operators will need to charge rent to the trading company to cover their personal bank loan repayments in relation to the property, incurring significant personal tax liabilities. This often means that the monies they take out of the company (e.g. dividends or salaries) are taxed at the higher rate or additional rates of personal tax.

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 liability.
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. We believe that for many with this structure we could suggest a better alternative.

# VAT AND OVERSEAS SERVICES – DON'T BE CAUGHT OUT!


Bizarre as it may seem, when a care operator receives services from another business that is based outside of the UK, there could be VAT implications.

Typically, care operators are exempt from VAT and therefore may believe that they can ignore this completely. However, what is not so widely known is that UK businesses may be required to account for the VAT at the UK rate (20%) through the 'reverse charge' legislation, which applies to most supplies of services received from suppliers based outside the UK.

An example of such a service would be Google AdWords, where you 'pay per click'. When Google invoices a UK care business based outside the Irish Republic, they do so without VAT, unless they have been advised to do otherwise.

## UNREGISTERED BUSINESS

If your care business is not registered for VAT, but you receive overseas supplies which should be subject to the reverse charge process, then you need to add the value of those supplies to your other VATable turnover to assess whether the VAT registration threshold (currently £83,000) has been breached. If so, you would need to register for VAT with HMRC.

Even if your care business makes only VAT-exempt supplies, the reverse charge supplies still count as a taxable supply for VAT purposes. If the value of the reverse charge supplies is such that the business is required to register, it will have to account for 20% VAT as output tax on the reverse charge supply, but because the business is exempt, it is unable to reclaim the corresponding input tax. Clearly, paying this VAT is adding to your costs.

For example, a care operator (exempt supply for VAT) spends £100,000 on Google AdWords and other reverse charge supplies, such as agency staff recruitment from overseas. The business is required to be registered for VAT due to the reverse charge legislation and they must pay over the additional 20% on the purchases, subject to a reverse charge (£20,000). As the business is exempt, it is unable to include the £20,000 in its input tax claim and so these items have cost the business a total of £120,000.

## ACTION TO TAKE IF YOU HAVEN'T TREATED YOUR SUPPLIES CORRECTLY

If you have not paid the correct amount of VAT, there may be penalties and interest due. If you are in this position, prompt disclosure to HMRC can help to mitigate penalties. As noted above, reverse charges will affect most business to business supplies from outside the UK, not just Google AdWords.

Intra-group management charges can also cause VAT "issues" and we covered these in a previous article.

If you are unsure about how this affects your care business, please contact Julian Millinchamp or Andrew Brookes on 01242 237661 who would be happy to advise on your business' individual requirements.

# HMRC SCAMS – BEWARE!

There are a number of telephone scams doing the rounds at the moment, with fraudsters posing as HMRC attempting to get personal details or money from victims.

A variety of methods are used to contact individuals including; e-mail, phone calls, text messages or voice mails. Often, the fraudsters will either try to scare the victims into making a payment under the guise that they have an outstanding tax liability, or they will try to glean bank details under the pretence that they are due a refund of tax.

Action Fraud via their website:
www.actionfraud.police.uk/report-a-fraud-including-online-crime

HMRC's website:
www.gov.uk/government/publications/genuine-hmrc-contact-and-recognising-phishing-emails/genuine-hmrc-contact-and-recognising-phishing-emails

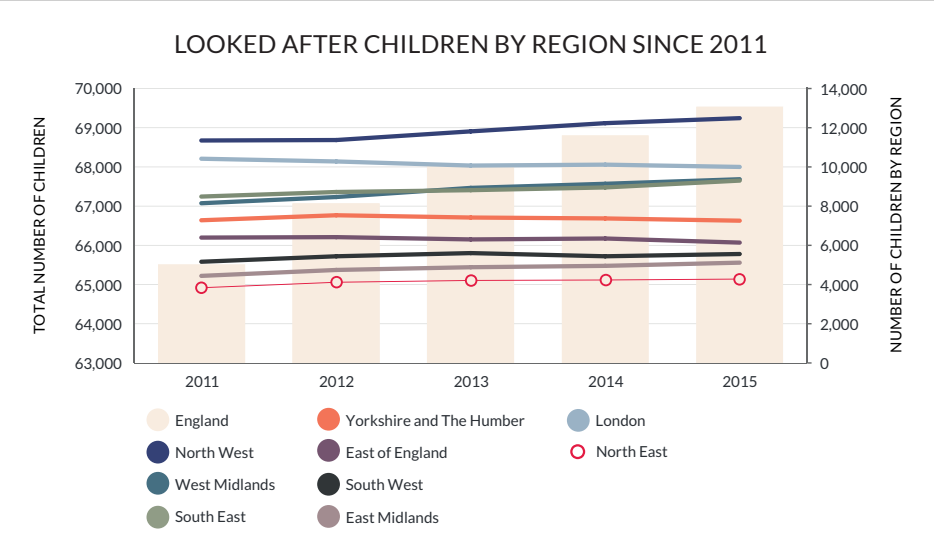
# HOW THE DEMAND FOR CHILDREN'S SERVICES IN ENGLAND HAS CHANGED

Across our client base of accounts and tax clients, as well as through our work on acquisitions and disposals, we are witnessing providers of children's services expanding and growing levels of profitability, despite some market pressure on fee rates (albeit generally affecting lower acuity services) and the National Living Wage. This continued profitability and growth is making the sector more attractive to both private equity and corporate buyers.

Demands on children's services have changed in recent years, as local authorities alter their preferred placement types and the profiles of looked after children change.

Statistics released by the Department for Education show that in the year ended 31 March 2015, the number of looked after children was 69,540 - higher than at any other point since 1985. An increase of 16% was seen between 2008 and 2015, mainly as a result of an increasing population (both organically and with the placements of unaccompanied asylum seekers), and more children placed in care due to abuse or neglect.

Whilst the overall demand for children's services in England has increased since 2011, this is not the case for all geographical regions. London and the East of England have both seen declines of 4% in the number of looked after children, whilst the Midlands and the North have seen increases of 10% to 16%.




# LIFE COVER (BUSINESS PROTECTION)

## BACKGROUND

Businesses have a number of insurance requirements usually relating to their premises and assets. However, it can be easy to overlook the need to insure the individuals who help to make the business a success and furthermore, ensure that the business can continue to be a success in a worst-case scenario.

The impact upon the business of the death of a key employee, shareholder or partner can be huge, potentially leading to the business not performing as well, or the family of a shareholder having control of a business they aren't familiar with, and don't want.

## INSURANCE STATISTICS

- In 2015, the UK life insurance industry paid out £3.6 billion in protection claims – over £10 million a day*
- 352,197 people were diagnosed with cancer in 2013**
- The average age of a claimant for critical illness cover in 2015 was 45***
- An individual suffers a stroke every 3 minutes and 27 seconds in the UK – 152,000 a year****

With these statistics in mind, it is worth considering the solutions to potential issues faced by business owners, before a problem arises.

## SHAREHOLDER PURCHASE AGREEMENT

This ensures that, upon death or illness of a shareholder, a specific course of action is taken.

The idea is that the surviving shareholders keep control of the business. The agreement, with a life assurance policy, provides the surviving shareholders with the capital needed to buy the deceased's share.

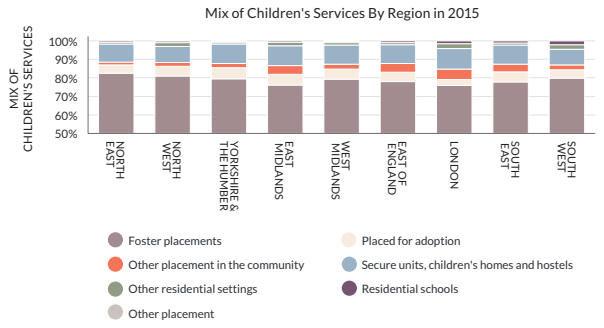
Without any such agreement and cover in place:

- A deceased shareholder's family holds a share of the business
- The remaining shareholders need to raise capital in order to buy the share
- The family may not agree to sell

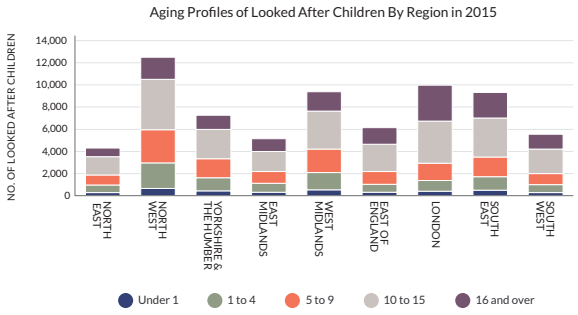
The majority of looked after children are placed in foster care in all regions of England, ranging from 72% to 80% of all looked after children. Overall, foster care placements have increased as a percentage of all looked after children from 64% in 2001 to 75% in 2015, as local authority preferences have shifted to foster care.

We made a Freedom of Information request earlier this year, which asked for details of the number of looked after children and the percentage looked after in the independent sector. If you would like to discuss this, please contact us.

## WHERE ARE CHILDREN PLACED?




## AGE PROFILES OF LOOKED AFTER CHILDREN




In all regions, children aged 10-15 made up the largest group of looked after children. In the North East, North West, Yorkshire and The Humber, and the West Midlands, the second largest group of looked after children were aged 5-9 compared to the East Midlands, East of England, London, the South East and South West, where the second largest group was aged 16 and over.

As can be seen above, a great deal of information is available and this is a small fraction of what we have. The data may be particularly helpful in setting your business strategy and planning.

If you would like to discuss how we can help you with your children's services business, please do not hesitate to contact Andrew Brookes or John Lucas.

## KEY PERSON PROTECTION

An individual (not necessarily an owner or shareholder) within a business could provide specific expertise, generate levels of turnover or provide valuable contacts.

Should this individual die or become critically ill, the business could face the following issues:

- Loss of profit;
- Recruitment fees; and
- Training costs.

In these instances, an insurance policy that could provide a cash injection to provide short term cash flow, or funds to cover expensive recruitment and training fees could be invaluable.

## LOAN PROTECTION

Covering outstanding financial commitments is also important. This could cover a business loan, an overdraft or mortgage. An insurance policy could provide funds directly to the business, removing the liability on the shareholders or partners, and potentially their families to cover the outstanding balance.

## HERE TO HELP

Hazlewoods Financial Planning are able to provide independent advice relating to the essential decisions:

- The right type of cover required; and
- The right amount of cover required.

If you would like to speak to us regarding protection, we would be more than happy to help. Please contact Gary Cook on 01242 680000.

*Association of British Insurers
**Cancer Research UK
***AIG Life
****Stroke.org

# Company corner

## CORPORATION TAX UPDATE

Under current rules, corporation tax losses carried forward can only be used by the company that incurred the loss and against certain income arising in that company. There are new rules being introduced which mean carried forward losses can be utilised more easily; these rules will apply to losses incurred from 1 April 2017.

Companies will be able to use carried forward losses against profits from other income streams, or profits from other companies within the same group. This has the potential to 'unlock' non trading losses that could otherwise remain trapped. We would be happy to talk to you about planning to optimise this position.

From 1 April 2015 the standard rate of corporation tax reduced to 20% and it was announced in the Budget that the rate of corporation tax will reduce further to 19% from 1 April 2017 and to 17% from 1 April 2020.

Corporation tax payable by a close company on a loan, or overdrawn directors account, made to a shareholder/director increased from 25% to 32.5% for loans advanced on or after 6 April 2016. A close company is, broadly, a company with five or fewer shareholders, or a company with any number of shareholders who are all also directors. This tax is payable nine months after the end of the accounting period in which the loan is advanced (unless the loan is repaid in full before the due date for the tax). The tax is repayable to the company nine months after the end of the accounting period in which the loan is repaid. We work very closely with clients to ensure this position is mitigated.

## PERSONAL TAX UPDATE

In terms of personal tax rate changes, from 6 April 2016, the effective rate of tax on dividend income increased from 0% to 7.5% at the basic rate (for income between £11,000 and £43,000), from 25% to 32.5% at the higher rate (for income between £43,000 and £150,000) and from 30.55% to 38.1% at the additional rate on income above £150,000. Due to the removal of £1 of the personal allowance for every £2 of income over £100,000, the effective rate of income tax on dividend income between £100,000 and £122,000 increased from 37.5% to 48.75%. A new dividend allowance was also introduced so that no tax is due on the first £5,000 of dividend income, regardless of other income levels.

In addition to the extension of the starting savings rate band from £2,880 to £5,000 in April 2015, a new personal savings allowance was introduced on 6 April 2016. The new allowance is set at £1,000 for basic rate taxpayers, £500 for higher rate taxpayers and nil for additional rate taxpayers.

Due to the above changes, it is possible, in certain circumstances, for a director/shareholder of an owner managed company to receive the first £22,000 of remuneration without incurring any income tax or national insurance liabilities (or £44,000 for a couple).

With all the recent changes in corporation and income tax rates noted above, it may well be worthwhile for owner managers to review their business and remuneration structure to make sure it is as tax efficient as possible. For example, shares could be transferred tax free to spouses, or to adult children to help fund university costs (through the use of the £5,000 dividend allowance noted above).

Should you wish to discuss this further, please contact Andrew Brookes, Rachael Anstee or Simon Worsley.

# MEET THE TEAM

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