

Health & Care Focus

A helping hand for lifelong prosperity



Contents:

Where is the banking market?

Hedging claims and tax planning

Freedom of Information update

Retirement income - a brave new world?

Our growing team - can we help you?

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

General review of banking market

During the second half of 2013 and increasingly into 2014, more clients are raising finance in their businesses. The reasons for raising funds are varied, but generally they revolve around releasing capital (and reducing personal risk), making acquisitions or developing existing services.

Over the last few years, the sources of funding have been mixed and varied and this continues to be the case. However, the traditional source of funding from the local high street bank does appear to be more freely available.

This is good news, as the banks have been in a state of flux over the recent years, and access to banking capital has been hard. It is also worth pointing out that the time taken to complete fundraising is longer than before the recession, with typically more information and due diligence being required.

What are banks looking for?

It is generally the case that banks lend to solid businesses with a good track record behind them. The key drivers for the banks remain a future-proof asset; by this, they really mean meeting standards or exceeding statutory and regulatory requirements. However, on its own an all-singing, all-dancing business is not good enough, the banks also need to see a strong management team with a track record in the sector; supplemented by a strong team of professional advisers with knowledge of the sector.

What is more difficult?

It is more difficult to obtain bank funding for non-asset backed businesses, such as domiciliary care, foster care or leasehold registered care/supported living services. Our experience is that your profitability (EBITDA) needs to be in the high hundreds of thousands, or even millions of pounds, to be able to access bank funding for these types of businesses. That is, unless you have a significant level of personal assets that you are able and willing to put up as collateral.

What is required?

The requirements for obtaining bank funding have never really changed; albeit now it is a lot more focused given how risk averse the banks have become. A thorough business plan and business case is required, with the usual elements including market, pros and cons and risks and rewards of the investment, details of management, etc. Of course, all banking proposals need a thorough financial forecast, both with realistic cases and also 'sensitised' (worst case) scenarios to ensure that the debt is serviceable and the bank can assess what their position might look like, should things go wrong.



The business plan and financial model will be subject to scrutiny from the bank and potentially due diligence providers, and it is important to ensure that the model is robust, well thought through and factors in all eventualities. It is also important to assess what financial covenants there may be, how they fit within the model and how vulnerable the business is to changes in circumstances given these covenants.

Other sources of finance

Bank funding has not returned to the levels of the mid-2000's and in the current environment, a number of financing proposals that may have been successful in the past cannot be funded from the traditional high street route. So what other sources of finance are available?

Crowd funding is becoming increasingly prevalent and a number of our clients have raised smaller amounts of funding (typically less than £100,000) through crowd sourcing or networks of high net worth investors. The capital can be a little more expensive, but is unsecured and one would suggest the purpose of raising the finance, financially outweighs the higher cost of the capital. As with everything we have said above, the business plan and financial models are absolutely critical and need to be very well thought through.

Invoice discounting or factoring is often used in asset-light businesses to raise money against the debtor book. This is becoming slightly more

difficult for domiciliary care businesses, due to the high level of private work or direct payments, but still remains a key source of funding for these businesses, which generally have little in the way of assets should they want to make an acquisition or release capital to shareholders.

Private equity houses remain very interested in the health and social care sector, and many of our clients have sold to private equity-backed businesses or been a platform acquisition for them. We also see many opportunities where development capital is sought. This involves releasing an element of the equity of the business in exchange for the funding, to enable a growth phase to be pursued to benefit all of the shareholders.

If you are considering raising finance and would like to discuss your options and how we can help, please do not hesitate to call Andrew Brookes or John Lucas.

Hedging claims and the tax implications

Interest rate hedging products ("IRHPs") include a variety of products sold by banks to customers to help protect them against an interest rate risk. The issue of mis-selling interest rate hedging products is a significant one for the care sector. Customers were, in certain situations, not fully informed of the risks associated with the IRHP and the potential costs of exit were not clearly explained.

An independent review led by the Financial Conduct Authority is currently being undertaken to redress the mis-selling of IRHPs by the main UK banks. The appropriate redress for each customer will be determined on the basis of what is fair and reasonable, and could include a mixture of cancelling or replacing the hedge with a comparable product, or providing full or partial refunds. The aim of the redress is to put the customer back into the position they would have been in, had the regulatory failings not occurred.

Whilst some customers have received a full redress, there are some customers who have not been awarded anything at all. Alternatively, customers have entered into a comparable IRHP, with large monthly interest payments resulting in the customer being in a worse financial position.

For those customers who have not been able to obtain satisfactory redress it is possible to seek to overturn the original decision by providing the Reviewer with further information and asking the Reviewer to reconsider. However, from experience it is more difficult to overturn a decision once it has been made and our recommendation is to submit your best case at the review stage.

The customer may choose to accept the original decision of the Reviewer and look to recover consequential losses under the following heads:

- loss of profit;
- management charges;
- professional advisors' fees;
- bank fees and charges;
- distress and inconvenience; and
- management time.

However, unless the customer can prove that the claim for consequential losses was materially caused by the bank and that it was reasonable for the bank to have anticipated or foreseen those losses, it will be difficult to successfully persuade a bank that you are entitled to the losses.

Certain customers who are eligible will be able to refer their complaint to the Financial Ombudsman Service ("FOS"). The FOS can consider complaints from any business that meets the "micro-enterprise definition" at the time at which it complains. A micro-enterprise is an entity that has fewer than 10 employees and an annual turnover or balance sheet that does not exceed £2 million.

Should a customer, who has not obtained satisfactory redress through review, not be eligible for a claim through the FOS, they may want to consider the option of seeking redress through the legal system. There are time limitations and so we recommend you obtain legal advice early if you are considering this route. We work with specialists on this and can help you by putting you in touch.

If you have obtained satisfactory redress, or are going to in the near future, it is crucial that you take appropriate tax planning advice as it is likely that a significant part of the redress, if not all of it, will be taxable. Considering the tax implications both in terms of the quantum of tax and indeed the timing of payment in advance is absolutely crucial. We would be happy to help you with tax planning around such claims and it is vital to take advice early.



Freedom of Information update

Further to an article in our Autumn 2013 Health & Care Focus, we have followed up our Freedom of Information request of domiciliary care rates with a specific review of the London Boroughs.

The data collection was fairly strong, with 30 of the 33 London Boroughs providing information.

The table opposite shows the minimum and maximum hourly rate for each of the Authorities.

It is disappointing to see such low rates in certain Boroughs and it suggests that some operators are providing care and support at very tight margins. Although mileage and travel costs are generally lower in urban areas, this level of fee must make it very difficult to provide and sustain a high standard of care.

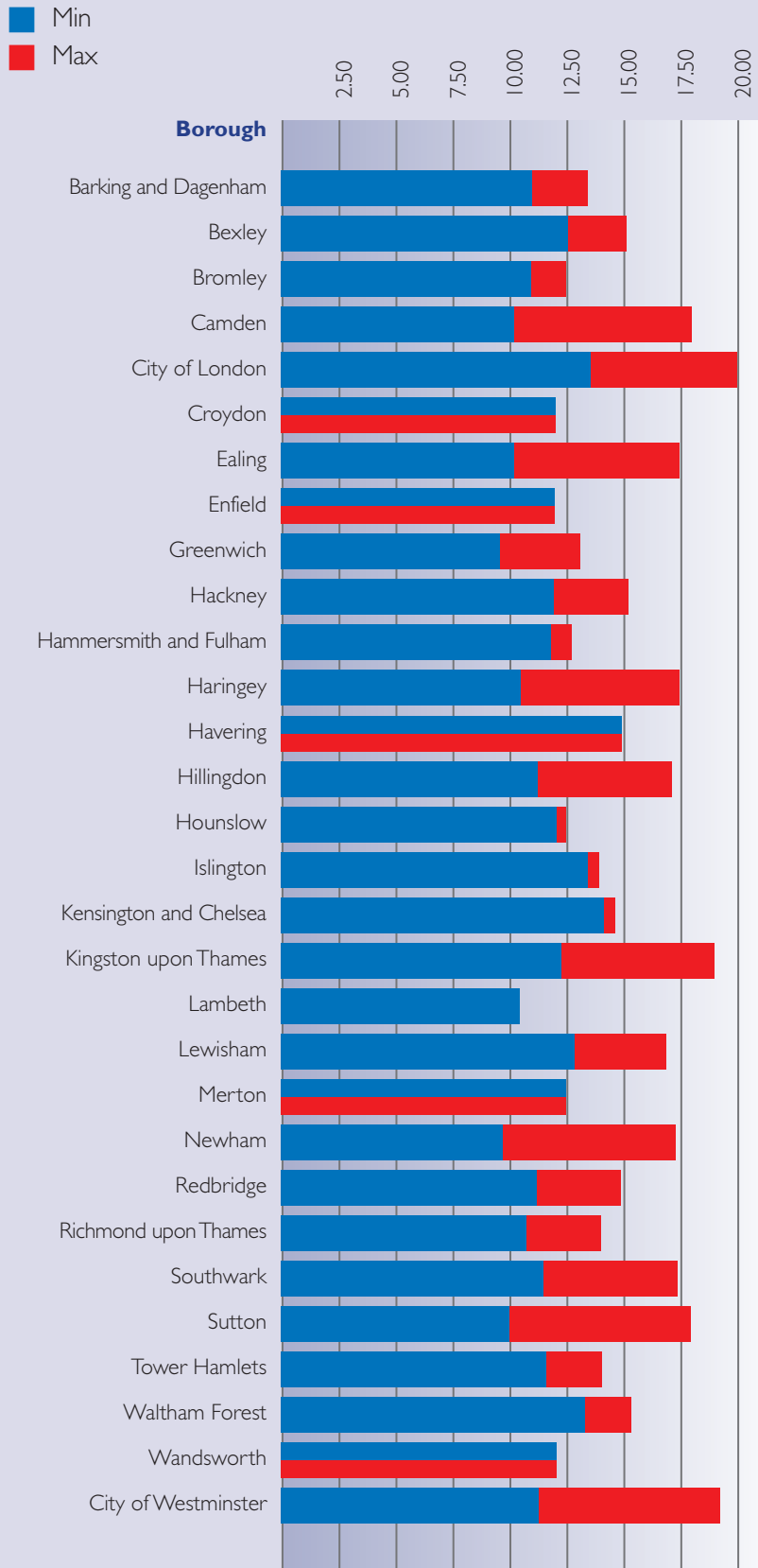
We will be undertaking a further UK-wide review of rates in 2014, to understand if there has been any movement in the rates being paid by the Local Authorities in view of recent media and political pressure.

If you are interested in more details of the specific responses from any of the London Boroughs, or for more information, please do not hesitate to contact a member of the Health and Care team.

	Hourly Rate £
Minimum rate from all responses	9.40
Average of all minimums	11.67
Maximum rate from all responses	20.00
Average all maximums	15.44

N.B. Enfield only provided average rates.

Domiciliary care services for the elderly in their own home



Retirement income

- a brave new world?

Changes proposed in the 2014 Budget could herald an unprecedented shake-up to UK pensions.

The proposals will give pension savers more freedom, choice and flexibility than ever before over how they access their pension savings.

- If the changes go ahead, anyone of pension age will be able to draw as much (or as little) from their pension pot as they choose at any time.
- 25% would remain tax free. The balance would be taxed as income in the year it is taken.

The details are not set in stone, although they signal a Government desire to give savers more control and responsibility over their destiny in life after work. The proposals will be consulted on this year, but in recognising the need for flexibility, there is a boost for drawdown users almost immediately.

The Chancellor has announced two welcome changes to income drawdown rules from 27 March 2014:

- **Capped income drawdown - limit up 25%:** The maximum yearly income allowed under the pension capped drawdown rules will increase by 25%, from 120% to 150%, for income years starting after 26 March 2014.

- **Flexible income drawdown - Minimum Income Requirement (MIR) cut to £12k:** The yearly secured income needed to meet the MIR to access flexible drawdown, will be cut from £20,000 to £12,000 for those applying to start flexible drawdown after 26 March 2014.

Taken together, these changes give pension drawdown users even more flexibility to adjust income up or down to adapt to changing circumstances.

Pension triviality limits increased

The Chancellor has announced welcome changes to the pension triviality rules from 27 March 2014:

- **Triviality limit up to £30k:** Individuals over age 60, with total pension savings of £30,000 or less, can take it all as a trivial commutation lump sum - the current limit is just £18,000;
- **Stranded pot rules relaxed:** Small stranded pension pots of up to £10,000 can be taken as a lump sum - a significant increase from the current £2,000. The number of small stranded personal pension pots that can be taken as a lump sum is increased from two to three.

The above changes improve choice for individuals who may otherwise have been forced to receive small regular pensions for life, with limited ability to shop around for the best annuity. In both cases, up to 25% of the lump sum can be paid tax-free with the balance taxed as income.

55% Drawdown death benefits charge set to be cut

With greater freedom proposed in respect of pension benefits, there are plans to reduce the rate of tax payable on drawdown death benefits from April 2015.

Upon death, pension benefits are currently taxed at a rate greater than the income tax rates on pension income. The Government have recognised the need to have a tax system where pension savers are not penalised by only taking what they need from their pension fund. This could result in a greater proportion of pension death benefits being passed to loved ones.

If you would like to discuss pension arrangements further, please contact a member of the team.





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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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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