17 July 2020

Mr Jay Arjan
Office and Finance Manager
Low Pay Commission
8th Floor, Fleetbank House
2-6 Salisbury Square
London
EC4Y 8JX

Sent by e-mail to: lpc@lowpay.gov.uk

Dear Mr Arjan

Low Pay Commission Consultation 2020

Further to our oral evidence session, on 15 July 2020, I have pleasure in submitting written evidence from United Kingdom Homecare Association. Please do not hesitate to contact me should you require any further information.

Yours sincerely

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INVESTORS IN PEOPLE

About you

1 Please provide information about yourself or your organisation. If possible, include details about your location, the occupation or sector you are involved in, your workforce if you are an employer (including number of NMW/NLW workers), and anything else you think is relevant.

United Kingdom Homecare Association (UKHCA) is the professional representative organisation for independent, voluntary, and statutory sector providers of homecare services, covering a total of 2,095 locations across all four UK administrations.

In England, there are 9,400 registered locations, regulated by the Care Quality Commission, providing care. 520,000 people are employed in the homecare sector, around 50% of whom are on zero-hours contracts.

In 2018-19, when the National Living Wage was £7.83 per hour, data produced by Skills for Care showed that careworkers in the independent sector were paid an average hourly rate of £8.56 per hour and senior careworkers £9.24 per hour. In 2018-19 those employed directly by Local Authorities could expect pay rates of £9.91 and £11.95 for.[1] From data received from UKHCA's members this year, neither councils nor Clinical Commissioning Groups (CCGs) have consistently offered fee uplifts to meet this year's increase in NLW. In UKHCA's data outlined in our response to Question 4. Indeed some have not offered any uplift for over 2 years.

Careworkers in Scotland and Wales have similar hourly rates of pay but our experience suggests that those in Northern Ireland tend to be offered lower rates.

UKHCA provides technical and advisory support to member organisations of all sizes, from small and medium enterprises in the independent and voluntary sectors to large multi-branch providers offering many hundreds of thousands of hours of homecare each week. The majority of their front-line

workforce are employees and likely to undertake 'time work' for the purposes of the National Minimum Wage (NMW) Regulations.

We also represent a numerically smaller numbers of providers of 'live-in homecare whose workforce will be engaged in 'unmeasured work' for the purposes of the National Living Wage (NLW). A small proportion of those

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[1] Skills for Care Workforce Intelligence Summary **Domiciliary care services in the adult social care sector2018/19.** https://www.skillsforcare.org.uk/adult-social-care-workforce-data/Workforce-intelligence/documents/State-of-the-adult-social-care-sector/Summary-of-domiciliary-care-services-2019.pdf

organisations act as Employment Agencies, introducing workers to be employed by private individuals.

UKHCA contributes to a wide range of policy fora and working groups, convened by Government regulators and arms-length bodies at a national level whilst taking an active role in responding to consultations that promote and highlight the benefits of a stable and viable social care market to all levels of Government and statutory agencies.

Annually, UKHCA presents written and oral evidence to the Low Pay Commission. We also provide evidence to Parliamentary Committees.

On 25 June 2020, UKHCA's Chief Executive, Dr Jane Towsen, provided oral evidence to the House of Commons Health and Social Care Committee.

On the payment of careworkers by Local Authorities she said,

"…Councils buy care by the minute, which means that providers end up having to employ by the minute. Nobody wants to do that, but it is the system that is wrong…"

"…I ask you to imagine a clinical commissioning group saying to an NHS trust, "We are only going to pay nurses for every minute that they are by a patient's bedside. We are going to electronically tag them to find out when they are there, but we are not going to pay them when they move from one patient's bed to the next. We are not going to pay them when they are training. We are not going to pay them when they are supervised. We are not going to pay them when they are doing their CPD." Can you imagine the outcry in the NHS under those conditions? And on top of that, the NHS trust would have to pay for all of those additional things by some miracle…"

Given that UKHCA estimates that around 70% of homecare is purchased by the State, councils' purchasing decisions have a significant impact on providers of homecare. (See our answer to Question 2).

UKHCA also undertakes analysis of the operating environment for homecare providers, including its impact on businesses, the social care workforce and people who use services. We have carried out a number of surveys, recently, to gauge the impact of the ongoing coronavirus (COVID-19) pandemic on the operation of homecare providers and have submitted our findings to Central Government, including the Treasury, Department of Health and Social Care and the Ministry of Culture, Housing and Local Government as well as the Association of Directors of Social Services (ADASS) and the Local Government Association.

We outline our findings later in this paper.

Economic outlook

2 What are your views on the economic outlook and business conditions in the UK for the period up to April 2021? We are particularly interested in views on the following: • Conditions in the specific sector(s) in which you operate, as well as for the economy in general. • Any factors likely to boost demand, or alternatively that could make conditions more difficult (for example, the impact of the current coronavirus outbreak or changes in the UK's relationship with the European Union). • The current state of the labour market, recruitment and retention, as well as the potential impact of changes to immigration rules. • The experience of wage growth and inflation in the last year and forecasts for the next couple of years.

The Office for Budgetary Responsibility (OBR) said, in March 2020, that the policy decisions that the Government announced in the March 2020 Budget represented the largest fiscal loosening since the pre-election Budget of March 1992 (which was reversed within months after the UK left the European Exchange Rate Mechanism). The Government's policies were likely to have increased the overall budget deficit by 0.9% of GDP on average over the next five years and add £125billion (4.6% of GDP) to public sector debt by 2024-25.[2]

Policy announcements were also made on the UK's future immigration policy which will have implications for the homecare sector as a whole and which we shall discuss later in this paper.

However, the impact of leaving the European Union was estimated by the OBR to have reduced overall potential output by around 2%, relative to what would have been expected without our withdrawal. UK export markets also weakened. The full impact will not be felt until the end of the current transition period on 31 December 2020.

At the point that the OBR closed its global forecast on 14 February, the coronavirus (COVID-19) outbreak was mostly concentrated in China, with only limited spread to other countries. The OBR, therefore lowered its forecast on the growth of world trade and UK export markets, reducing UK GDP growth by around 0.1%.

However, the spread of coronavirus (COVID-19) has been far wider and the impact greater than assumed in the OBR baseline forecast, pointing to a

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[2] Office for Budgetary Responsibility **Economic and Fiscal Outlook – March 2020** https://obr.uk/efo/economic-and-fiscal-outlook-march-2020/

deeper and possibly more prolonged slowdown in the UK economy, even before any further Brexit-related impacts are factored in.

The OBR estimated that raising the National Living Wage to reach two-thirds of median earnings by October 2024 would reduce borrowing by £1.2 billion in 2025-25. This included the boost to income tax and National Insurance Contributions' receipts and the reduction in welfare spending from higher pay.

However, the Office for National Statistics (ONS) reported in June 2020 that tax receipts and National Insurance contributions (on a national accounts basis) were only two-thirds of those collected in May 2019, while central government spending increased by half over the same period. The Public Sector Finance Figures reflect the unprecedented impact of the coronavirus (COVID-19) lockdown and the government's support for individuals and businesses.

As a result, borrowing in May 2020 was provisionally estimated to be £55.2 billion, roughly nine times more than in May 2019 and £5 billion more than market expectation.

Although Government has recently announced that it has no plans to return to austerity measures it is still highly likely that public sector finances will come under greater pressure, especially if current support packages for the adult social care sector are extended beyond September 2020, as outlined below. This will, potentially, result in further tightening of councils' budgets which will then have direct implications for the delivery of homecare services, given that councils are the largest purchasers.

Borrowing estimates are subject to greater than usual uncertainty because of their partial reliance on forecast data, with April 2020 data being revised down by £13.6 billion to £48.5 billion; this is largely because of stronger than previously estimated tax receipts and National Insurance contributions along with lower than previously estimated expenditure on the furlough schemes.

The need for the extra funding required to support the government's coronavirus relief schemes pushed debt at the end of May 2020 to 100.9% of gross domestic product (GDP); this is the first time that debt as a percentage of GDP has exceeded 100% since the financial year ending March 1963.

Our evidence to the Commission over previous years has highlighted the impact of local authority and NHS purchase of homecare services on the financial viability of independent and voluntary sector providers and the terms and conditions of their workforce, bearing in mind our estimate that around 70% of homecare is purchased by the State.

Of particular concern to the homecare sector this year has been:

- the sudden and unplanned need for personal protective equipment (PPE);[3]
- the increasing unit costs of PPE during COVID-19;
- an apparent lack of referrals of new business from councils and the NHS, leaving providers with un-used capacity and costs.

UKHCA's Minimum Price for Homecare for April 2020 to March 2021, published in January 2020, calculated a cost of £20.69 to deliver an hour of care.[4] Of this, UKHCA estimated the cost of PPE and consumables at £0.10 per hour. Work undertaken in April 2020 suggested that PPE costs may have been as high as £2.50 per hour of care. We discuss the Minimum Price, in more detail, later in this paper.

Figure 1, below, sets out the context of the PPE and consumables' costs before accounting for the increased requirements of COVID-19.

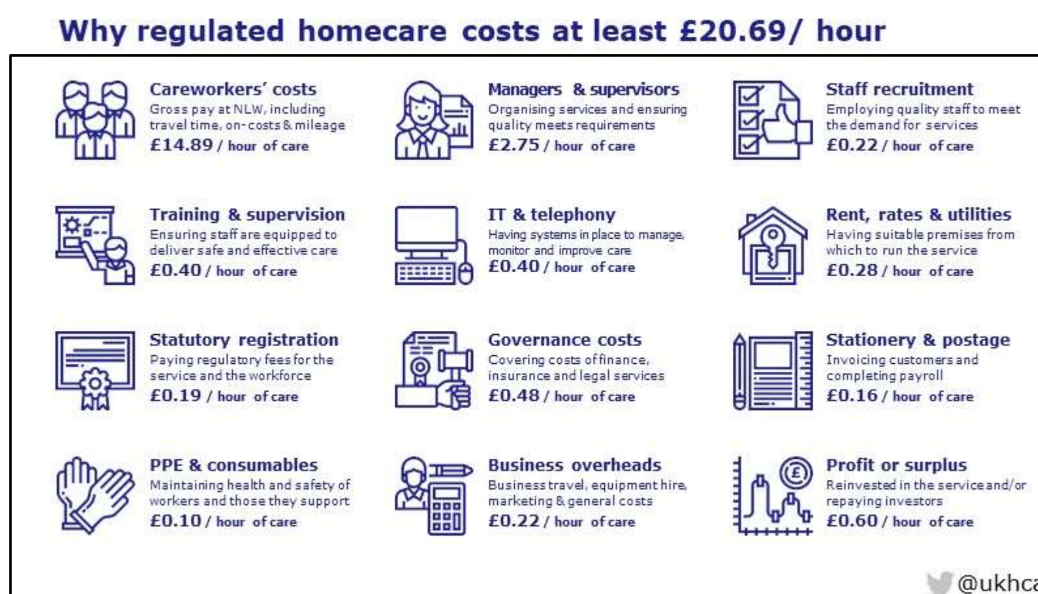

Figure 1. Breakdown of typical homecare costs, 2020-21, before the coronavirus pandemic

PPE is being used at a much greater volume than previously and continued price increases and even allowing for the Government having temporarily zero rated VAT on PPE these increases will put increasing pressure on providers.

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[3] Department of Health and Social Care (June 2020) **Coronavirus (COVID-19): provision of homecare** https://www.gov.uk/government/publications/coronavirus-covid-19-providing-home-care/coronavirus-covid-19-provision-of-home-care

[4] Angel C (2020) **A Minimum Price for Homecare April 2020 – March 2021**

While some privately-funded providers may be able to pass such increased costs on to their customers, those on council funded contracts will not be able to do so. As we shall describe later some councils are paying less than £18.00 per hour of care, insufficient to sustainably pay the NLW, let alone the increased costs of PPE.

In the first 3-4 months of the coronavirus pandemic the increasing use and costs of PPE and a reduction in demand was mitigated to some extent through the financial support by some local authorities, who undertook one or more (but not usually all) of the following *short-term* measures, including:

- A temporary increase in the hourly price of services.
- Purchasing services "on plan", rather than "as delivered" (ie. Paying for care which was not delivered).
- Supporting providers' cash-flow by more frequent payment cycles, or payment in advance, rather than in arrears.
- Supplying PPE to providers at cost.

These measures are likely to have prevented a number of organisations becoming insolvent during the early stages of the pandemic. However, they are short-term in nature and – at the time of writing – a number of authorities have indicated that this financial support will be withdrawn (in some cases without prior notice).

In previous years, UKHCA has been reluctant to argue for lower than planned increases in the National Minimum Wage, recognising the benefits of pay-propelling policies for society. However, given the on-going implications of COVID-19, further increases in NLW/NMW, without substantial injection of funds from Government, risks destabilising the market even further.

In its recent Budget Survey ADASS reported that councils will need an additional £520 million of additional funding to meet the same level of needs in 2020/21, compared with 2019/20 and that 43% of Directors of Adult Social Care reported that providers in their area had closed, ceased trading or handed-back existing contracts to the authority.[5]

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[5] Association of Directors of Adult Social Services **ADASS Budget Survey 2020 and ADASS Coronavirus Survey Report** https://www.adass.org.uk/adass-budget-survey-2020-coronavirus-budgets

Migration policy

The Government announced plans for a new immigration policy in February 2020. The new policy will commence when the current EU Exit Transition Period ends on 31 December 2020.

Current freedom of movement rights for EU/EEA citizens will end and a new 'Points-Based' system will be introduced.[6]

Although the existing workforce from the EU/EEA are likely to be able to continue working in the UK, after January 2021 the available pool of the workforce will contract, increasing competition within the labour market.

Typically, social care employers' ability to recruit and retain workers improves during recessions and periods of high unemployment. It is too early to form a view about whether the positive impact of the contraction of other business sectors on the available labour will be long-lasting.

Salary and skills thresholds

The Migration Advisory Committee (MAC) published its report on salary thresholds and points-based systems on 28 January 2020 and has recently closed a consultation on the Shortage Occupations List.[7]

In its report: ***EEA migration in the UK,*** published in September 2018, MAC stated that, whilst recognising that migrant workers, particularly non-EEA, but increasingly those from the EU, contributed significantly to the social care workforce, social care wages are low, which makes this an unattractive industry for UK-born workers to work in leading to a dependence on migrant workers who may have fewer better work opportunities.[8]

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[6] Home Office (2020) **The UK's points-based immigration system: Policy Statement** February 2020 https://www.gov.uk/government/publications/the-uks-points-based-immigration-system-policy-statement/the-uks-points-based-immigration-system-policy-statement

[7] Migration Advisory Committee (MAC) Report: **Points-based system and salary thresholds**, Published January 2020 https://www.gov.uk/government/publications/migration-advisory-committee-mac-report-points-based-system-and-salary-thresholds

[8] Migration Advisory Committee Report: **EEA Migration in the UK**, Published September 2018 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF

The Committee also said that with an aging and expanding population, social care needs will grow in the UK. The sector's problems are not primarily migration-related according to the Committee.

The Committee further recommended that a sustainable funding model, paying competitive wages to UK residents, would alleviate many of the recruitment and retention issues.

The Committee concluded that unless working in social care becomes more desirable to UK workers, chiefly through higher wages, migrant workers will be necessary to continue delivering these services.

However, the Committee ruled out introducing out a scheme to make it easier to hire migrant workers into social care, such is the case for rural workers, employed on a seasonal basis, as such a scheme would not necessarily make it easier to retain them in the sector.

The Committee said, "…We are seriously concerned about social care but this sector needs a policy wider than just migration policy to fix its many problems. This is one illustration of a more general point that the impacts of migration often depend on other government policies and should not be seen in isolation…"

Whilst initially set at £30,000, Government has agreed with the MAC's recommendation on salary thresholds and will lower the general salary threshold to £25,600. However, under the points-based system for skilled workers, applicants will be able to 'trade' characteristics such as their specific job offer and qualifications against a lower salary.

At present, we do not expect the majority of front-line social care workers' posts to meet the criteria for the points-based-system. While we – and colleagues from other social care and health employers – have made representations with the Migration Advisory Committee (MAC) for the inclusion of social care workers on the Shortage Occupation List, but these do not appear to have been adopted.

Given MAC's previous position on the social care workforce, the ability of social care workers to join the Shortage Occupation List is considered unlikely.

Non-British Nationals in Homecare

In 2019 UKHCA assessed the contribution of non-British nationals to England's homecare workforce. The results are shown in Figure 1, below.

We advised the Commission last year that the proportion of non-British national working in homecare varies across the UK but averages 7%.

Figure 2, below, outlines workforce data related to non-British nationals, from 2018.

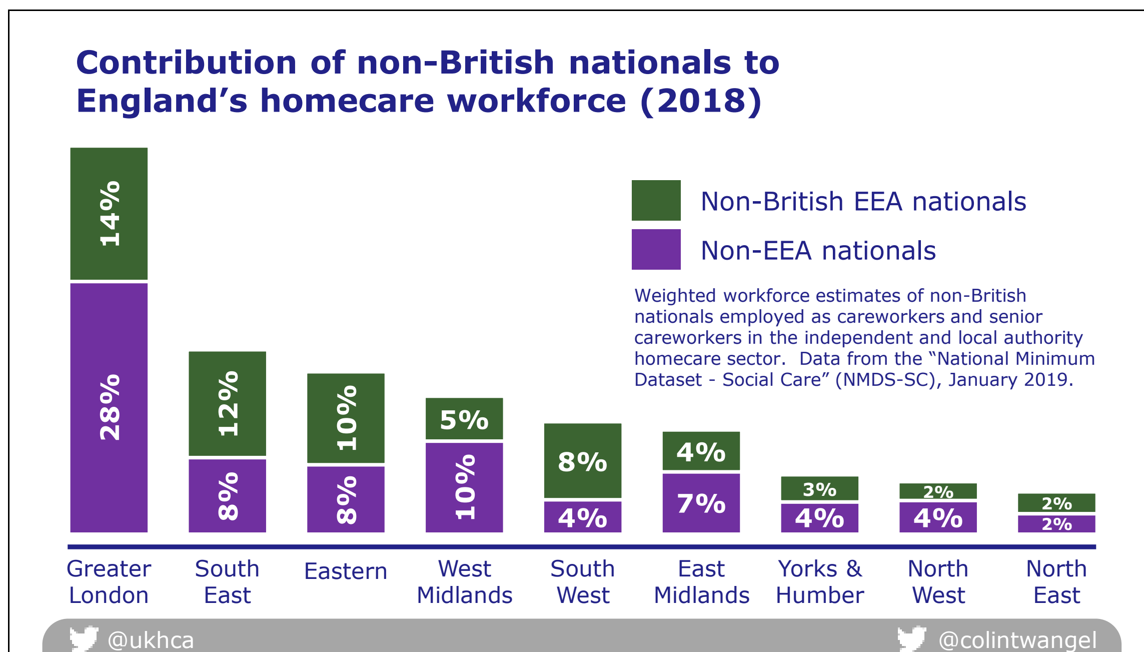

Figure 2. Contribution of non-British Nationals to England's Homecare Workforce (2018).

In London and the South of England, however, the loss of migrant workers would have a more significant impact than in other parts of the country and the impact of the new 'Points-Based' system would deter careworkers who, unless they were on the Shortage Occupation List, or some other form of easement, would be unable to garner enough points for entry into the UK.

Unless providers have the ability to increase prices to the end-user, we do not believe that they will become competitive in local labour markets. In order to do this, providers would need to:

- Increase fees to local authorities and the NHS (around 70% of all hours of care purchased); and/or
- Increase the fees charged to private individuals funding their own care (around 30% of all hours of care delivered).

There is currently little evidence that Government has proposals which will take effect in this (or the next) financial year which will provide the level of additional funding required.

Other Considerations

A major contributor to the stability of the homecare market will be the amount of care commissioned by Local Authorities and also in the privately funded sector.

Since the coronavirus (COVID-19) pandemic started to affect the UK there have been an increasing number of cancelled care packages and a continued reduction in the numbers of new referrals.

This may be due, in part to the current movement restrictions affecting social workers' ability to carry out assessments. Also, many clients are unwilling to have careworkers come into their homes for fear of cross-infection and may be relying on informal carers such as family members currently furloughed. Anxieties have been expressed by providers and representatives of people who use social care services that people's eligibility for state-funded social care may be reassessed less favourably than was previously the case, on the basis that people coped with lower levels of support during the pandemic. There is no guarantee that the volume of commissioned care packages will return to the levels seen before the onset of the pandemic and providers may see further loss of income as a result.

Local Authorities continue to underfund the costs of care and the outlook for the homecare sector remains challenging.

UKHCA's Minimum Price for Homecare

United Kingdom Homecare Association represents and supports over 2,100 providers of support and care at home and has long championed the need for greater investment in the homecare sector.

Annually, UKHCA calculates a Minimum Price for Homecare.[9] This accounts for the cost of compliance with National Living Wage and the other costs of running a homecare business. Much of the latter is related to the cost of compliance with regulatory requirements, which cannot be avoided.

The UKHCA Minimum Price for Homecare from 1 April 2020, when NLW increased to £8.72 per hour, was calculated to be £20.69 per hour, based on actual provider costs in normal times. It does not account for the increased costs associated with the coronavirus (COVID-19) pandemic

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[9] Angel, C (2020) **A Minimum Price for Homecare April 2020 – March 2021**

which the Association estimates will add a further £3.95 to the costs of delivering an hour of care.

However, from the most recent ADASS Budget Survey Report, the median rate for an hour of council-funded care was £17.65, well below the Minimum Price calculated by UKHCA.[10]

From Figure 3, below, it can be seen that almost three-quarters of a homecare provider's costs are related to staff wages on-costs and mileage reimbursement.

Low fee rates from commissioning authorities compromise providers' ability to meet their statutory responsibilities and further increases in NLW, without a major injection of funds from central and local Government will increase the risk of providers experiencing insolvency or withdrawing from the homecare market.

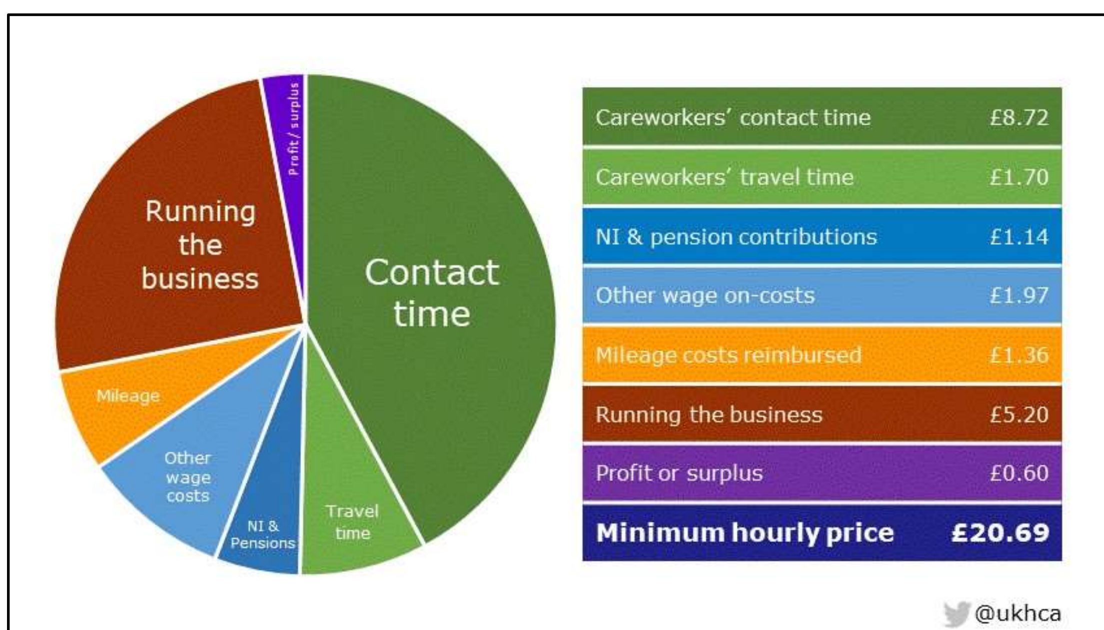

Figure 3: Calculation of UKHCA's Minimum Price for Homecare

Later in this paper we outline data obtained from UKHCA members and from independent research commissioned by the Association into the likely costs of delivering care following the onset of coronavirus (COVID-19).

With many councils paying less than £18.00 for an hour of care it is clear that, although councils in England recognise the pressures in the homecare

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[10] Association of Directors of Adult Social Care (2020) **ADASS Budget Survey 2020 and ADASS Coronavirus Survey Report** https://www.adass.org.uk/adass-budget-survey-2020-coronavirus-budgets

sector, they have not acted upon them by way of paying fees that cover providers' actual costs, which have increased significantly due to the coronavirus (COVID-19) pandemic.

Figure 4, below, shows the impact of the current NLW rate on costs of care. UKHCA has calculated that commissioners would need to pay an extra £0.91 per hour to cover the increased NLW. From data obtained from UKHCA members, many commissioners have offered no uplift in fees for over two years.

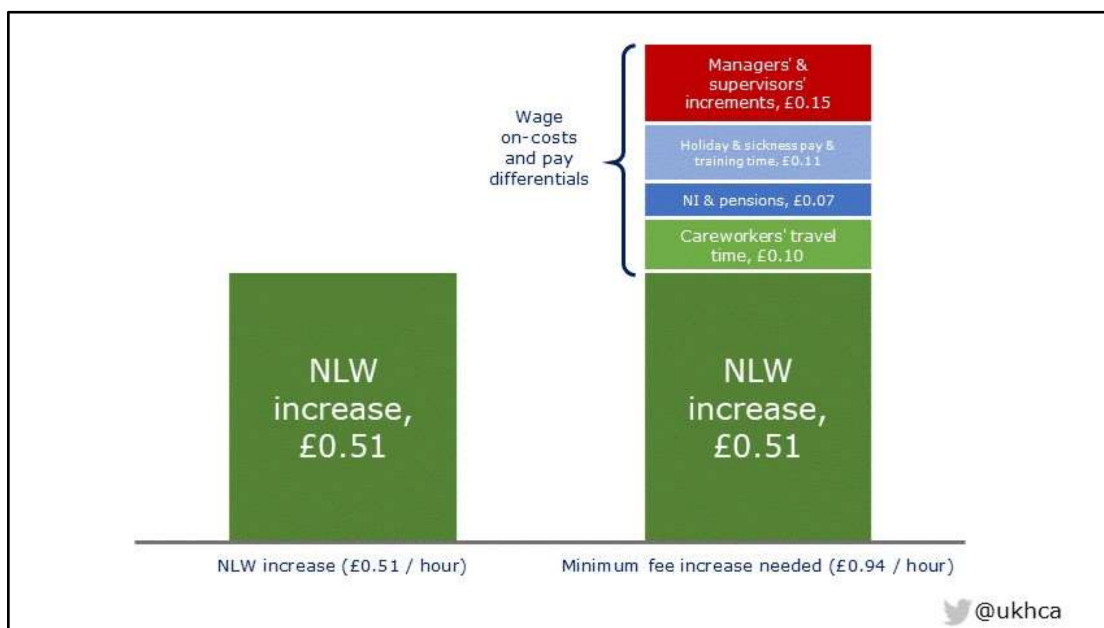

Figure 4. Impact of NLW increase (£0.51)

The UK, Scottish and London Living Wages

Although not within the remit of the Low Pay Commission's work, we also calculated the equivalent rates needed to meet the non-statutory UK and Scottish Living Wages and the London Living Wage.

The prices needed to cover these higher pay rates, including careworkers' travel time and higher costs of office-based staff are:

- UK Living Wage: £21.99 per hour
- Scottish Living Wage: £21.99 per hour
- London Living Wage: £25.11 per hour

3 Apart from the minimum wage, what other factors affect workers in low-paying sectors and occupations? Among other things, we are interested in evidence and views on: • The effect on workers of Universal Credit and other rules around benefits and tax. • The relationship between the minimum wage and weekly income. • Access to transport and the effects this has on working life.

As mentioned earlier in this paper, 50% of careworkers are on zero hours contracts. These appear to be attractive as they give both employers and careworkers flexibility around the hours that are worked and therefore greater flexibility around Universal Credit and other rules around benefits and tax.

Given the low rates paid by most councils and the failure of many to provide a meaningful uplift to meet even this year's increase in NLW the risk of non-compliance increases for providers who need to weigh compliance with minimum wage criteria and other statutory costs including VAT, business rates and Care Quality Commission (CQC) fees.

Unlike the situation in Scotland, where regulatory fees have been waived, England's regulator, CQC has continued to levy fees from homecare providers during the coronavirus pandemic despite not carrying out inspections and limiting its regulatory oversight to focused telephone interviews with providers. UKHCA has argued that these should be waived for homecare providers as they are for care homes.

We welcome the current suspension of VAT on Personal Protective Equipment, we should like to see this made permanent. We continue to urge Government to zero-rate VAT on regulated care services (referred to as 'Welfare Services' in HMRC publications). This would provide financial support to providers, who cannot currently reclaim the VAT on goods and services which they buy, but cannot charge VAT on services which they deliver.

Given the peripatetic nature of homecare many careworkers, particularly in urban areas are reliant on public transport. Movement restrictions imposed since March, on public transport, are likely to have had implications for many workers. Outside dense urban areas, the majority of homecare workers need to use a private vehicle in order to travel between service users' homes. The cost of insurance premiums for younger drivers often act as a deterrent to taking up employment in homecare.

The National Living Wage

4 What has been the impact of the NLW since April 2016? Our critical interest is in evidence on the NLW's effects on

employment, hours and earnings. We are also very interested in the NLW's effects in the following areas: • Prices and profits • Productivity • Pay structures and differentials • Wider benefits available to workers (including premium pay and non-pay benefits across the workforce) • Quality of work, including contract types, flexibility and work intensification • Progression and job moves • Training • Investment

UKHCA has consistently expressed both our support for the National Living Wage (NLW) and our concerns to the Commission that the NLW has evolved into a significant operational issue for the homecare sector. For providers in the statutory homecare sector there is continuous pressure exerted by Local Authorities on providers to reduce costs and make efficiency savings. This has not abated since our last submission to the Commission.

Local Authorities continue to pay rates well below the actual costs of providing care. As Local Authorities commission in excess of 70% of homecare across the UK there is, in effect, a monopsony market. Fee rates still rarely take into account payments for travel and 'down time' between assignments despite this being 'working time' for the purposes of the National Living Wage Regulations.

Increased costs related to the coronavirus (COVID-19) pandemic, not least the vastly increased costs of Personal Protective Equipment (PPE), have markedly increased pressures on providers in both the statutory and privately funded sectors of the homecare market.

To mitigate the increased financial pressures on homecare providers, central Government provided councils in England with an additional £3.2 billion in extra funding. The expectation was that a substantial proportion of this would be used to support social care providers. However, recent research conducted by UKHCA has shown that insufficient amounts of the additional Government funding have yet reached homecare providers.

Approximately 80% of the UK's homecare sector is made up of small businesses, with fewer than 50 employees. Some large homecare companies operate as franchise models which are also made up of small companies.

Decline in revenues and increased costs increase insolvency risks for the sector.

During the height of the Coronavirus pandemic and without additional financial support from their commissioners, UKHCA estimated that that most small companies would run into insolvency after 8 to 12 weeks if they

have one month's savings on hand to cover costs. Those with smaller reserves may face insolvency sooner.[11]

Multiple insolvencies, particularly happening simultaneously, would pose an immediate problem for citizens, care providers and local authorities during the COVID-19 emergency. Local authorities are responsible for safeguarding and sourcing alternative placements. In normal times, other providers have absorbed the capacity when companies have ceased trading. It is less likely they will be willing or able to do so in the middle of a pandemic, particularly if provider failure happens at scale.

In addition to putting up to 500,000 jobs at risk, multiple provider failure could also create longer-term structural risks to the care sector, as homecare capacity could substantially diminish.

UKHCA's Members' Survey: Local Authority Fee Rates

Since publication of UKHCA's Minimum Price for Homecare, in January 2020, coronavirus has had a major impact on the UK.

In order to assess the impact on homecare providers UKHCA surveyed its members in May 2020 and commissioned some independent research.

The resultant data set covered 131 out of 152 of Local Authorities in England and up to 7 April 2020, showed that the median fee rate for homecare being paid by councils for an hour of care was only £16.96 per hour, compared with a median for 2019/20 of £16.43 per hour.

This is substantially below the UKHCA Minimum Price for Homecare of £20.69 per hour**.** This is the amount we calculate to be needed, in normal times, for compliance with NLW, to meet other regulatory requirements, to operate in a financially sustainable way, and to generate a surplus of 3 per cent for investment.

UKHCA has estimated that it would cost the government an additional £1.5 billion each year, if every hour of state-funded homecare were to be paid at the UKHCA Minimum Price of £20.69 per hour. It is important to stress that this is based on the legal minimum wage, not on the higher pay rates we believe careworkers should receive to reflect their skill, experience, and responsibility. UKHCA's costing model indicates that for pay rates of as low

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[11] Townsen, Dr J (2020): UKHCA Blog **Homecare in the time of coronavirus** https://ukhcablog.com/blog/homecare-in-the-time-of-coronavirus/

as £12 per hour, councils would need to purchase homecare at a minimum of £28.50 per hour.

Very few Local Authorities pay rates even close to that figure.

Figure 5, below shows the full breakdown in costs from UKHCA's Minimum Price for Homecare for April 2020 – March 2021 referenced earlier in this paper.

Minimum price for homecare at the statutory National Living Wage (April 2020-March 2021)					Costs		
Careworker costs	Gross pay	Hourly rate for contact time	National Living Wage (April 2020-March 2021)		£8.72	£10.42	£14.89
		Careworkers' travel time	19.5%	of contact time	£1.70		
	NI & pension	Employer's National Insurance	8.00%	of gross pay	£0.83	£1.14	
		Pension contribution	3.00%	of gross pay	£0.31		
	Other wage related on-costs	Holiday pay	12.07%	of gross pay, NI & pension	£1.40	£1.97	
		Training time	1.73%	of gross pay, NI & pension	£0.20		
		Sickness pay	2.90%	of gross pay, NI & pension	£0.34		
		Notice & suspension pay	0.30%	of gross pay, NI & pension	£0.03		
	Travel costs	Mileage reimbursement	£0.35 3.89	per mile miles per hour of contact time	£1.36	£1.36	
Gross margin	Business costs	Management & supervisors	18.50%	of careworker costs	£2.75	£5.20	£5.80
		Staff recruitment	1.50%	of careworker costs	£0.22		
		Training and supervision	2.70%	of careworker costs	£0.40		
		Statutory registration fees	1.30%	of careworker costs	£0.19		
		Rent, rates and utilities	1.90%	of careworker costs	£0.28		
		IT & telephony	2.70%	of careworker costs	£0.40		
		PPE and consumables	0.70%	of careworker costs	£0.10		
		Stationery and postage	1.10%	of careworker costs	£0.16		
		Governance costs	3.20%	of careworker costs	£0.48		
		Other business overheads	1.50%	of careworker costs	£0.22		
	Profit	Profit / surplus	3.00%	of careworker costs & business costs	£0.60	£0.60	
Total price					£20.69	£20.69	£20.69

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Figure 4: Minimum Price for Homecare at Statutory National Living Wage

An independent analysis of provider costs, commissioned by UKHCA, estimates that costs due to COVID-19 have increased by nearly 25% against the median fee rate. For councils paying as little as £14.00 per hour, this represents a nearly 30% increase in costs.

Key drivers of rising costs, as highlighted earlier in this paper, are personal protective equipment (PPE) and staffing costs (sick pay, overtime), with other costs including transport, training, remote working and IT being collectively significant.

The extra costs equate to an estimated additional £3.95 per hour of homecare delivered.

Analysis of our initial data indicated that in the first 10 weeks outbreak the homecare sector would have seen £273 million in additional costs.

When providers approached councils to ask for financial help with increased costs due to COVID-19, our data showed that 37% responded positively and 36% responded negatively, with the remainder giving mixed responses; 8% did not respond at all.

Many of the councils who agreed to pay for some extra costs, or for planned care in advance, constructed burdensome bureaucratic audit processes for invoicing. Some also made clear that they intended to 'claw back' as much as possible later, potentially storing-up financial failures once emergency funding ends.

Councils are, themselves, facing huge financial pressures after years of austerity and have to balance their books. Extra costs for councils due to COVID-19 far exceed their income, even after additional central government funding.

The Local Government Association (LGA) and the Association of Directors of Adult Social Services (ADASS) issued guidance to Local Authorities on 13 March 2020 and 9 April 2020 aimed at ensuring care provider resilience during the coronavirus (COVID-19) pandemic.

They recommended the following:

- Increase in fee rates of 5 per cent to account for the rise in National Living Wage (NLW, which increased by 6.25 per cent, plus on-costs);
- Extra funds to assist with increased costs during COVID-19, of up to 10 per cent, to be reviewed after one month; and
- Advance payment on planned care, rather than payment in arrears on actual delivery, to assist with cash flow.

Despite this guidance, many of UKHCA's members have reported that insufficient amounts of this additional funding have reached homecare workers and their employers, who are delivering critical services to keep people safe and well at home. However, some councils have been more responsive and have offered payment on planned care and assistance with PPE but they appear to be divided on whether any support should be given to the self-funded care market.

The self-funded homecare market has long been essential, as Local Authority eligibility criteria are now so high that many people of only moderate means, who need care, have to pay for themselves. Without vital homecare, more people would have to sell their houses to pay for care homes and pressure on the NHS would further increase.

The income from self-funded homecare enables many providers, particularly small and medium enterprises (SMEs) who often deliver to a mix of state and self-funded clients, to remain financially viable, as many local authority fee rates do not cover their costs.

Despite the increased profile of the value of the homecare sector and careworkers themselves, in keeping people independent and out of hospital

or care homes as well as providing an extremely cost-effective care model, the continued low fee rates paid by councils and other costs such as VAT, business rates and Regulatory fees, impacts directly on care providers' ability to invest in their businesses or their workers.

Larger homecare providers tend to be highly dependent on Local Authority-funded care packages. Councils, as we have described throughout this paper have, as a result of central Government policies, seen their budgets constrained over the last few years.

However, as outlined earlier in this paper, approximately 80% of the UK's homecare sector is made up of small businesses, with fewer than 50 employees. Some large homecare companies operate as franchise models which are also made up of small companies.

We have already outlined that few councils pay more than the UKHCA's Minimum Price. The median rate is below £18.00 per hour. .

Even for privately-funded providers, decline in revenues and increased costs increase insolvency risks for the sector.

Despite an injection of an additional £3.2 billion to councils across England to provide additional support for increased costs associated with COVID-19 and despite ADASS and LGA recommending increased payments to providers of up to 10% many councils have failed to pass on much or any of the additional money. Those that have, have been variable in their approach, imposed a higher level of bureaucratic control or have been seeking mechanisms to 'claw-back' any monies paid after the pandemic is over.

For privately funded providers, cancellations and lack of referrals has squeezed operating costs and further increases in NLW, without an increase in income will therefore impact directly the solvency of businesses.

UKHCA's Members' Survey: Clinical Commissioning Groups (CCGs)

In addition to the survey on the fee rates paid by local Authorities, reported above, UKHCA also surveyed its members on the fee rates paid by Clinical Commissioning Groups (CCGs).

The responses, which covered 136 CCQ the data, to June 2020 were disheartening, not least the observation that 41% of CCGs had not increased their fee rates for over 2 years.

UKHCA's members reported no price consistency across the country so actual fee rates are not quoted here.

The results from the survey are given below:

- Out of 136 CCGs, responses were received covering 73 (53.7%).
- 37 (50.7%) of the 73 CCGs have failed to respond about a price uplift for 2020/21

- A further 7 (9.6%) have failed to respond to all but one of their providers

- 10 of the remaining 28 CCGs (13.7% of the 73) are stated to have offered 0%

- So, other than some, perhaps one-off packages, there have been no increases from 54 (74.0%) CCGs for which responses were received.

- Of the 19 CCGs reported as increasing prices for 2020, just one increased the price above the increase in NLW, the rest ranging from 1% to 6% with a mean increase of 3.75%

- 41% of the CCGs had not increased prices for more than 2 years

- On COVID-19 assistance, 32 CCGs are reported to have offered assistance. This represents 43.8% of the 73 for which responses were received,

As argued throughout this paper, the homecare sector is largely State-funded and it is disappointing that CCGs are not performing any better than Local Authorities in the fees paid to providers, making further increases in NLW, potentially unsustainable for providers and increasing risks of market instability.

ADASS Budget Summary

ADASS has recently published its annual budget summary and has also published assessment of the impact of coronavirus (COVID-19).[12]

ADASS has highlighted the significant impact of COVID-19 on local authorities, reporting that only 4% of councils are fully confident that their budget will be sufficient to meet their statutory duties, which include the provision of social care. The percentage of coucils fully confident in 2019 was 35%.

ADASS also points out that the risk of already fragile care markets failing has significantly heightened as a result of the impacts of COVID-19.

[12] Association of Directors of Adult Social Care (2020) **ADASS Budget Survey 2020 and ADASS Coronavirus Survey Report** https://www.adass.org.uk/adass-budget-survey-2020-coronavirus-budgets

5 To what extent has the NLW particularly affected certain occupations or industries, types of firms (small, large etc), regions or groups (for example women, ethnic minorities, migrant workers etc)

According to Skills for Care, around 84% of workers in homecare are female and the average age of workers was 43.[13] Changes to NLW will, therefore have a significant impact on women.

Skills for care has also highlighted that the nationality of the workforce in homecare was 83% British, 7% EU (non-British) and 9% non-EU. The Government's new immigration policy, unless careworkers are placed on the Shortage Occupations List will impact the migrant workforce as we have explained previously.

Live-in care and providers in London and the South of England employ a greater proportion of migrant workers so changes to the NLW will have a greater impact on them than, perhaps in other parts of the UK.

As outlined earlier in this paper, approximately 80% of the UK's homecare sector is made up of small businesses, with fewer than 50 employees. Some large homecare companies operate as franchise models which are also made up of small companies. With margins being squeezed ever more tightly, the ongoing impacts of COVID-1 and the obstinately low fee rates paid by councils, further increases in the NLW will affect a large number of small businesses in the sector

6 The Government has set a new remit for the NLW based on achieving a target of two-thirds of median earnings by 2024. Based on forecasts, our current central projection for the April 2024 NLW rate is £10.69, with a likely range of 30 pence above and below this figure. What are your views on this target and on the LPC's approach to this new remit?

As shown in Figure 4, the current NLW represents a £0.51 increase over the previous year but has added £0.91 to the costs of providing care.

Whilst we can see merit in the Government's remit for the NLW, we would argue that without a proper and sustainable funding settlement for council-funded care and a wider easing of business costs, providers will struggle to maintain compliance with NLW and this may result in insolvency and/or

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[13] Skills for Care Workforce Intelligence Summary **Domiciliary care services in the adult social care sector2018/19.** https://www.skillsforcare.org.uk/adult-social-care-workforce-data/Workforce-intelligence/documents/State-of-the-adult-social-care-sector/Summary-of-domiciliary-care-services-2019.pdf

withdrawal from the market, or the equally undesirable risk of non-compliance with Minimum Wage regulations.

We outline our suggestions for improving the resilience of the sector in our Additional Comments, which follow Question 19.

The ADASS Budget Survey has recommends national pay rates and increased funding for social care.

Given that many councils have offered little or no increases in their rates for homecare UKHCA has argued that any national rates should be based on the UKHCA's Minimum Price and that Government should consider direct funding of homecare providers, effectively by-passing councils.

Both Local Authority and privately-funded providers continue to be negatively affected by increased costs due to PPE, VAT, business rates and regulatory fees. Any further increases in NLW must be accompanied by other measures to ensure that the NLW remains affordable for providers.

As previously stated, without a more sustainable funding settlement across the sector there is a higher likelihood insolvency or withdrawal from the market and potentially increasing levels of unmet need in the client groups supported by homecare providers.

7 How will employers respond to the lowering of the NLW age threshold to 23?

Homecare employs a small proportion of workers in this age range but taken in conjunction with other increased, costs as argued throughout this paper, will put greater pressure on providers' ability to meet their obligations and may lead to insolvency or withdrawal or increasing risks of not being able to support people to remain in their own homes and increasing dependence on residential settings or NHS which, as we have seen during COVID-19 increases their risks of death or permanent disability.

8 What factors should we consider in recommending a date for reducing the NLW age threshold to 21?

We do not offer a response to this Question given the lower proportion of younger workers and the lack of marked pay differentials in the homecare sector.

9 At what level should the NLW be set from April 2021? Our current central projection for the on-course rate is £9.21, with a likely range of 6 pence above or below this figure.

As argued throughout this paper, further increases in NLW without a sustainable funding system across the sector is likely to see increased pressures on providers and Local Authorities increasing the likelihood of insolvency or withdrawal from the market and increasing levels on unmet need or increasing dependence on residential care or the NHS.

Young people

10 What do you think has been the effect of the minimum wage on young people and on their employment prospects?

We have seen no evidence that the minimum wage has increased recruitment of younger workers to the homecare sector.

Rates of pay in the independent homecare sector are still not such that they would be likely to attract younger workers. As highlighted earlier in this paper there has been no evidence of workers from the hospitality or retail sectors seeking redeployment into the homecare sector.

11 Lowering the NLW age threshold to 23 means the creation of a new 21-22 Year Old Rate, until the NLW age threshold is lowered again to 21. • What should be our approach to this rate? • To what extent will employers use the new 21-22 Year Old Rate when it is introduced next year? • At what level should it be set?

Homecare does not employ a high proportion of younger workers. Those that are employed tend to be paid at the same level as other colleagues. However, as highlighted earlier in this paper, further increases in wages, without a sustainable funding settlement increases the risks of insolvency or withdrawal from the market.

12 At what level should each of the other NMW youth rates (the 18-20 Year Old Rate and the 16-17 Year Old Rate) be set from April 2021? Apprentices In our 2019 report, we outlined the high levels of underpayment recorded for apprentices in the 2018-19 Apprentice Pay Survey. We believe this underpayment is mainly a consequence of employers not paying apprentices for their training hours. For this reason, we think some employers may be overstating the hourly rate they pay apprentices, because they

are not taking training hours fully into account. Annex 2 sets this out in more detail. In our 2019 Report, we looked at the coverage and usage of the Apprentice Rate. Younger apprentices (mainly 16-18 year olds) are more likely to be paid at or near the rate – around one in three are 'covered' by it. Older apprentices (especially those aged 21 or over) are less likely to be so, although many still earn below the relevant NMW rate for their age. In this way, employers still 'use' the rate even where they do not pay at the rate.

We have seen no evidence that the minimum wage has increased recruitment of younger workers to the homecare sector. Homecare is still considered to be a less attractive proposition when compared with the retail or hospitality sectors.

We have also not seen widespread use of apprenticeships in the front-line homecare workforce and there are no sufficiently granular data to show whether the apprenticeships currently being undertaken are in homecare. Our impression is that apprenticeships are more often used in the residential care sector.

13 As set out in the box above and in Annex 2 below, the evidence suggests that underpayment of apprentices is high and unpaid training hours are the central cause of this. What are your views on the extent of this problem and solutions to it?

As in our answer to Question 12, we have not seen wide use of apprenticeships in the front-line homecare workforce and there are no sufficiently granular data to show whether any apprenticeships in Adult Social Care are in homecare. Our impression is that apprenticeships are more often used in the residential care sector.

14 In response to feedback from a range of groups, one of the options we are considering is raising the Apprentice Rate so it aligns with the 16-17 Year Old Rate. The main groups affected by this would be younger apprentices – 16-18 year olds. What would be the effect of this change on the pay, provision and take-up of apprenticeship places, and training volume and quality for those apprentices affected?

As in our answers to Questions 12 and 13, we have not seen wide use of apprenticeships in the front-line homecare workforce and there are no sufficiently granular data to show whether any apprenticeships in Adult Social Care are in homecare. Our impression is that apprenticeships are more often used in the residential care sector.

15 For older apprentices, the level of the Apprentice Rate is less relevant. But there is evidence that some employers still 'use' the rate by paying their apprentices below the NMW. What effect do the Apprentice Rate and the other NMW rates have on apprenticeships for older (those aged 21 and over) apprentices? Please consider the pay, provision and take-up of apprenticeship places, and training volume and quality.

As in our previous answers, we have not seen wide use of apprenticeships in the front-line homecare workforce

16 Do you have any additional evidence on the effect of the Apprentice Rate and the impact of recent upratings? Compliance and enforcement

As in our previous answers, we have not seen wide use of apprenticeships in the front-line homecare workforce and therefore can offer no view on the effect of the Apprentice Rate or compliance and enforcement.

17 What issues are there with compliance with the minimum wage and what could be done to address these?

Compliance with the NLW/NMW is particularly challenging for those businesses reliant on council funding as commissioners do not base the fees they pay on a fully costed model of the actual costs of delivering care. As we have highlighted throughout this paper, councils are, on average paying less than £18.00 per hour.

The COVID-19 pandemic has exacerbated the issues around funding as evidence provided by UKHCA's members has shown that many councils have not provided any uplift in rates paid to providers to address this year's increase in NLW/NMW.

Without a substantial and sustainable funding settlement across the sector the fragility of the market will increase as will the risk of non-compliance with minimum wage criteria.

We have previously advised the Commission that we publish a "National Minimum Wage Toolkit" to help homecare providers comply with the National Minimum Wage Regulations, particularly in relation to the variable hours usually undertaken by members of our workforce. We are pleased to

confirm that we continue to keep this document updated and available without charge.[14]

18 What comments do you have on HMRC's enforcement work?

We have no direct experience of this but the impression we have from employers suggests that HMRC inspectors make exceptionally high demands for documentation and that the process is lengthy, often with long gaps between activities.

It has also been felt that HMRC do not always seem to understand how to interpret the Regulations within the context of homecare delivery.

19 What are your views on the Accommodation Offset? What difference, if any, have recent increases in the rate made to the provision of accommodation? If a worker in employer-provided accommodation, have the recent sharp increases led to any hardship?

As the accommodation offset affects few homecare providers, we have not offered a view on this question.

Additional UKHCA Observations

Local Authority fee rates continue to remain obstinately low.

The added pressures associated with managing the impact of coronavirus (COVID-19) have made the situation more fragile, particularly if current Government support is withdrawn or reduced.

In its State of Care report, published in October 2019, the Care Quality Commission (CQC) reported that unmet need continued to rise and that people had to 'chase care' in order to receive basic services.[15]

In its 2018 report CQC had warned that the continuing lack of a long-term funding solution for adult social care was having a damaging impact on the quality and quantity of available care. It stated that the failure to find a

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[14] United Kingdom Homecare Association (2020) **National Minimum Wage Toolkit** (Revised February 2020). https://www.ukhca.co.uk/downloads.aspx?ID=422#bk1

[15] Care Quality Commission (CQC): **The state of health care and adult social care in England 2018/19**, Published October 2019 https://www.cqc.org.uk/sites/default/files/20191015b_stateofcare1819_fullreport.pdf

consensus for a future funding model continued to drive instability in the sector and that there was an urgent need for Parliament and Government to make this a priority.

The fragility of the market was obvious before the onset of the coronavirus (COVID-19) pandemic which has placed even greater strain on the system.

Providers have been met with vastly increased costs for PPE combined with increasing numbers of cancelled visits and a lack of new referrals.

The latter issues are a direct result of the pandemic. A proportion of service users were unwilling to allow careworkers into their homes for fear of cross-infection, even when PPE is worn and many families, furloughed from work are taking on caring responsibilities for their loved-ones. As movement restrictions are lifted and people start to return to work there is no guarantee that demand for care will return to previous levels.

Councils looking to balance their budgets are also reassessing care packages and removing some packages from their contracts. In addition, the movement restrictions imposed on the country in March has also led to many social workers being unable to carry out assessments of clients' needs and resulting in fewer referrals to social care providers. Potentially, a lower volume of care packages will be available in the future which will increase the risk of market failure.

In its latest budget report, referenced earlier in this paper, ADASS calls for Government to share scenarios for a reform of adult social care, including the funding system as well as a 2-year, ring-fenced funding system to cover the additional costs of COVID-19 and to allow reform to be agreed, planned and implemented.

Further, ADASS argues that a new employment deal should be agreed with care staff including a workforce strategy, an adult social care minimum wage, enhanced training and development and career progression, recognition and regulation.

In its **State of Care** Report CQC has called for modern local services to be designed around people's needs that reflects society as it is now, not as it was in 1948. More and better community services will help stop people ending up in the wrong place for their care.

The current pandemic has highlighted the value adult social care provides to the country. In the case of homecare there have been lower rates of infection compared with NHS or care home settings and vastly fewer deaths.

UKHCA sees the current situation as an opportunity, at last, to value and reward homecare workers for the important work they do, not as an adjunct to NHS or institutional care but as a favoured model to maintain the dignity

and independence of people by allowing them to live healthily at home for as long as possible.

Over the last few years UKHCA has presented its view to the LPC that a fair and sustainable price for homecare should include the following:

- Cover workforce costs, including careworkers' travelling tie to ensure full compliance with the National Minimum Wage;

- Recognise wage expectations of local labour markets to secure a sufficient workforce to meet local demand;

- Cover the costs of regulation, supervision and training to meet quality and safety requirements;

- Ensure businesses receive a profit/surplus to maintain market stability and reinvest in services.

This year, given the pressures on local government and the nature of the current pandemic we call on central Government to:

- Mandate and fully fund, in a ring-fenced manner, a national minimum rate for homecare, calculated using the UKHCA's evidence-based model, which enables:

    - careworkers to be recognised with terms and conditions on a par with equivalent skills and experience in the NHS; and
    - providers to deliver high quality care meeting, or exceeding, regulatory requirements.

- Pay for additional costs incurred during COVID-19, particularly PPE and sick pay, regardless of the size of employer.

- Change the treatment of VAT from exempt to zero rated for social care, so that providers can recover costs.

- Exempt homecare providers from business rates to create parity with care homes, which are not requires to pay business rates.

- Consider payment of an emergency lump sum, directly to providers, based on a common formula, such as hours of homecare delivered per week.

- Offer business grants to small and medium enterprises to enable them to survive the challenges of COVID-19.

- Cover the costs of the Care Quality Commission to enable temporary suspension of regulatory fees paid by providers while CQC is performing roles other than inspection during the current pandemic.

Scotland has already done this and providers in Northern Ireland and Wales are not required to pay for the costs associated with regulation.

Conclusion

The National Minimum Wage has set consistent wage levels across the country and annual increases are logical and fair.

However, from data obtained from UKHCA's members and outlined earlier in this paper, commissioners of adult social care are continuing to underfund the true costs of care. From UKHCA's survey of members, we have found that of those commissioners who did offer an inflationary uplift this year, the range was from 2.95% to 4.3%. A substantial proportion of councils had provided no uplift for 2 years or more.

In its Budget Survey ADASS cites a median fee rate of £17.75 per hour. UKHCA's members reflected a median rate of £17.20 in England with around 10% of councils offering rates below £15 per hour.

Even before the start of the coronavirus (COVID-19) pandemic UKHCA had calculated a minimum price of £20.69 for delivering an hour of care. Taking into account increased costs associated with COVID, the minimum rate increased by a further £3.95 per hour.

The National Living Wage increased by 6.2% on 1 April 2020 but of those councils and CCGs who offered any uplift over last year's rates, the increases offered for this were almost half that. Providers will continue to struggle to meet the increased costs of NLW before taking any other costs into account.

If further increases to the NLW are to be made in the future, an equitable and sustainable price must be paid to homecare providers as part of a national funding settlement and workforce strategy.

We welcome the statements made by ADASS concerning national rates and a better deal for workers but these must be properly funded or else we risk increased market failure.

We again urge the LPC to recommend that central and devolved Government takes a more active role in funding and oversight of adult social care services.

We believe that effective regulatory oversight of commissioners should require councils to demonstrate that they have assessed that the prices they pay for care are consistent with employers' legal obligations, including payment of statutory minimum pay rates.

In previous years, the Low Pay Commission has repeatedly alerted central Government to the need to address the way councils' commissioning practices affect the pay and conditions of the social care workforce. At present, we have had unprecedented recognition of the valuable work of homecare providers and we should press Government to take effective action and ensure that an equitable and sustainable funding system is introduced and maintained.