Getting the price right: Calculating the cost of homecare in 2019

Colin Angel, Policy Director
United Kingdom Homecare Association

This presentation will show you:

- Why the right price is important for both councils and providers;
- The impact of prices on homecare market stability;
- How the minimum price for homecare is calculated;
- Some of the important issues which affect the price of homecare.

There are links to handouts and materials that you may find helpful at the end of the presentation.

You can also watch a recording of the webinar and share with your colleagues by visiting: www.ukhca.co.uk/pricewebinar

Local authorities have been operating in the context of year-on-year public spending cuts while still facing increasing demand for care services, to the point where social care is usually, now, a council's largest area of spend.

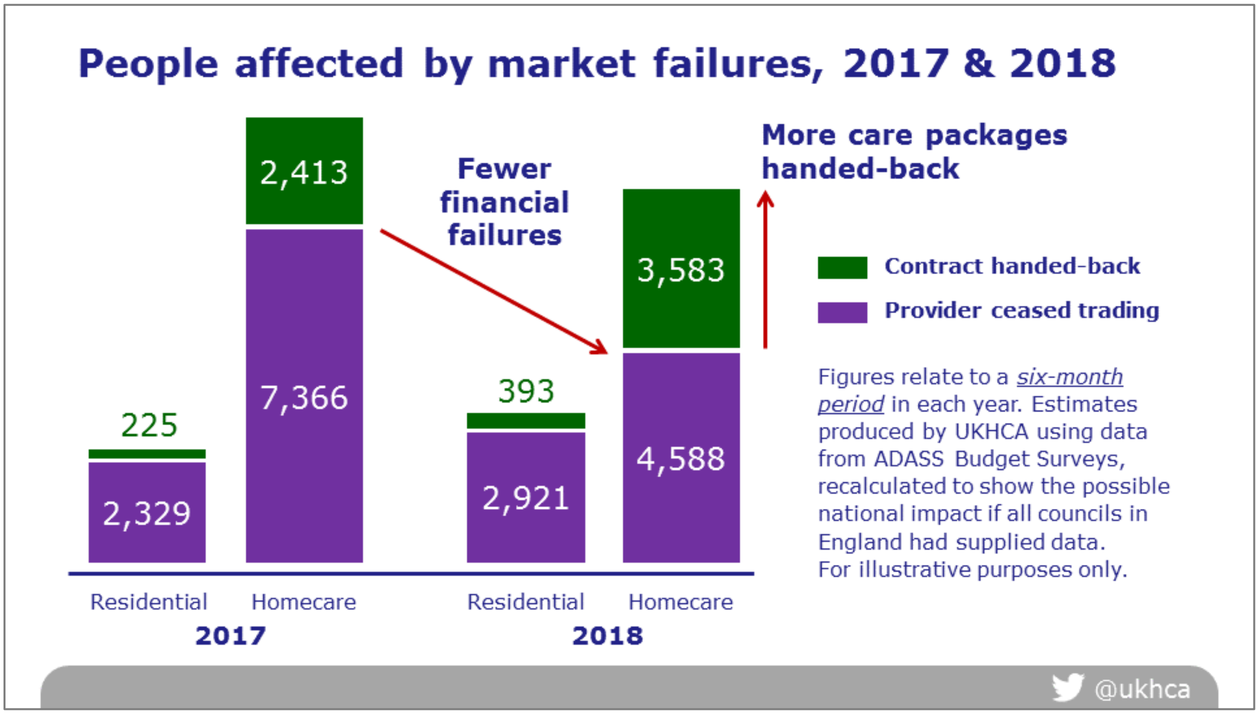
Councils in England have new market shaping responsibilities as a result of the Care Act 2014 (see: www.gov.uk/government/publications/care-act-statutory-guidance/care-and-support-statutory-guidance#chapter-4).

At the same time, independent and voluntary sector providers are, reluctantly, increasingly having to hand back contracts to councils where:

- Contracts have ceased to be financially viable; or
- Where the provider chooses to exit the state funded market; or
- The provider chooses to withdraw from the homecare sector entirely.

Tender exercises may not be attracting bids from the anticipated bidders, including established local businesses, while council's tender processes are increasingly subject to legal challenge.

A number of councils have political aspirations that careworkers should receive the (voluntary) Living Wage and/or guaranteed living hours contracts. Both of these add additional costs which will need to be reflected in the prices paid to providers in order to be delivered.



Providers withdraw from state-funded services for a variety of reasons, not all of them connected to the price paid for care.

However, a like-for-like comparison of the ADASS Budget Surveys for 2017 and 2018 highlights the number of people affected by providers withdrawing from the state-funded market in England over a *six-month* period in both years.

The figures suggest that:

- Fewer people were affected by their providers going out of business in 2018; *however:*
- More packages of care were handed-back by the provider in 2018;
- More than twice as many people were affected by withdrawals in the homecare market as in residential care in 2018.

If these figures are representative of the entire state-funded care market in England, then in 2018 over 16,000 people using homecare services may have been affected by providers exiting the market. This is likely to have:

- Disrupted continuity of people's homecare service; and
- Created a significant additional workload for councils, who have to re-procure packages of care.

The fees which providers receive from councils have a direct effect on the terms and conditions that employers can offer to their workforce:

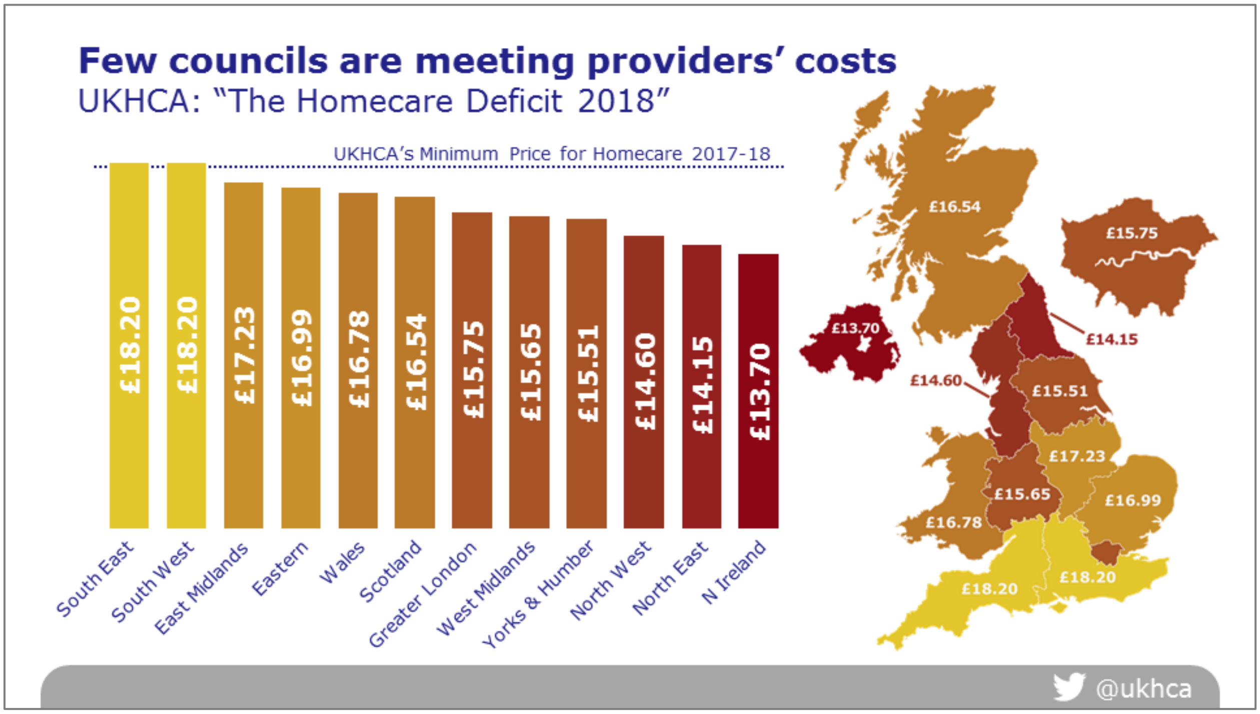
- The homecare workers are widely recognised for working in a relatively low paid sector;
- The fees that councils pay must enable careworkers' travel time to be paid and their mileage costs reimbursed;
- Careworkers should not be required to deliver rushed or undignified care in order to keep costs down.

Care providers are also trying to recruit and retain careworkers in competition with:

- Other local businesses (eg. retail sector or hospitality);
- Other health and social care employers (including primary care trusts);
- With people who are funding their own care (who are often willing to pay higher rates than the local council will).

Providers also have:

- A commercial responsibility to their owners and investors to remain in business;
- A legal responsibility to comply with the National Minimum Wage Regulations.



UKHCA's report "The Homecare Deficit 2018" used freedom of information legislation to obtain the average prices councils (and Northern Ireland's health and social care trusts) paid for homecare across the UK.

The report compares what councils paid to the minimum price that homecare providers needed to cover their costs to a level which met compliance with the statutory National Minimum Wage, and the regulatory requirements of delivering homecare.

The graph shows a variation between different government regions. Indeed, there is a significant variation even between authorities in the same region.

UKHCA believes the map illustrates the potential for financial failure is significantly higher in certain parts of the country.

The full report is available from: www.ukhca.co.uk/downloads.aspx?ID=589

Care and Support Statutory Guidance

Paragraph 4.31 (applies in England)

Contract terms, conditions and fee levels should provide the delivery of the agreed care packages at agreed quality of care. This should:

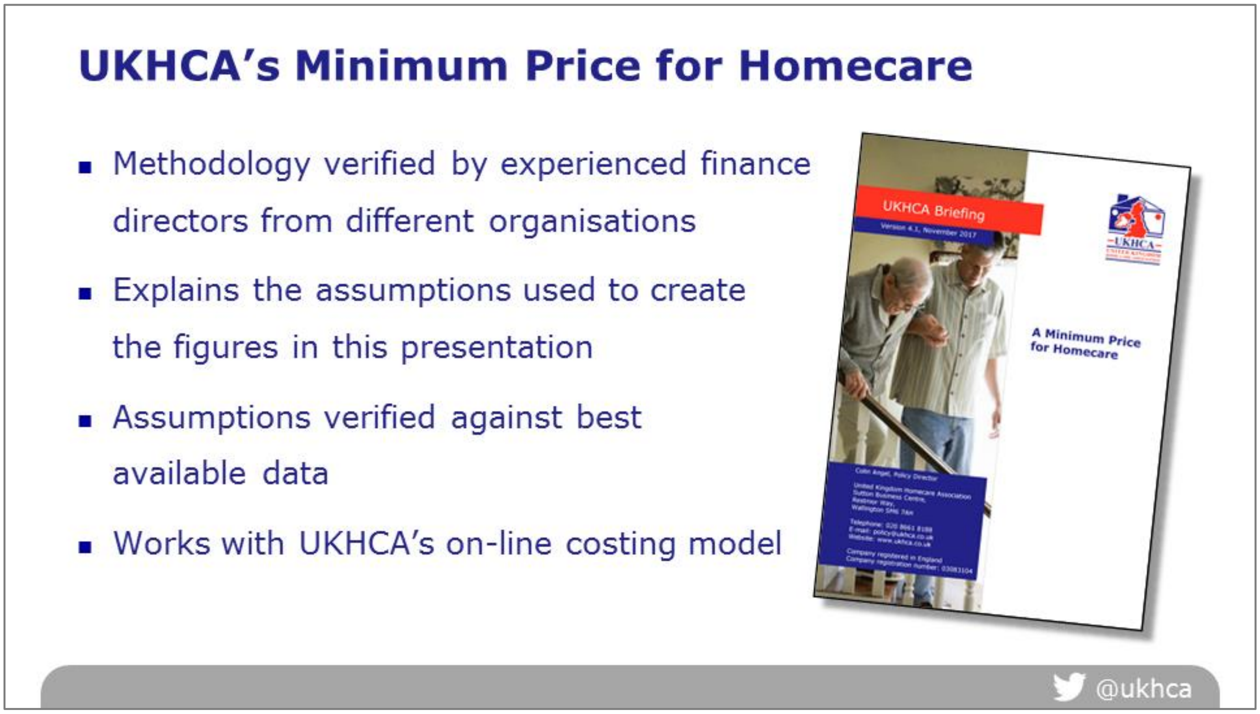
- Allow the provider to meet at least the **National Minimum Wage**
- Provide effective **training and development** of staff
- Allow **retention of staff**
- Encourage **innovation and improvement**
- Provide a **rate of return**, so that a sufficient pool of providers remains sustainable

@ukhca

The Care Act 2014 imposes new market shaping responsibilities on local authorities in England, including:

> "4.31 When commissioning services, local authorities should assure themselves and have evidence that contract terms, conditions and fee levels for care and support services are appropriate to provide the delivery of the agreed care packages with agreed quality of care. This should support and promote the wellbeing of people who receive care and support, and allow for the service provider ability to meet statutory obligations to pay at least the national minimum wage and provide effective training and development of staff. It should also allow retention of staff commensurate with delivering services to the agreed quality, and encourage innovation and improvement. Local authorities should have regard to guidance on minimum fee levels necessary to provide this assurance, taking account of the local economic environment. This assurance should understand that reasonable fee levels allow for a reasonable rate of return by independent providers that is sufficient to allow the overall pool of efficient providers to remain sustainable in the long term. The following tools may be helpful as examples of possible approaches:
>
> - UKHCA Minimum Price for Homecare
> - Laing and Buisson toolkit to understand fair price for residential care
> - ADASS paying for care calculator"

See: www.gov.uk/government/publications/care-act-statutory-guidance/care-and-support-statutory-guidance#chapter-4



UKHCA produces a regularly updated briefing ("A Minimum Price for Homecare") to provide councils with a clear explanation of how homecare services are costed:

See: www.ukhca.co.uk/downloads.aspx?ID=434

We developed our methodology with experienced finance directors from different sized homecare provider organisations.

The briefing explains all the assumptions that are used to create the figures that are outlined in this presentation.

UKHCA's Minimum Price for Homecare also works with UKHCA's online costing model, which is available from our website:

See: www.ukhca.co.uk/CostingModel

UKHCA's Minimum Price for Homecare

Significant updates in for April 2019

Statutory Minimum Wage
National Living Wage: +38p / hour
National Minimum Wage: +32p / hour

Scottish, UK & London Living Wages
Outside London: +25p / hour
London: +35p / hour

Workplace pensions
Employers' minimum contribution
increases from 2% to 3% of gross pay

Careworkers' travel time
Our assumption has *increased* from
11.4 to 11.7 minutes per hour of care

Careworkers' mileage
Our assumption has *decreased* from
4.0 to 3.89 miles per hour of care

@ukhca

UKHCA is committed to keeping our Minimum Price for Homecare up-to-date with the best available data from the homecare sector, taking into account newly arising costs. Significant changes for 2019 made in version 6.0 are:

For UKHCA's minimum price based on the statutory minimum wages:

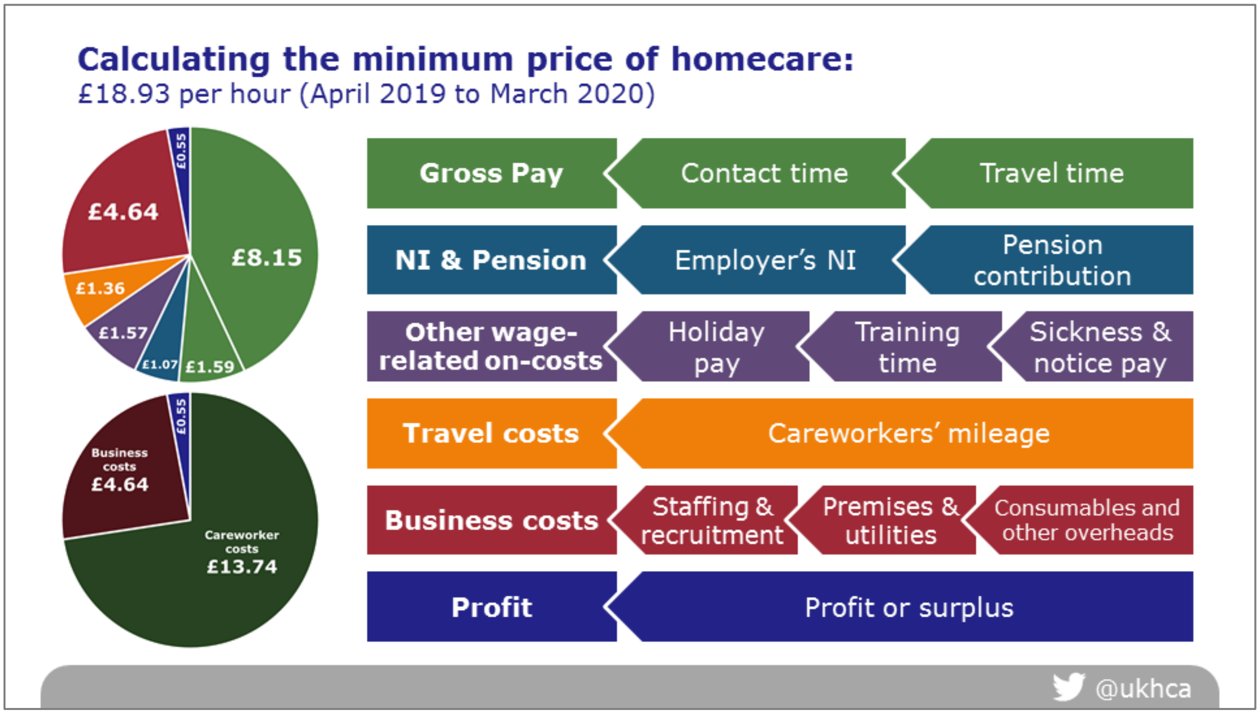
- The National Living Wage increases by 38p, from £7.83 to £8.21 per hour
- The National Minimum Wage increases by 32p, from £7.38 to £7.70 per hour

For UKHCA's minimum price based on the voluntary living wages:

- The UK Living Wage has increased by 25p, from from £8.75 to £9.00
- The Scottish Living Wage has increased by 25p, from from £8.75 to £9.00
- The London Living Wage has increased by 35p from £10.20 to £10.55

For all rates of UKHCA's minimum price:

- Employers' contribution to workplace pensions increases to 3% of gross pay
- Careworkers' travel time has increased from 11.4 to 11.7 minutes per hour
- Careworkers' mileage has decreased from 4.0 to 3.89 miles per hour



UKHCA's calculation of the minimum price that homecare providers need to receive from councils from April 2019 to March 2020 is £18.93 per hour. This calculation is based on detailed assumptions of providers' costs, including the prevailing rates of:

- The National Minimum Wage (NMW) for workers under 25 years; and
- The National Living Wage (NLW) for workers aged 25 years and above.

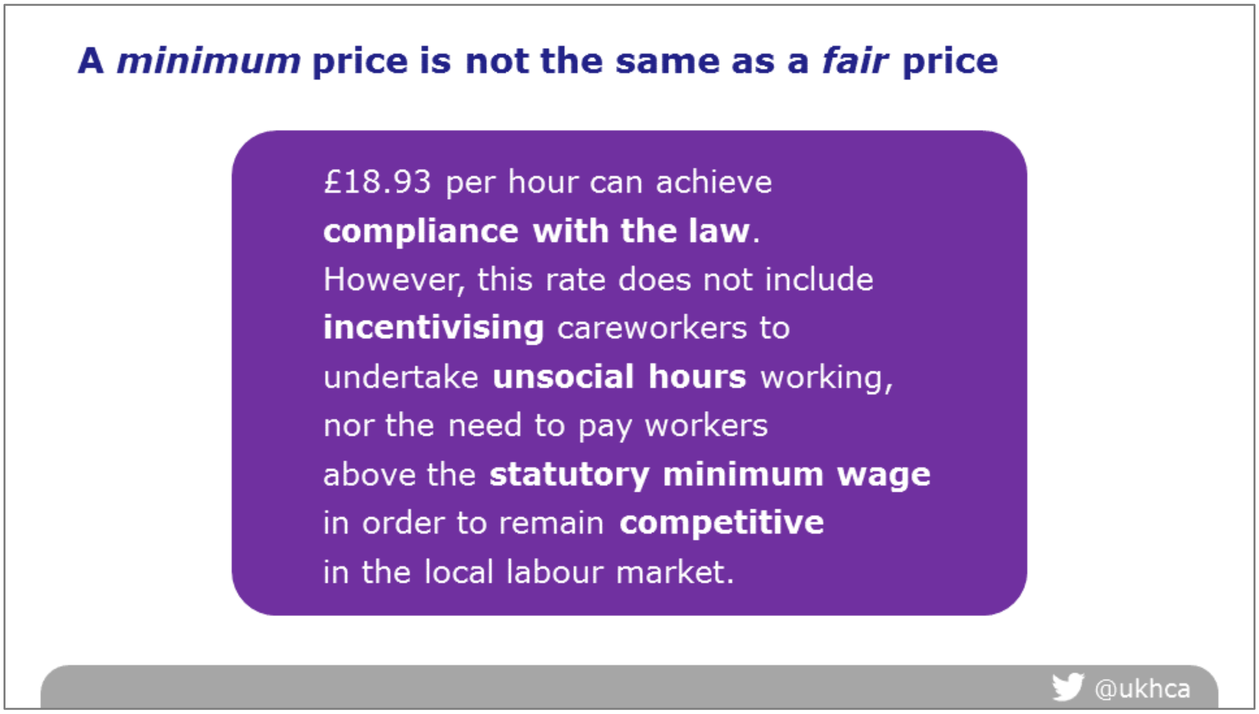
The total price of an hour of homecare is made up of a number of factors, broadly split between "wage costs" of £13.74 per hour, and other business costs (also known as "gross margin") of £5.19 per hour. As follows:

- **The careworkers' "contact time"** (the time that the careworker spends delivering services in somebody's home). NMW and NLW average out to £8.15 per hour;
- **Careworkers' travel time**, which adds an extra 19.5% (11.7 minutes) to each hour of "contact time". Adds £1.59 per hour;
- **National Insurance contributions** and the careworker's **pension**. Adds £1.07 per hour;
- Other **wage-related on-costs**, including holiday pay, training, supervision and statutory sick pay. Adds £1.57 per hour;
- Reimbursing **careworkers' travel costs** (mileage). Adds £1.36 per hour;

- **Costs of running the business**, including office-based staff, premises, utilities, consumables, and other overheads and services. Adds £4.64 per hour;
- **The providers' profit or surplus**, based on a mark-up of 3% of other costs. Adds £0.55 per hour.

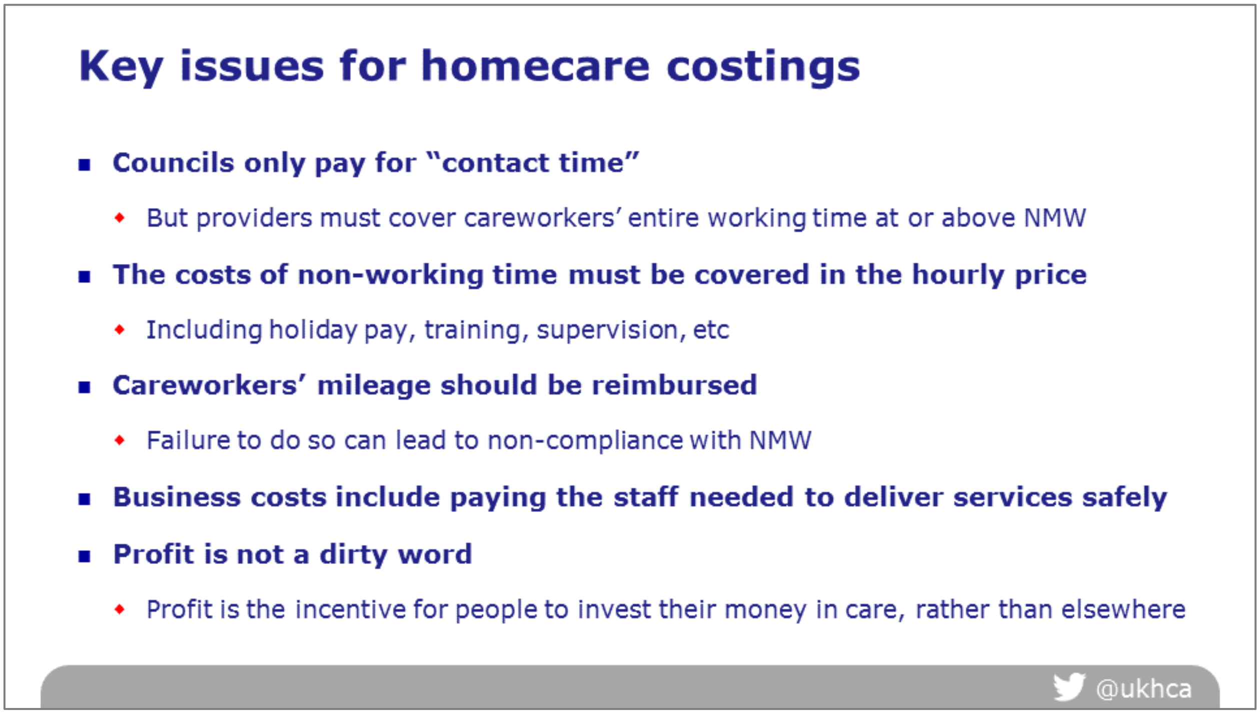
A full explanation of how this figure is reached is explained in UKHCA's "Minimum Price for Homecare, Version 6.0", which is available at:

www.ukhca.co.uk/downloads.aspx?ID=434



A number of authorities refer to UKHCA's "*Minimum* Price for Homecare" as "a *fair* price". This misrepresents UKHCA's calculations and the purpose of the published rate.

£18.93 per hour can achieve *compliance with the law*. However, this rate does not include *incentivising* careworkers to undertake *unsocial hours* working, nor the need to pay workers above the *statutory minimum wage* in order to remain competitive in the local labour market.



There are some important assumptions in UKHCA's Minimum Price for Homecare.

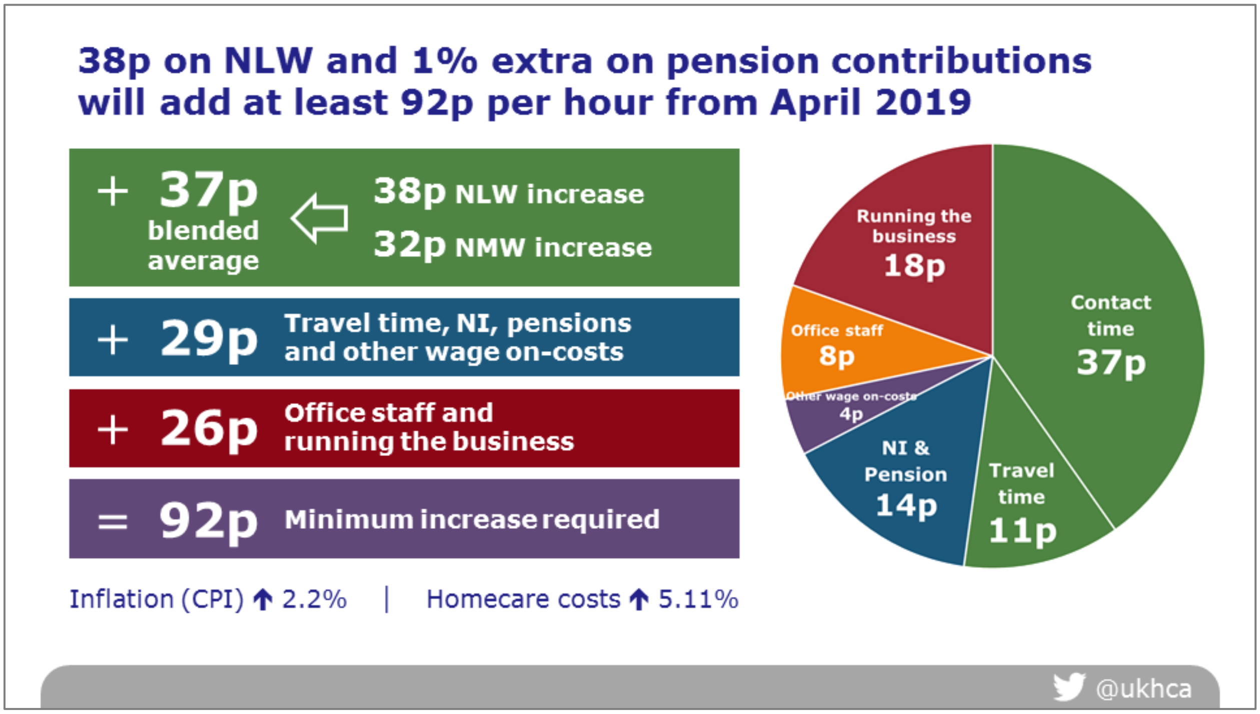
Councils almost always pay for careworkers' "contact time", but the provider must also cover careworkers' entire working time at or above the National Minimum Wage, and that includes the careworkers' time travelling between people homes.

Non-working time must also be factored into the amount paid for an hour of care, including careworkers' holiday pay, and time that they spend training or undergoing supervision.

Careworkers, quite reasonably, expect their mileage to be reimbursed. If providers fail to reimburse careworkers' mileage (or other out-of-pocket expenses, such as travel fares) the employer can become non-compliant with the National Minimum Wage Regulations.

The providers' business costs include paying for the staff who are needed to deliver the service safely, that includes the registered manager, assessors and supervisors, all of whom are there to make sure that services are safe and of the right quality.

Finally, the providers' "profit" is the incentive for people to invest their money in, for example, care rather than elsewhere. Profit provides funds used to re-invest in the service. Not-for-profit organisations also need to make a "surplus" for re-investment. In our calculation we use a 3% mark-up for profit or surplus, which, in commercial terms, is a modest figure.



Councils often assume that if they provide an annual fee increase at the same amount as the increase in the National Living Wage they will have covered providers' additional costs. This is not the case, for the reasons outlined below:

In April 2019 the National Living Wage increases by 38p per hour and the National Minimum Wage by 32p per hour (adding 37p per hour to the costs of careworkers' "contact time").

Employers' minimum contributions to workplace pensions also increase from 2% to 3% of gross pay from April 2019.

These have a knock-on effect on other costs. After taking into account other changes to our cost assumptions this year, the impact is:

- Careworkers' travel time (adds an extra 11p an hour);
- National Insurance and pensions (adds 14p per hour);
- Other wage related on-costs (adds 4p per hour); and
- Employers need to maintain a pay differential between frontline workers and their supervisors and managers (adds 8p per hour);
- Other pressures on the costs of running the business, including profit/surplus (adds 18p per hour).

Simply increasing the price of care by 38p an hour would come nowhere close to meeting the additional cost pressures on providers, which are predominantly driven by the providers' legal obligations to their employees. The minimum increase needed to cover providers' costs is therefore at least 92 pence per hour.

Councils may argue that the current inflation rate, measured by the Consumer Price Index (CPI), is running at 2.2%, but UKHCA's Minimum Price has increased by 5.11%. This is true. However, it reflects the fact that the costs of homecare are largely determined by the costs of careworkers' minimum pay rates, which are increasing at a far higher rate than CPI.

Requirements of a sustainable price

- Cover workforce costs, including careworkers' travel time, to ensure **compliance with National Minimum Wage Regulations**
- Recognise **wage expectations of local labour markets** to secure a sufficient workforce to meet demand
- Cover costs of regulation, supervision, organisation and training to **meet quality and safety requirements**
- Ensure businesses receive a profit/surplus to **maintain market stability**, innovate and reinvest in services

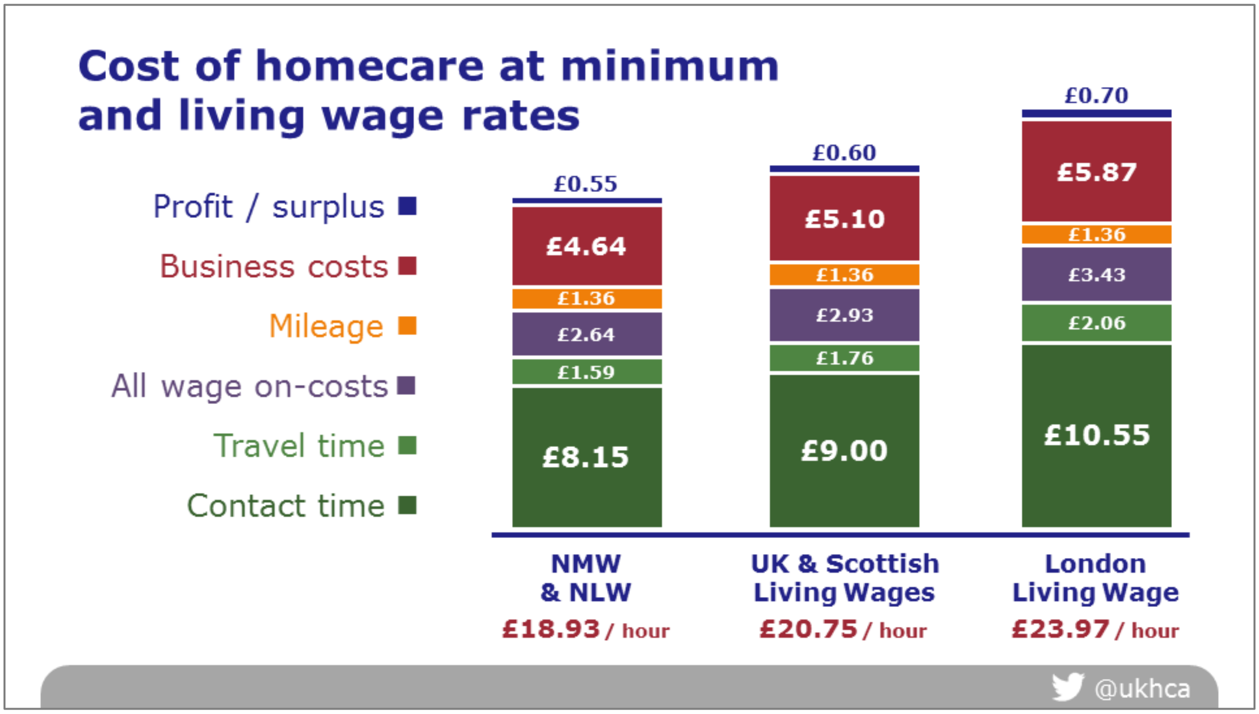
@ukhca

For prices paid for homecare to be sustainable, they must cover workforce costs, including careworkers' travel time, to ensure compliance with National Minimum Wage Regulations.

However, in most parts of the country, it is not possible to recruit and retain careworkers at a flat-rate of the Statutory Minimum Wage. Prices must therefore also recognise the wage expectations of local labour markets to secure a sufficient workforce to meet demand.

Employers must also cover costs of regulation, supervision, organisation and training to meet quality and safety requirements.

And businesses must receive a sufficient profit/surplus to maintain market stability, innovate and reinvest in services.



In addition to producing a minimum price for homecare for the statutory National Minimum Wage and National Living Wage, UKHCA produces equivalent prices for the UK Living Wage, the Scottish Living Wage, and the London Living Wage.

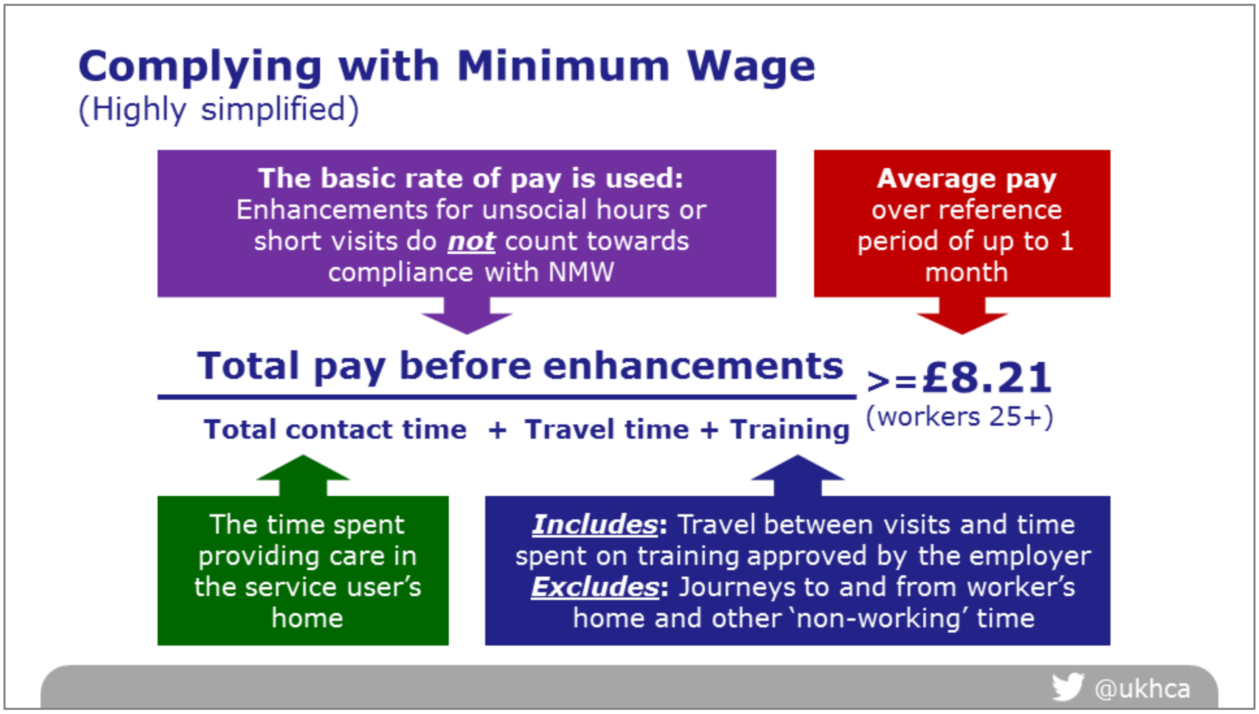
We use exactly the same methodology as shown earlier:

- Paying the appropriate hourly rate for the careworkers' contact time;
- Adding the careworkers' travel time;
- Adding other wage-related on-costs;
- Reimbursing the careworkers' mileage;
- Adding the costs of running the business;
- Adding an element of profit or surplus.

Our Minimum Prices for the higher wage rates are:

- £20.75 / hour to achieve the UK and Scottish Living Wages
- £23.97 / hour to achieve the London Living Wage

You'll notice that the provider's business costs at each rate increase in proportion to the wage costs. This is deliberate because these costs include the additional costs of the office-based staff, and, in the case of London, the particularly high prices associated with premises and services.



Employers must be able to comply with the National Minimum Wage Regulations from the fees they receive.

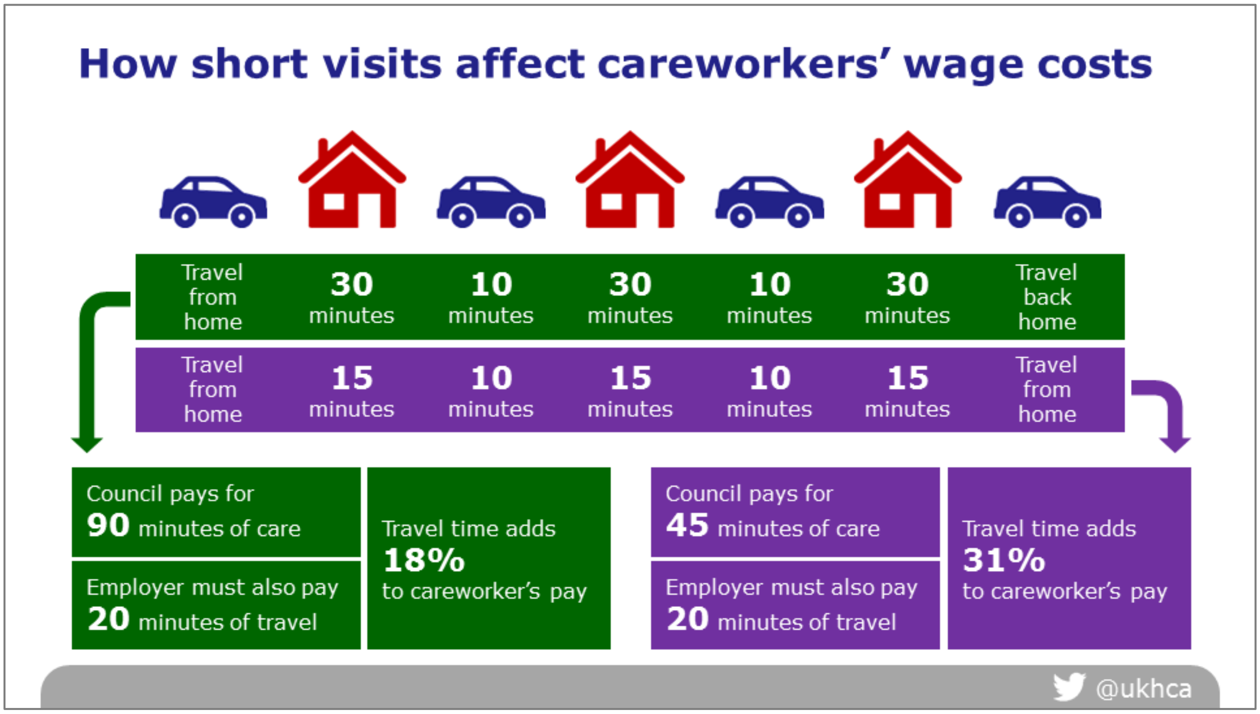
Only the basic rate of pay the careworker receives counts towards compliance with the National Minimum Wage, excluding any enhancements, such as premium pay for working unsocial hours or to inventivise short visits.

When the basic pay is divided by the total working time (including travel between visits and approved training) the hourly rate of pay must be at a rate which is equal to or above the applicable rate of the National Minimum Wage, or the National Living Wage if the worker is aged 25 years and above.

The average pay is calculated over a "pay reference" period. This is either the frequency the worker is paid, or one month, whichever is the shorter.

More information about compliance with the National Minimum Wage Regulations is available from UKHCA's National Minimum Wage Toolkit:

www.ukhca.co.uk/nmwtoolkit



While councils will only pay providers for the length of a homecare visit, the care provider also has to cover the costs of the careworkers' travel.

Two examples shown on this slide demonstrate how the costs of the careworkers' travel become a much larger proportion of the total cost to the provider the shorter the average length of a homecare visit becomes.

Example 1

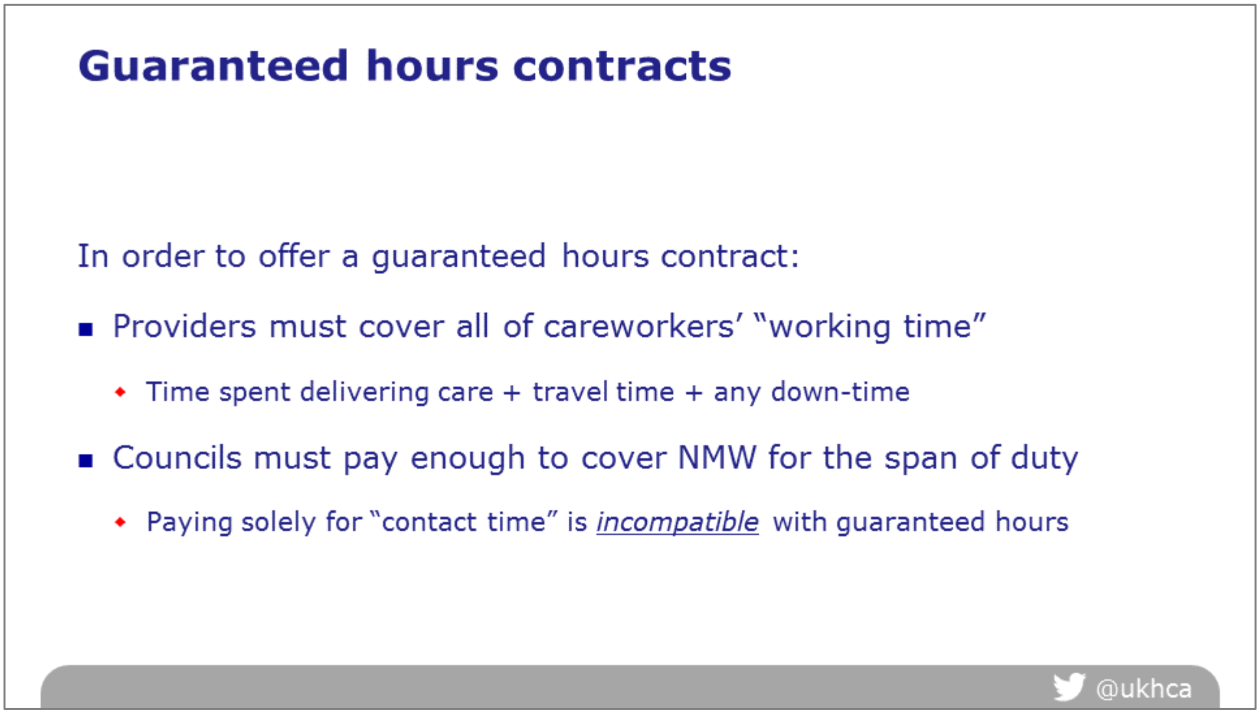
A careworker undertakes three homecare visits of 30 minutes each and travels for 10 minutes between visits. The council will pay for 90 minutes of care, but the employer must also cover an extra 20 minutes of travel time.

The travel has added 18% to the costs of the careworker's pay.

Example 2

The careworker has a similar rota, but this time the three visits are just 15 minutes each, but the travel time is still ten minutes between each visit (as none of the service users have moved closer together just because the visit lengths have got shorter). The council will now only pay for 45 minutes of care, but the employer still has to cover 20 minutes of travel.

The travel time has added 31% to the costs of the careworker's pay.



We also know that a significant number of councils have expressed a strong preference for careworkers being given guaranteed hours contracts.

For a provider to offer a guaranteed hours contract they must be able to cover all of the careworkers' working time, which includes:

- The time spent delivering care;
- The careworkers' travel time; and
- Any downtime, where the worker is being paid, but not generating revenue for their employer.

The fee paid by the council must therefore cover the National Minimum Wage for the entire span of duty; paying solely for the careworkers' contact time is incompatible with a guaranteed hours contract.

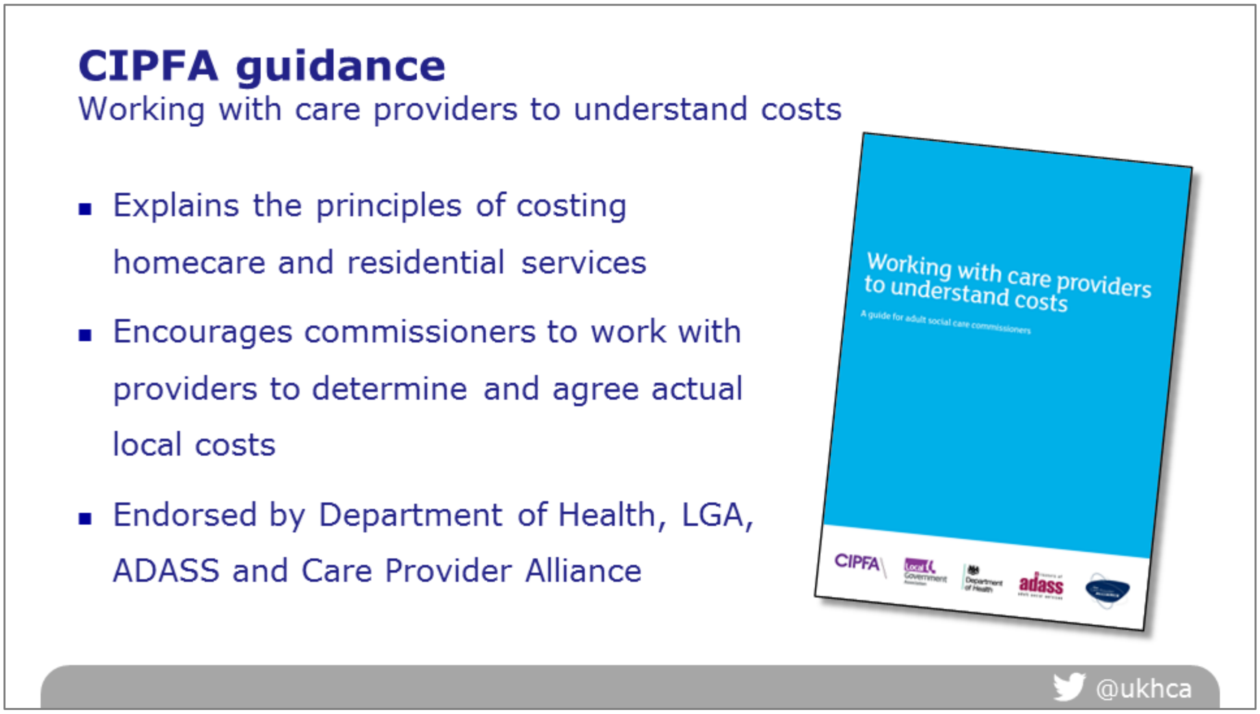
Other issues affecting the viability of contracts

- Unrealistic maximum prices in the invitation to tender
- Contract terms stacked in the favour of the council
- No guarantee of price increases during the life of the contract
- Cost-saving strategies which impact workforce:
  - Eg. 'Per-minute' billing
- Vague or unquantifiable liabilities:
  - Untested payment-by-results mechanisms

@ukhca

In addition to ensuring that the price paid for care covers the costs, there are a number of other issues which affect the commercial attractiveness or financial viability of delivering homecare services, including:

- Unrealistic maximum prices stated in the invitation to tender, as these effectively dissuade providers from submitting bids which reflect the actual costs of the service
- Contract terms which are stated in the favour of the council, creating an inequitable contractual relationship;
- A lack of guarantees of a price increase during the life of the contract;
- Cost-saving strategies which have a negative impact on the workforce, such as paying for care by the minute;
- Vague, or unquantifiable, liabilities in the contract which mean that the provider is taking on a level of risk which they cannot assess in advance, such as untested "payment-by-results" mechanisms.



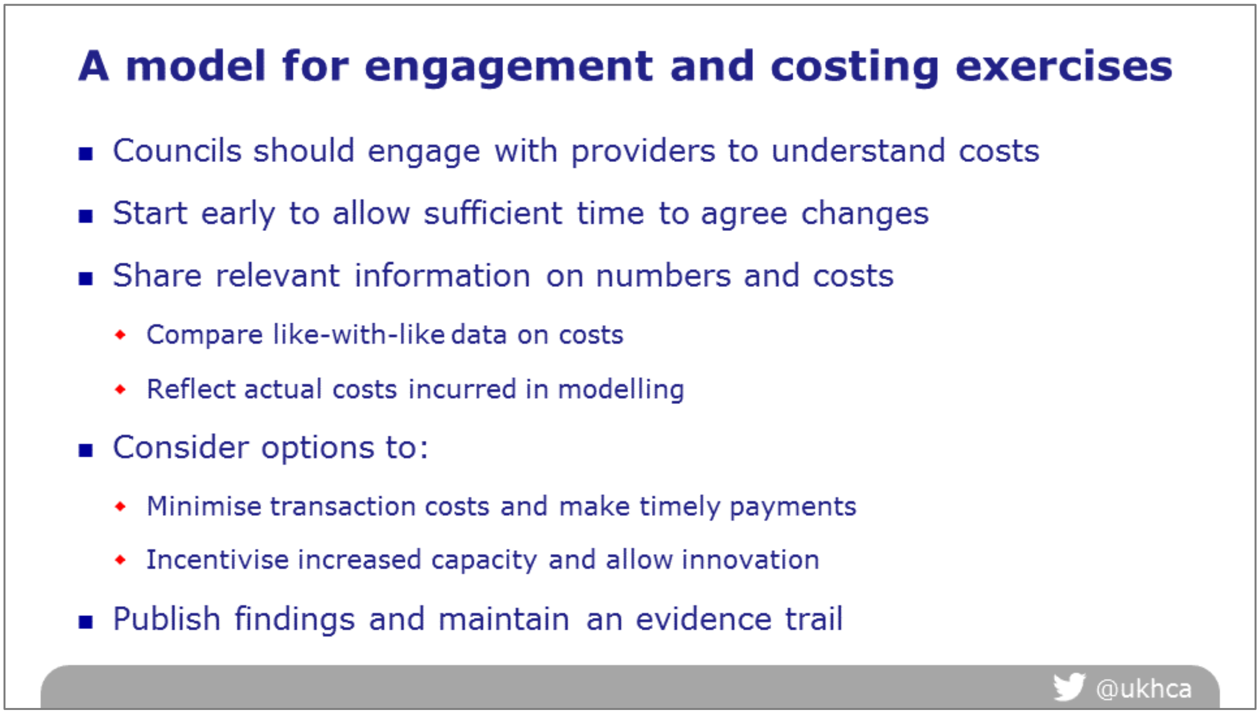
In addition to UKHCA's Minimum Price for Homecare, CIPFA produces a document called "Working with Care Providers to Understand Costs", available from:

www.cipfa.org/policy-and-guidance/reports/working-with-care-providers-to-understand-costs

This document explains the principles of costing both homecare services and residential care. It takes an approach that encourages commissioners to work with providers to determine and agree the actual costs at a local level.

CIPFA's guidance is endorsed by:

- The Department of Health and Social Care;
- The Local Government Association (LGA);
- The Association of Directors of Adult Social Services (ADASS);
- The Care Provider Alliance.



CIPFA's guidance also provides a model for engagement between providers and councils to undertake costing exercises, which can be briefly summarised as:

- Councils should be engaged with their providers early, to understand costs and to allow sufficient time to agree changes;
- Councils and providers should be sharing relevant information on both numbers and the costs of care so that they can compare like-with-like data and reflect actual costs incurred during modelling;
- Councils are encouraged to consider options which minimise transaction costs and make timely payments, and they should be incentivising increased capacity and innovation;
- Councils are encouraged to publish their findings and to maintain an evidence trail.

Links to useful documents and resources

- Care and Support Statutory Guidance, chapter 4 (DHSC)
  www.gov.uk/government/publications/care-act-statutory-guidance/care-and-support-statutory-guidance#chapter-4

- A Minimum Price for Homecare, Version 6.0 (UKHCA)
  www.ukhca.co.uk/downloads.aspx?ID=434

- UKHCA's on-line Costing Model
  www.ukhca.co.uk/CostingModel

- The Homecare Deficit 2018 (UKHCA)
  www.ukhca.co.uk/downloads.aspx?ID=589

- National Minimum Wage Toolkit (UKHCA)
  www.ukhca.co.uk/nmwtoolkit

- Working with Care Providers to Understand Costs (CIPFA)
  www.cipfa.org/policy-and-guidance/reports/working-with-care-providers-to-understand-costs

Share this webinar

You can also share this webinar with your colleagues and get the handouts from:

www.ukhca.co.uk/pricewebinar

UKHCA can be contacted at:

- Website: www.ukhca.co.uk
- E-mail: policy@ukhca.co.uk
- Twitter: @ukhca and @colintwangel
- Telephone: 020 8661 8188