Homecare Association

Secretary of State for Health and Social Care, Rt Hon Wes Streeting MP
Department of Health and Social Care
39 Victoria Street
London, SW1H 0EU

11 November 2024

Dear Secretary of State for Health and Social Care,

Impact of Autumn Budget on homecare services

The new Labour government has emphasised its manifesto commitment to supporting people in their communities and prioritising "home first." It has also made clear its determination to improve pay, and terms and conditions of employment for care professionals. We applaud these ambitions and are keen to support the government in fulfilling its promises.

In this spirit, we are writing to express grave concerns that the unfunded increase in employment costs announced in the Autumn Budget risk dangerous consequences for homecare providers, care workers and the people they support. We are worried Ministers may not fully appreciate the precarious position of homecare and the systemic failures underlying this.

Our calculations show the announced changes to the national minimum wage (NMW) and employers' national insurance contributions (NICs) add approximately **£2.04 per hour** to direct staff costs in homecare. Total direct staff costs become around £22.71 per hour. This is a **9.9% increase** in employment costs over 2024/25, before we account for inflation in other running costs. We estimate the sector needs overall fee rate increases of 9-10% just to maintain the current position. HMRC and others have given contradictory advice on whether the Employment Allowance applies to homecare providers. If it were to apply, it would reduce direct staff costs by 13p per hour. We provide relevant information and examples in Appendix 1.

Local authorities cannot meet this level of increase. The Association of Directors of Adult Social Services' Autumn Survey says 81% of councils are likely to overspend their adult social care budgets in 2024/25.[1] Directors plan to save £1.4 billion in 2025/26. While we acknowledge the announcement of £600 million in new grant funding for social care, this falls far short of requirements. Overall, we calculate we need an extra **£1.9 billion per year** for homecare alone to cover new increases and historic deficits.

Councils and NHS bodies purchase **79%** of homecare services.[2] Employment costs comprise around **70-75%** of total costs.[3] Employment costs can be over 90% of the total if fee rates are low. Unlike other business sectors, care providers serving the state-funded market cannot increase prices to cover rising costs. This is because councils and NHS bodies are monopsony purchasers and dictate prices.

Homecare Association research reveals only **1%** of public bodies are paying fee rates that enable compliance with the NMW and care regulations and ensure financial sustainability.[4]

Average margins in homecare declined sharply from a peak of 10.8% in 2012 to a low of 5.2% in 2019. This corresponded with increases in the NMW whilst the government squeezed council budgets. The average margin is now only 7.6%.[5] This masks high variation, with many providers struggling to break even.

In August 2024, we calculated a deficit of £1.08 billion to meet this year's NMW of £11.44 per hour. Our data showed only 6% of regular homecare contracts with local authorities in England had a fee increase that kept up with the NMW[6] after the NMW rose by 9.8% in April 2024. Now the Labour government is adding further high and unfunded costs to homecare providers. This risks devastation of an already fragile homecare sector. **The consequences will be harm to individuals; greater pressure on councils; higher demand for GP and other primary care services; and an increase in NHS waiting lists.**

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[1] https://www.adass.org.uk/documents/adass-autumn-survey-2024/
[2] https://go.laingbuisson.com/homecare6
[3] https://www.homecareassociation.org.uk/resource/homecare-association-publishes-minimum-price-for-homecare-2024-25.html
[4] https://www.homecareassociation.org.uk/resource/fee-rates-for-state-funded-homecare-2024-25.html
[5] https://go.laingbuisson.com/homecare6
[6] https://www.homecareassociation.org.uk/resource/fee-rates-for-state-funded-homecare-2024-25.html

As one member told us … *"our options are to walk away from some contracts… our current view is at least four contracts would be terminated in April 2025 - 8000 hours, 910 service users, 300 staff. Or, we don't pass on the full 77p uplift; we don't invest in the two new NHS services we have; we don't keep the pay differential across all roles??? As mentioned by others, this will only drive more providers further to operate "illegally" and things like travel time, NICs, and training will all be traded off to ensure viability."*

Providers serving the private-pay market are acutely aware of cost-of-living pressures for older people who pay for their own care. The asset threshold is so low that even those of modest means must pay for their care in full. If prices rise, many self-funders will reduce hours of care, adding to the risk of avoidable hospital admissions. This also increases the burden on unpaid carers.

Decades of underfunding by central government have led to unethical commissioning and purchase of homecare by councils and the NHS. Zero-hour commissioning at low fee rates leads to insecure zero-hour employment at low wage rates.

Successive governments, including the new Labour government, have driven public bodies to commission and purchase homecare in a way that creates the conditions for labour abuse and market instability. They have also failed to ensure effective regulation to protect the public.

This is a national scandal.

Unfunded increases of this size, when there is already a funding deficit of at least £1.08 billion in homecare, risk:

- More care visits being shortened from 30 minutes to 5 to 10 minutes, reducing quality and safety. This could increase harm to individuals and unplanned hospital admissions.
- Care workers receiving less than the NMW, which is already the case for too many because fee rates are too low.
- Salary thresholds for sponsored workers not being met, risking their welfare, and revocation of licences.
- Care workers receiving limited training or supervision, risking quality and safety.
- Continued poor pay and employment conditions, risking higher turnover and staff shortages as we face a difficult winter.

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- Providers handing contracts back, leaving local authorities to find alternative provision from a dwindling supply.
- Providers moving from regulated to unregulated care to reduce employment costs. This threatens quality and safety and erodes employment rights for care workers.
- Multiple small providers ceasing to trade, increasing market instability and unmet need.

Introducing new Employment Rights legislation on top of these budget measures, without addressing underlying funding issues, risks precipitating the collapse of homecare services, particularly in areas of higher deprivation.

If the Labour government is serious about improving care workers' pay, and terms and conditions of employment, it must address funding and commissioning of homecare.

Employers cannot reach an agreement on Fair Pay without a Fair Price for Care.

We call on the government to:

- Exempt homecare providers from changes to employers' national insurance contributions.
- Provide an immediate cash injection of **£1.9 billion** to cover the increased employment costs resulting from budget decisions and previous deficits.
- Ensure a multi-year funding settlement for social care to meet future demand and cover the full cost of care (estimated £18.4 billion needed by 2032/33).[7]
- Implement a National Contract for Care services that sets a minimum price for homecare. This will ensure public sector commissioners pay a fair price to cover fair pay and the full cost of quality care.

We look forward to your urgent response.

Yours sincerely,

Jane K. Townson

Dr Jane Townson OBE
Chief Executive

[7] https://www.health.org.uk/publications/long-reads/adult-social-care-funding-pressures

Status: We believe this letter is in the public interest and consequently we could release it as a public document.

Copies by email:

Chancellor of the Exchequer, Rt Hon Rachel Reeves MP
Deputy Prime Minister, Rt Hon Angela Rayner MP
Minister for Care, Stephen Kinnock MP
Chair of Health and Social Care Select Committee, Layla Moran MP
Director-General Adult Social Care DHSC, Michelle Dyson
Director, DHSC, Tom Surrey
Director for Adult Social Care – Strategy & Reform, DHSC, Tabitha Jay,
Director, DHSC, Claire Armstrong
Senior Policy Lead – Market Oversight, DHSC, Chris Pluck
Deputy Directors, Charging, Commissioning and Markets, Adult Social Care Strategy, DHSC, Lindsey Craike and Megan Bradish
Director of Labour Market Enforcement, Department for Business and Trade, Margaret Beels OBE
Director of Employment Rights, Department for Business and Trade, Michael Warren
Head of Adult Social Care, Primary Care and Prevention, HM Treasury, Danny Slater
Head of Adult Social Care, HM Treasury, Laurence Wooldridge
Jo Mundie, Head of Adult Social Care Policy, Care and Reform Division, Local Government Finance, Department of Housing, Communities and Local Government
James Bullion, Chief Inspector Adult Social Care and Integrated Care Systems
Chris Day, Director of Engagement, Care Quality Commission
Directors of Adult Social Care Improvement, Partners in Care and Health (PCH), LGA and ADASS, Simon Williams and Hazel Summers
President of ADASS, Melanie Williams
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Appendix 1: Homecare sector – structure, income, costs, margins, and deficits

Over 85% of homecare providers are SMEs with fewer than 50 employees

Skills for Care data show there are 740,000 jobs in homecare in England, more than in care homes.[8] In March 2024, there were 10,850 non-residential PAYE employers, with almost 14,000 registered locations. Added to this are 123,000 jobs in unregulated homecare.

The homecare market is highly fragmented. Data from industry analysts, LaingBuisson, show the ten largest providers each have only 1% to 3% market share (Table 1)[9]. Over **85%** of homecare providers are SMEs with fewer than **50** employees. They do not benefit from economies of scale and lack financial resilience.

Table 1: Top ten homecare and supported living providers by revenue and market share

Operator	Principal Activity	Estimated annual revenue from homecare and supported living services in financial year 2022/23	Market share
		£ million	%
City & County Healthcare	Homecare	350	2.9%
Lifeways Group	Supported Living	227	1.9%
Bluebird Care (franchisor)	Homecare	223	1.8%
Home Instead Senior Care (franchisor)	Homecare	210	1.7%
Cera Care	Homecare	200	1.7%
Dimensions	Supported Living	194	1.6%
Clece Care Services	Homecare	180	1.5%
CareMark (Franchisor)	Homecare	130	1.1%
Community Integrated Care	Adult specialist	130	1.1%
Helping Hands	Homecare	128	1.1%
Other providers		10,108	83.7%
UK TOTAL		12,081	100%

Source: LaingBuisson

[8] https://www.skillsforcare.org.uk/Adult-Social-Care-Workforce-Data/Workforce-intelligence/documents/State-of-the-adult-social-care-sector/The-state-of-the-adult-social-care-sector-and-workforce-in-England-2024.pdf

[9] https://go.laingbuisson.com/homecare6

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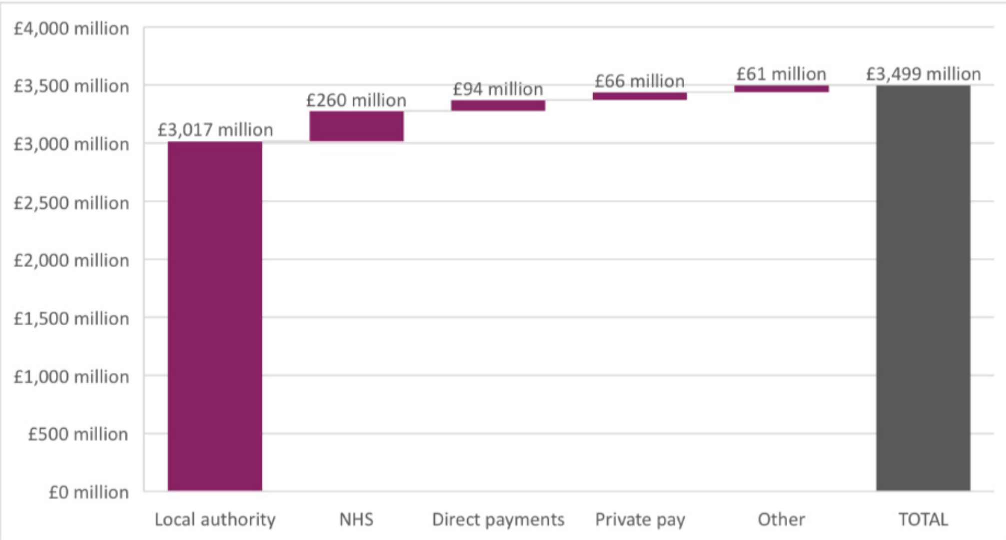
Councils and the NHS purchase 79% of homecare services, most at fee rates which are too low

Data from Laing Buisson show that councils and the NHS purchase **79%** of homecare and **96%** of supported living services (Figures 1 and 2)[10].

Figure 1: Sources of funding for homecare providers, England 2022/23

Source: LaingBuisson

Figure 2: Sources of funding for supported living providers, England 2022/23



Source: LaingBuisson

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[10] https://go.laingbuisson.com/homecare6

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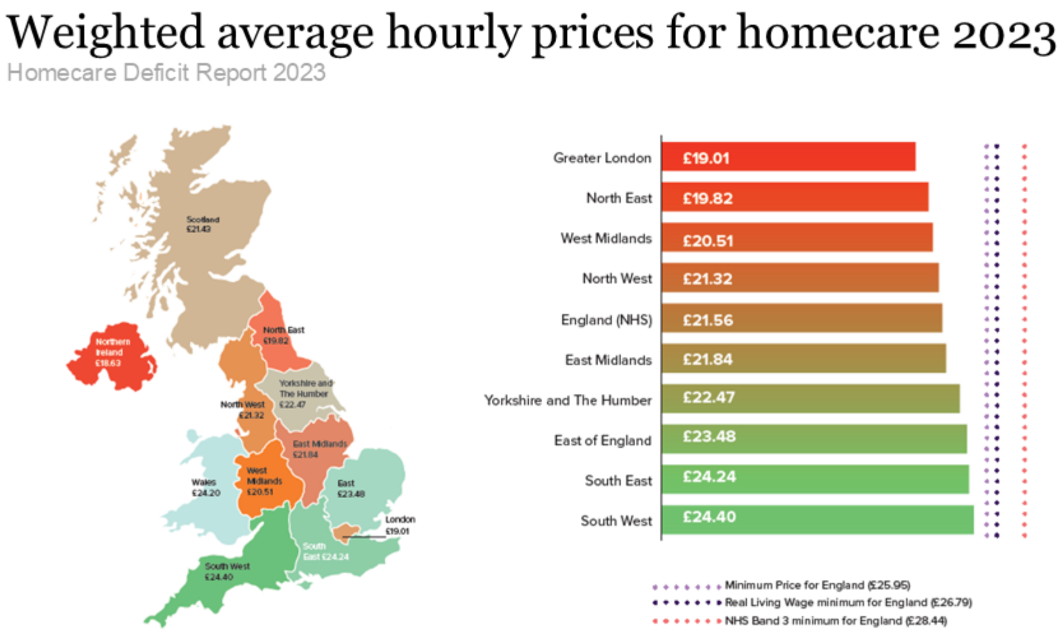
Homecare Association research conducted in 2023 showed only 5% of public bodies across the UK were paying fee rates which enabled compliance with minimum wage legislation and care regulations.[11.] 18 public bodies were buying homecare at rates below the amount needed to cover direct staff costs at the then minimum wage, leaving less than nothing to contribute to other running costs. Direct staff costs include hourly wage, statutory pension, employers' national insurance, holiday and sick pay, average travel time and mileage.

Our research showed how average fees mask significant regional variation. (Figure 3).

Figure 3: Average fee rates for homecare in 2023 by region



The Care Quality Commission reported that, for much of 2023/24, the North East and Yorkshire region had the highest proportion of delayed discharges from acute hospitals due to waiting for home-based care. The North East region also had the fewest homecare services per 100,000 population of older people.[12] This suggests a lack of investment in homecare is contributing to poor NHS performance.

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[11] https://www.homecareassociation.org.uk/resource/the-homecare-deficit-2023-pdf.html [12] https://www.cqc.org.uk/publications/major-report/state-care/2023-2024

In August 2024, we published further research investigating fee rates for homecare after the minimum wage increased to £11.44 per hour on 1 April 2024.[13] Only 1% of public bodies were paying the minimum fee rate we calculate to be needed to enable compliance with the minimum wage and care regulations and to ensure sustainability of services (Figure 4). Our data showed only 6% of regular homecare contracts with local authorities in England had a fee increase that kept up with the NMW[14] despite the increase in NMW to £11.44 per hour. We estimated a £1.08 billion deficit to cover costs of the 9.8% increase in the NMW for homecare alone.

Figure 4: Average fee rates for homecare in June 2024

[13] https://www.homecareassociation.org.uk/resource/fee-rates-for-state-funded-homecare-2024-25.html

[14] https://www.homecareassociation.org.uk/resource/fee-rates-for-state-funded-homecare-2024-25.html

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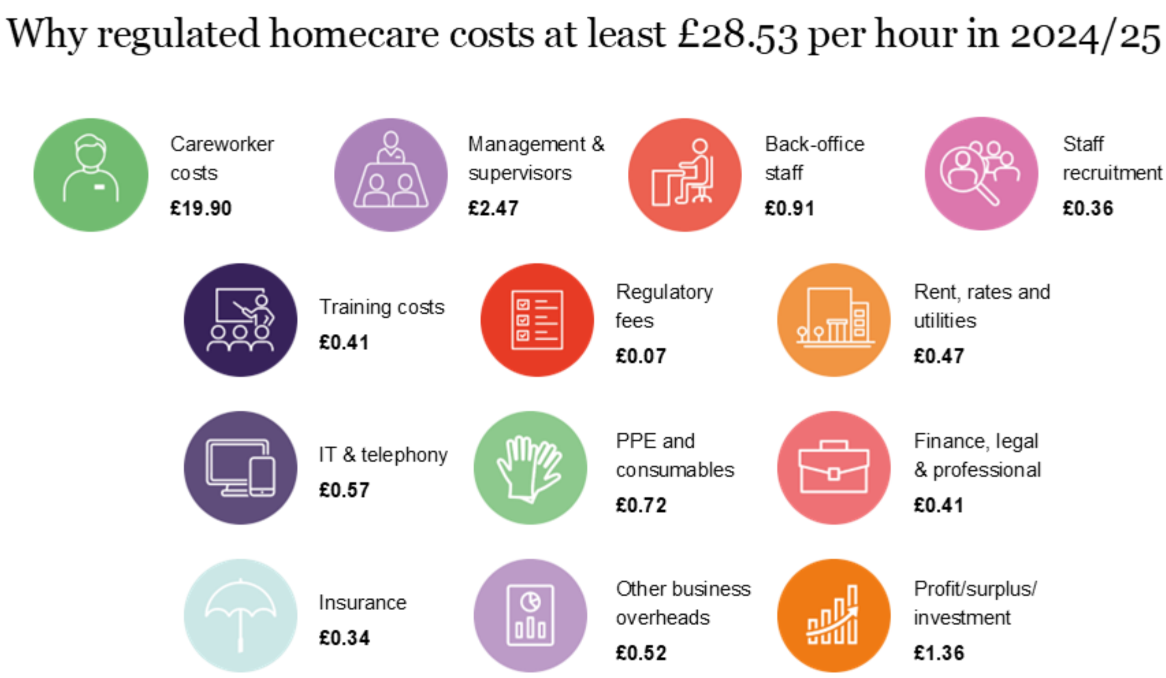
Employment costs in homecare make up 70-75% of total costs

The Homecare Association's Minimum Price for Homecare details the costs of homecare delivery.[15] Typically, **70-75%** of costs of homecare delivery are staffing (Figure 5). Employment costs can be over 90% of the total if fee rates are low.

Figure 5: Costs of homecare delivery



Unlike other business sectors, care providers serving the state-funded market cannot increase prices to cover rising costs. This is because councils and NHS bodies are monopsony purchasers and dictate prices.

Providers serving the private-pay market are acutely aware of cost-of-living pressures on older people who pay for their own care. The asset threshold is so low that even those of modest means must pay for their care in full. If prices rise, many will reduce hours of care, adding to the risk of avoidable hospital admissions.

[15] https://www.homecareassociation.org.uk/resource/homecare-association-publishes-minimum-price-for-homecare-2024-25.html

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Many homecare providers are struggling with wafer-thin margins

Data from LaingBuisson show profitability of homecare and supported living providers is an average of only **7.6%** (Figure 6)[16]. Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) margins fell sharply during the years of austerity, as cash-strapped local authorities held fee rates down. EBITDA margins have recovered in recent years – though not to the peak recorded for company financial periods ending in 2011 and 2012.

The average margin masks high variation. Many providers serving the state-funded market are struggling to stay afloat. Only a minority focused solely on the private-pay market are in a more resilient position.

Figure 6: EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) margins posted by homecare and supported living groups, UK, company financial years ending 2009 – 2023

Source: Statutory accounts of companies large enough to post profit and loss
[1] EBITDA (Earnings Before Tax, Interest, Depreciation and Amortisation of goodwill..
[2] Homecare groups exclude those classified as Complex Care Groups, which offer typically nurse-led homecare services funded by the NHS

[16] https://go.laingbuisson.com/homecare6

Cash-strapped councils are cutting costs and favouring providers willing to work at unsustainable fee rates regardless of quality

Most councils are cutting costs because they are struggling to balance their budgets. Some are reporting large deficits. The approaches councils take to save money include:

- Increasing eligibility criteria to reduce the care they must pay for.
- Delaying assessments until people deteriorate and end up in hospital, so the NHS pays rather than councils.
- Placing people in care homes rather than supporting them at home because people must sell their houses to pay for care in care homes, reducing costs for councils.
- Zero-hour commissioning and purchase of homecare for contact time only. If a person goes into hospital, for example, councils and the NHS stop paying providers. This means providers cannot pay care workers when the people they support go into hospital.
- Offering fee rates which are too low to cover the costs of compliance with minimum wage regulations, deliver quality care and remain viable.
- Exhorting providers to bid at lower and lower fee rates to win work, favouring those willing to accept low fees regardless of quality.
- Terminating lead provider contracts with agreed fee rates before the agreed contract term has ended and shifting to framework contracts where the lowest bidder wins. This means providers who won contracts with secure hours and income for several years must now bid for every hour at the lowest price.
- Encouraging people who need care and support to take direct payments at low fee rates and use unregulated care. This is cheaper to deliver because there are no regulatory requirements, such as training or record-keeping. This means there is no oversight of quality and safety.
- Encouraging individual care workers to claim they are "self-employed," which reduces administrative burden and costs for all parties. This means these individual care workers have no employment rights. They do not receive a pension contribution, holiday pay, sick pay, or travel time. If they want training, they must source and pay for it themselves. It is unlikely many individual care workers would meet HMRC's tests for self-employment because of the requirements of the Care Act 2014. This puts vulnerable older and disabled people at risk of historic tax liabilities if an employment tribunal later considered the worker to be an employee. Anecdotally, we hear "cash-in-

hand" payments are common in the unregulated market, creating potential risks of tax avoidance and benefit fraud.

Zero-hour commissioning of homecare at low fee rates leads to insecure zero-hour employment at low pay rates.

In many places, fee rates are so low it is unlikely providers can comply with minimum wage regulations, care regulations and contract terms simultaneously.

None of the regulators – HMRC, the Care Quality Commission and UK Visas and Immigration – appear willing or able to check compliance at scale. Many councils stopped monitoring contract and quality compliance years ago. Hyper-fragmentation of the homecare market has further reduced the ability of commissioners and regulators to assess quality and compliance.

Underfunding of homecare by successive governments has driven unethical approaches to commissioning and purchase of homecare. This has led to poor pay, and terms and conditions of employment and an increased risk of unsafe and poor-quality care.

Successive governments, including the new Labour government, have allowed public bodies to commission and purchase homecare at rates that create the conditions for labour abuse, and failed to ensure effective regulation.

This is a national scandal.

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Appendix 2: Examples from providers on what impact Budget measures will have on them

Since the Budget on 30 October 2024, we have been inundated with messages from members sharing their concerns about the impact of these measures. They are seriously worried about the combined impact of the National Insurance changes and National Living Wage increase and how they will manage these alongside the systemic problems we have outlined in our letter.

Below, we share some anonymised examples from providers about their concerns.

Comments from a small provider

The NICs threshold cost from £9,100 to £5,000 means employers will pay 15% NICs on an additional £4,100 of each employee's earnings, which alone equates to an extra **£615 per employee annually** for those earning above the previous threshold of £9,100.

*Per **100 employees = £61,500 per year**.*

Example salary: for an employee earning £30,000 annually, the combined cost impact of the NIC rate increase to 15% and the threshold reduction of £5,000 will result in an additional **£865.80 per year** per employee. This amount accounts for both the raised NIC rate, and the expanded portion of earnings subject to NIC due to the lower threshold.

*Per **100 employees earning £30,000 each** = **£86,580 per year**.*

Meanwhile, Introductory Agencies, or those who trade with falsely self-employed staff, have positioned themselves as exempt. Self-employment with personal care is unlikely to meet the criteria to be compliant with HMRC, and only because of the payment method does it avoid regulation. This means the providers with 'self-employed staff' have no accountability for continuity of service when the PA goes sick, no stressed coordinators every Friday afternoon, no worries about resignations, no company NICs, holiday pay, sick pay, M/PAT pay… it's blatant tax avoidance at a frighteningly apparent and plain-sight level.

The unintended consequence of the NICs change will be an increase in Direct Payments for vulnerable people (which, in my view, is the state pushing the taxavoiding economy), an increase in off-payroll workers, and, in light of the Sponsorship exploitations, an increase in undocumented workers (Sponsored who work off-payroll / falsely self-employed).

If we apply the 6.7% NLW raise and then apply the NICs, it works out to be **£2,624.76** per employee, but this figure should be treated with caution as there is no mitigation for any potential inflation charge rates.

Full working out:

Calculations on £30k salary example:

Employee Annual Salary: £30,000

Current NIC Threshold: £9,100

New NIC Threshold: £5,000

Current Employer NIC Rate: 13.8%

New Employer NIC Rate: 15%

Current NIC Cost

Subtract the NIC threshold from the salary: £30,000 - £9,100 = £20,900

Calculate NICs at the current rate of 13.8%: 20,900 × 0.138 = £2,884.20

So, the current annual NIC cost per employee is **£2,884.20**.

New NIC Cost with Raised Rate and Lower Threshold

Subtract the new threshold from the salary: £30,000 - £5,000 = £25,000

Apply the new NIC rate of 15%: 25,000 × 0.15 = £3,750.00

The new annual NIC cost per employee will be **£3,750.00**.

Additional Cost

Subtract the current NIC cost from the new NIC cost to find the total increase due to both changes:

Total Additional Cost: £3,750.00 - £2,884.20 = **£865.80**

Calculations from NLW

Looking at the rise with NLW but without mitigating with any percentage rises from Local Authorities and Private funders:

Current National Living Wage (NLW): £11.44 per hour

NLW Increase Rate: 6.7%

Annual Hours (Full-Time): 2,080 hours (40 hours/week * 52 weeks)

Current NIC Rate: 13.8%

New NIC Rate (from April 2025): 15%

Current NIC Threshold: £9,100

New NIC Threshold: £5,000

Calculate New NLW and Salary Increase

New NLW after a 6.7% increase: £11.44 × 1.067 = £12.20 per hour

Annual Salary Before NLW Increase: £11.44 × 2,080 = £23,795.20 per year

Annual Salary After NLW Increase: £12.20 × 2,080 = £25,376.00 per year

Salary Increase Per Employee: £25,376.00 − £23,795.20 = **£1,580.80 Calculate NIC**

Increase Due to Salary Raise and Rate Changes

Current NIC Cost (at 13.8% rate above £9,100 threshold): (23,795.20 − 9,100) × 0.138 = £2,034.75

New NIC Cost (at 15% rate above £5,000 threshold): (25,376.00 − 5,000) × 0.15 = £3,080.81

Additional NIC Cost Due to Salary and Rate Changes: £3,080.81 − £2,034.75 = **£1,046.06**

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Total Additional Cost Per Employee

Combining the salary increase and the additional NIC cost: £1,580.80 + £1,046.06 = **£2,624.76**

On top of this, the way the benefits system interacts with the care system means some care workers avoid exceeding 16 hours of work per week. Anyone on benefits doing 16 hours per week and earning £11.44 receives £9,518 per year, just above the threshold. Providers must consider the number of staff working fewer than 16 hours per week, but more than 8.4 hours per week, who will be caught by the annual wage threshold drop from £9,100 to £5,000. For those employees, the marginal NI cost will increase by 15%.

Comments from a larger homecare provider

We have been looking at the wider impact and the biggest single impact is the lowering of the NIC threshold.

As we've mentioned before, there has been quite a shift in the hours per carer pre and post COVID-19, so we wanted to ensure we were using current numbers. Having run the report, it's interesting to see how the hours break down now looks and therefore the impact of the "15%" increase.

Hours per week		*FY24*	*FY25*
1%	*Staff under 8 hours*	*£0.00*	*£0.00*
17%	*Staff between 8 but less than 15 hours*	*£0.00*	*£721,768.32*
82%	*Staff over 15 hours*	*£6,820,242.62*	*£7,783,972.56*
		£6,820,242.62	*£8,505,740.88*
			£1,685,498

Likewise, with the NLW increase, although "only" 6.73% and lower than last years, it is significantly more than the local authorities had predicted. ***I have already had five high-level conversations with Directors of Adult Social Services and they cannot even cover that, never mind the NIC increase.***

NLW impact with keeping the differential across staff bands is ***£5,653,200.***

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So over £7.4m impact just to standstill, which equates to over 7% fee uplifts as an average– never going to happen.

Options then are to walk away from some contracts. Current view is at least 4 contracts would be terminated in April 2025 - 8000 hours, 910 service users, 300 staff.

Or

We don't pass on the full 77p uplift, we don't invest in the 2 new NHS services we have, we don't keep the pay differential across all roles???

As mentioned by others, this will only drive more providers to operate "illegally" and things like travel time, NIC, and training will all be traded off to ensure viability".

-END-

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