



UKHCA Briefing

## **A Minimum Price for Homecare**

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## **Disclaimer and caution**

The “minimum prices” for homecare services to comply with Minimum Wage or the Living Wages are intended to be indicative rates for information purposes.

The rates suggested in this briefing should not be used by care providers as an alternative to the accurate pricing of individual tender bids, nor by councils to set maximum prices in contracts. UKHCA accepts no responsibility for actions taken or refrained from solely by reference to the contents of this briefing.

Homecare providers should be mindful of the Competition Act 1998, particularly if contemplating collective actions to influence the purchasing decisions of statutory sector bodies. Guidance on UK Competition law issues for homecare providers is available from [www.ukhca.co.uk/downloads.aspx?ID=203](http://www.ukhca.co.uk/downloads.aspx?ID=203).

## Introduction

Growing focus has been placed on the quality of home-based care services and public sector spending constraints which have severely impacted on the homecare sector. There has been increasing concern that a proportion of the workforce may not always receive the National Minimum Wage, and that the quality of homecare services may not always be adequate for the people who use them.

The question “what is the minimum price of an hour of homecare?” is one of vital importance to local and central government, statutory regulators, trades unions and the Media.

It is essential that a viable regulated homecare sector is available to support the care of older and disabled people who choose to remain at home. To this end, the price paid for care must:

- Cover the costs of the workforce, including - **as a minimum** - full-compliance with the prevailing National Minimum Wage, including the time spent travelling between service users’ homes;
- Recognise that local labour markets often require wage rates above the minimum wage to recruit and retain a suitably skilled, experienced and stable workforce;
- Recognise the costs of statutory regulation, and the levels of management supervision, organisation, training and development necessary to meet the purchaser’s expectations of quality and safety.
- Enable businesses to cover their costs of sale, operating costs and return on capital invested.

In addition, there is a growing interest from the statutory sector in sub-contracting with organisations which pay their workforce at the Living Wage or above.<sup>1</sup>

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<sup>1</sup> Payment of the Living Wage is voluntary and enjoys no statutory compulsion. There are two rates: (a) The London Living Wage applies to all boroughs in London and is set annually by the Greater London Authority; (b) The UK Living Wage for outside of London is set annually by the Centre for Research in Social Policy at Loughborough University. From November 2012 both Living Wage figures have been announced annually in November of each year, with an expectation that employers participating in this voluntary scheme should implement the new rate as soon as

This paper adopts an identical methodology to estimate the minimum price for homecare services purchased by councils and the NHS at the prevailing National Minimum Wage, UK Living Wage and London Living Wage.

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possible and within 6 months of the annual announcement. For more information see:  
[www.livingwage.org.uk](http://www.livingwage.org.uk).

## Why adequately funded homecare is under scrutiny

A growing body of evidence makes the case for concern over the rates that the statutory sector pays for homecare services, including:

- UKHCA's research "Care is not a Commodity" identified the inadequacy of contract terms issued by councils and the combined impact of aggressive cost-cutting through real-terms price cuts and shortened visit times.<sup>2</sup>
- Government committed to "rule out crude 'contracting by the minute'" in the Care and Support White Paper "Caring for our future";<sup>3</sup>
- The Equality and Human Rights Commission (EHRC) have reported on the impact of maximum prices imposed by councils in contracts with homecare providers.<sup>4</sup>
- The Low Pay Commission has repeatedly identified that statutory sector commissioners must take the actual costs of providing care, including National Minimum Wage, into account to ensure that care providers can meet their obligations to pay the NMW.<sup>5</sup>
- HM Revenue and Customs (HMRC) recently reported on the pattern of non-compliance with National Minimum Wage in the residential and homecare sectors.<sup>6</sup>
- Unison has challenged local authorities to sign-up to an "Ethical Care Charter".<sup>7</sup>

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<sup>2</sup> Angel, C (2012) Care is not a Commodity, Sutton: United Kingdom Homecare Association. URL: [www.ukhca.co.uk/downloads.aspx?ID=356](http://www.ukhca.co.uk/downloads.aspx?ID=356).

<sup>3</sup> Department of Health (2012) Caring for our future, London: Department of Health. URL: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/136422/White-Paper-Caring-for-our-future-reforming-care-and-support-PDF-1580K.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/136422/White-Paper-Caring-for-our-future-reforming-care-and-support-PDF-1580K.pdf).

<sup>4</sup> Equality and Human Rights Commission (2013) Close To Home Recommendations Review, pages 15-16. URL: [www.equalityhumanrights.com/uploaded\\_files/close\\_to\\_home\\_recommendations\\_review\\_web.pdf](http://www.equalityhumanrights.com/uploaded_files/close_to_home_recommendations_review_web.pdf).

<sup>5</sup> Low Pay Commission (2013) National Minimum Wage, Low Pay Commission Report 2013, pages 130-131. URL: [www.lowpay.gov.uk/lowpay/report/pdf/9305-BIS-Low\\_Pay-Accessible6.pdf](http://www.lowpay.gov.uk/lowpay/report/pdf/9305-BIS-Low_Pay-Accessible6.pdf).

<sup>6</sup> HM Revenue and Customs (2013) National Minimum Wage Compliance in the Social Care Sector: An Evaluation of National Minimum Wage Enforcement in the Social Care Sector Over the Period 1<sup>st</sup> April 2011 to 31<sup>st</sup> March 2013. URL: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/262269/131125\\_Social\\_Care\\_Evaluation\\_2013\\_ReportNov2013PDF.PDF](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/262269/131125_Social_Care_Evaluation_2013_ReportNov2013PDF.PDF).

## Near-monopsony purchase power of local councils

The majority (84%) of homecare providers are based in the independent and voluntary sector, but operate in a market dominated by statutory sector purchasers, primarily local authorities, who exercise – and sometimes exploit – their dominant purchasing power in an attempt to pay for care from their constrained budgets.

The precise dominance of local councils is difficult to calculate, but our working assumption is that they purchase over 70% of all hours of care delivered by the independent and voluntary sector.<sup>8</sup>

In 2013 The Equality and Human Rights Commission found that around a third of local authorities set a maximum commissioning price in tenders with independent and voluntary sector providers. The lowest rate paid for an hour of day-time homecare was £8.98, with one-in-five local authorities paying £11.00 per hour or less. The Commission concluded:

“... the rates that some local authorities pay care providers do not always appear to cover the actual costs of delivering care, a significant proportion of which is workers’ wages which should include travel time. Poor working conditions may lead to a high turnover of staff and increase the risks to the human rights of older people”.<sup>9</sup>

UKHCA believes that dominant purchasing power in a sector which is largely dependent on the use of a local labour market constitutes an effective monopsony market, where a combination of price-fixing when letting contracts and the use of competitive tendering processes to depress prices is widespread.

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<sup>7</sup> Unison (2013) UNISON’s Ethical Care Charter. URL: [www.unison.org.uk/upload/sharepoint/Research%20Material/Final%20Ethical%20Care%20Charter%20PDF.pdf](http://www.unison.org.uk/upload/sharepoint/Research%20Material/Final%20Ethical%20Care%20Charter%20PDF.pdf).

<sup>8</sup> Very little data exists on privately purchased homecare. UKHCA’s estimate is built-up on knowledge of the size of statutory purchase (where known) and reasonable estimates of privately purchased care.

<sup>9</sup> Equality and Human Rights Commission (2013) Close To Home Recommendations Review, page 6. URL: [www.equalityhumanrights.com/uploaded\\_files/close\\_to\\_home\\_recommendations\\_review\\_web.pdf](http://www.equalityhumanrights.com/uploaded_files/close_to_home_recommendations_review_web.pdf).

## **Calculating the cost of homecare: The UKHCA Costing Model**

In 2013 UKHCA released a free on-line costing model for homecare services.<sup>10</sup> The model aims to calculate a fair and sustainable price for care in an open and transparent format. It has been designed to allow the person using the model to specify how the costs are proportioned, however, it makes no independent cost assumptions for individual calculations.<sup>11</sup>

The costing model was created with the generous assistance of finance directors from different size organisations drawn from UKHCA's membership, and has been widely tested by homecare providers and local authority commissioners.

The use of the UKHCA Costing Model can be used to aid discussions between providers and commissioners about the real costs of care in a local area, and assist providers estimate whether they can operate in a local care market.

We have used the formulae of the on-line model in producing the minimum prices for care in this briefing.<sup>12</sup> We have based many of the assumptions about the costs of care, described in the following sections, in line with advice supplied by providers who contributed to its development.

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<sup>10</sup> The UKHCA Costing Model is available at [www.ukhca.co.uk/CostingModel](http://www.ukhca.co.uk/CostingModel).

<sup>11</sup> The model will, however, caution the user against inputting a pay rate for contact time which is below the main adult rate for the prevailing National Minimum Wage.

<sup>12</sup> The model round-figures up to down to the nearest penny, accounting for a £0.01 pence difference in the price quoted in this paper compared to the use of the on-line version.



The Equality and Human Rights Commission observed that they had found evidence of some authorities using costing models which do not take account of workers' travel costs, travel time and essential overheads, concluding:

"3. We recommend that all local authorities use costing models which incorporate essential elements for safe and legal care and that they demonstrate transparency about how their home care commissioning rates are calculated by putting costing models on their websites."<sup>13</sup>

Where councils undertake costing exercises and choose to deviate from the assumptions described in this paper, they should have a clear rationale, supported by engagement with their local providers and robust evidence from their local employment market.

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<sup>13</sup> Equality and Human Rights Commission (2013) Close To Home Recommendations Review, pages 18 and 29. URL: [www.equalityhumanrights.com/uploaded\\_files/close\\_to\\_home\\_recommendations\\_review\\_web.pdf](http://www.equalityhumanrights.com/uploaded_files/close_to_home_recommendations_review_web.pdf).

## Assumptions used in our calculations

We quote three hourly rates for contact time which we believe are the “minimum price” for homecare services that achieve compliance with:

- The National Minimum Wage (for workers aged 21 years or above);
- The UK Living Wage (outside London);
- The London Living Wage.

We have used a consistent methodology throughout, as follows:

### **Contact time**

Our assumption is that councils pay for homecare services by reference to “contact time” – the time spent delivering care in the service user’s home.<sup>14</sup>

Local authority contracts generally require providers to meet all their arising costs from the fee paid for contact time,<sup>15</sup> with the expectation that the workers’ pay rate is uplifted sufficiently to recognise all working time, including applicable travel.<sup>16</sup> We believe this practice is now almost universal and is an attempt by councils to reduce transactional costs of invoice processing.

It is a fundamental assumption in the minimum prices published in this document that payments to the provider are calculated solely by reference to “contact time”.

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<sup>14</sup> In practice “contact time” may refer to the time commissioned by the purchaser, the time spent in the service user’s home, as recorded on a paper time sheet, or as recorded by “electronic call monitoring systems”, as specified in the contract between the purchaser and the provider. Different payment systems are operated by a number of homecare providers, including those who provide “live-in” care.

<sup>15</sup> In 2012, UKHCA’s research suggested that fewer than 2% of providers in England were paid anything at all towards careworkers’ travel time (8% in Scotland, but none in Wales and Northern Ireland). See Angel, C (2012) Care Is Not A Commodity, Sutton: United Kingdom Homecare Association. Page 39. URL: [www.ukhca.co.uk/downloads.aspx?ID=356](http://www.ukhca.co.uk/downloads.aspx?ID=356).

<sup>16</sup> It is not necessary to make separate payments for the worker’s travel time, so long as the worker’s basic rate of pay (before enhancements or other allowances) divided by the total working time over the specified reference period is paid at or above the applicable National Minimum Wage. An explanation of the complexity of issues around payment of travel time in homecare services is available at [www.ukhca.co.uk/mediastatement\\_information.aspx?releaseID=231492](http://www.ukhca.co.uk/mediastatement_information.aspx?releaseID=231492).

## **The National Minimum Wage**

Reference to the National Minimum Wage refers to the prevailing adult rate, applicable for workers of 21 years of age and above.<sup>17</sup> We estimate that workers below this age account for just 6% of the domiciliary care workforce.<sup>18</sup> We are not aware of any widespread practice of employers in the homecare sector offering lower pay rates to workers less than 21 years of age and therefore believe the use of the main adult rate is a reasonable assumption in calculating a minimum price for homecare. Our assumption is therefore:

National Minimum Wage:	£6.31 per hour (until 30 September 2014)
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## **The Living Wage**

The equivalent UK Living Wage rate has been calculated at the rate published by the Centre for Research in Social Policy at Loughborough University, and the London Living Wage by the Greater London Authority.<sup>19</sup> Our calculations for equivalent minimum prices to comply with these rates are therefore based on the following pay rates for working time:

UK Living Wage:	£7.65 per hour (until 31 October 2014)
London Living Wage:	£8.80 per hour (until 31 October 2014)

## **Unsocial hours working**

To create a “minimum price” for homecare services, unsocial hours working is assumed to be paid at a flat rate (ie. no enhanced pay rates for anti-social hours, weekends or public holidays).

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<sup>17</sup> The National Minimum Wage rates are published each year by central government, and are available at [www.gov.uk/national-minimum-wage-rates](http://www.gov.uk/national-minimum-wage-rates).

<sup>18</sup> Estimate from data in table 5.7 “Adult social care workforce by main service group, by age group” in Skills for Care (2012) The State of the Adult Social Care Sector and Workforce in England 2012, page 18. See: [www.skillsforcare.org.uk/research/research\\_reports/SOASCW\\_2012.aspx](http://www.skillsforcare.org.uk/research/research_reports/SOASCW_2012.aspx)

<sup>19</sup> From November 2012 both living wage rates are published each November, Living Wage Employers expected to implement the rate as soon as possible and within 6 months of the announcement. See [www.livingwage.org.uk/calculation](http://www.livingwage.org.uk/calculation) for links to how the living wage figures are calculated.

We emphasise that our calculations describe terms and conditions of employment for careworkers which allow full compliance with the applicable wage rates.

In the case of the National Minimum Wage a flat rate of pay for unsocial hours working is unlikely (in most parts of the country) to attract and maintain a suitable workforce, willing to provide essential homecare services at times of the day when homecare is required or at times of the week when many workers expect to be resting.

Under no circumstances should our “minimum price” for homecare, particularly at a flat rate of National Minimum Wage without enhancements, be treated as a national acceptable price capable of achieving a stable workforce.

### **Travel time and travel costs**

In 2012, we found virtually no evidence of councils making additional payments to providers for travel costs or the time careworkers spent travelling.<sup>20</sup>

### **Travel time**

There is no national data set recording the time careworkers spend travelling between service users’ homes. Travel time is obviously highly variable and is influenced by the relative urban or rural travel conditions experienced by careworkers and the employer’s ability to allocate careworkers to a cluster of service users who live in a local area.

The increasing number of very short homecare visits the councils are purchasing has a marked effect on the amount of travel that careworkers undertake. Travel time is a significant variable in calculating the price of homecare services based on “contact time”.

Councils whose commissioning arrangements require significant amounts of travel time or where there is a high use of short visits should be particularly concerned that the prices paid for contact time may be inadequate to cover the real costs of care services they purchase.

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<sup>20</sup> Angel, C (2012) Care is not a Commodity, pages 39-40. See: [www.ukhca.co.uk/downloads.aspx?ID=356](http://www.ukhca.co.uk/downloads.aspx?ID=356).

The episodic nature of work, with homecare visits taking place at peak times of demand (mornings, lunchtime and evenings) with gaps in-between make it difficult to ascertain the amount of careworkers' travel that must be included for the purposes of National Minimum Wage compliance. Health and social care analysts, Laing and Buisson, report data supplied by electronic call monitoring supplier CM2000, estimating travel time of 19% of contact time in 2010.<sup>21</sup> We have therefore based our calculations on:

Workers' travel time:	11.4 minutes to 1 hour of "contact time".
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### **Mileage rate and distance travelled**

HM Revenue and Customs publish a maximum mileage rate of £0.45 per mile for use of private vehicles.<sup>22</sup> HMRC's published rates are for tax and National Insurance purposes, rather than recommended mileage rates.

Our assumption of £0.35 per mile is a reasonable estimate at the time of publication and assumes that the majority of careworkers use private cars for their work.

The assumption of 4 miles of travel to 1 hour of contact time is a reasonable estimate when taking into consideration the extremes of urban and very rural travel across the UK and suggests an average speed of 21.1 miles per hour. Greater precision would be possible when calculating the costs of care for a local authority area or individual contract.

While in urban areas some careworkers may use public transport or non-motor vehicles, we believe this is generally a small proportion of the national workforce and the lower costs of travel are likely to be absorbed by increased travel time, or at least balance these out.<sup>23</sup>

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<sup>21</sup> Mickelborough, P (2011) Domiciliary Care UK Market Report 2011, Page 35. Percentages quoted are 22% in 2007; 17% in 2009 and 19% in 2010.

<sup>22</sup> See: [www.hmrc.gov.uk/rates/travel.htm](http://www.hmrc.gov.uk/rates/travel.htm).

<sup>23</sup> For example, bus fares in London from 19<sup>th</sup> January 2014 were at a standard £1.45 per journey, capped at £4.40 per day using Oyster pre-pay. London Underground fares and daily caps are at higher rates. Daily bus tickets in Manchester or the West Midlands around £4.00 - £5.60 / day.

The assumptions used in our calculation of a minimum price for care are:

Mileage Rate:	£0.35 per mile.
Distance travelled:	4.0 miles per hour of contact time.

### **Staff costs**

The following assumptions were reached with the assistance of the finance directors of several UKHCA member organisations during the development of UKHCA's Costing Model:

Employers' National Insurance:	9.50% of total gross pay.
Holiday Pay:	10.77% of total gross pay.
Careworker Training:	1.73% of total gross pay.
Pension contributions:	1.00% of total gross pay.

## **Gross Margin**

Provider's Gross Margin covers the costs of running their business and will include (but not be limited to) the following:

- Branch staff: Registered manager, supervisors, coordinators, finance and admin staff, quality assurance costs;
- Office costs: Rent, rates, maintenance, water, lighting and heating, insurance, cleaning and equipment hire;
- Training etc: Induction training, external training and qualifications;
- Recruitment: Recruitment advertising, criminal record disclosures;
- IT equipment: Computer systems, telephones, electronic call monitoring;
- Marketing: Advertising and marketing;
- Consumables: Uniforms, personal protective equipment;
- Finance: Bank charges, interest, depreciation.
- Print and postage: Printing, postage, stationery;
- Business travel: Fuel, tax, insurance, vehicle leasing, repairs, mileage, accommodation and subsistence;
- Legal/professional: Legal, professional accountancy, registration fees;
- General: Donations, subscriptions, translation services, general expenses.
- Profit / Surplus: Excess of revenue over expenditure and/or reinvestment in the business.

Gross margin:	30% of total price.
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## **Profit / Surplus**

Organisations undertaking social care under contract with local authority business realistically make a net profit or surplus of 2-3% and usually not more than 5% of the total price. For the purposes of illustration in this paper, we show profit/surplus as 3% of the total price, and the remaining items of Gross Margin as "Running the business", equivalent to 27% of the total cost.

## The minimum price for homecare services to comply with National Minimum Wage and the Living Wage



### Summary of assumptions used

These rates use consistent assumptions, as follows:

- Payment to the provider is calculated solely by reference to “contact time” (the time the worker spends in a service user’s home);
- Workers are paid a flat-rate at the prevailing National Minimum Wage, UK Living Wage or London Living Wage;
- Workers receive no enhanced pay rates for working unsocial hours, weekends or public holidays;
- Workers are paid for other elements which constitute “working time”<sup>24</sup> (ie. applicable travel time, and when undergoing supervision and approved training) at the same hourly rate as for “contact time”;
- Business mileage is reimbursed at a reasonable rate;
- Workers receive statutory paid holiday entitlements;
- Workers are enrolled in a Workplace Pension scheme;
- The care provider covers reasonable operating costs and a profit/surplus that enables a sustainable business.

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<sup>24</sup> We have applied the principles of “working time” from the National Minimum Wage Regulations consistently in all calculations.



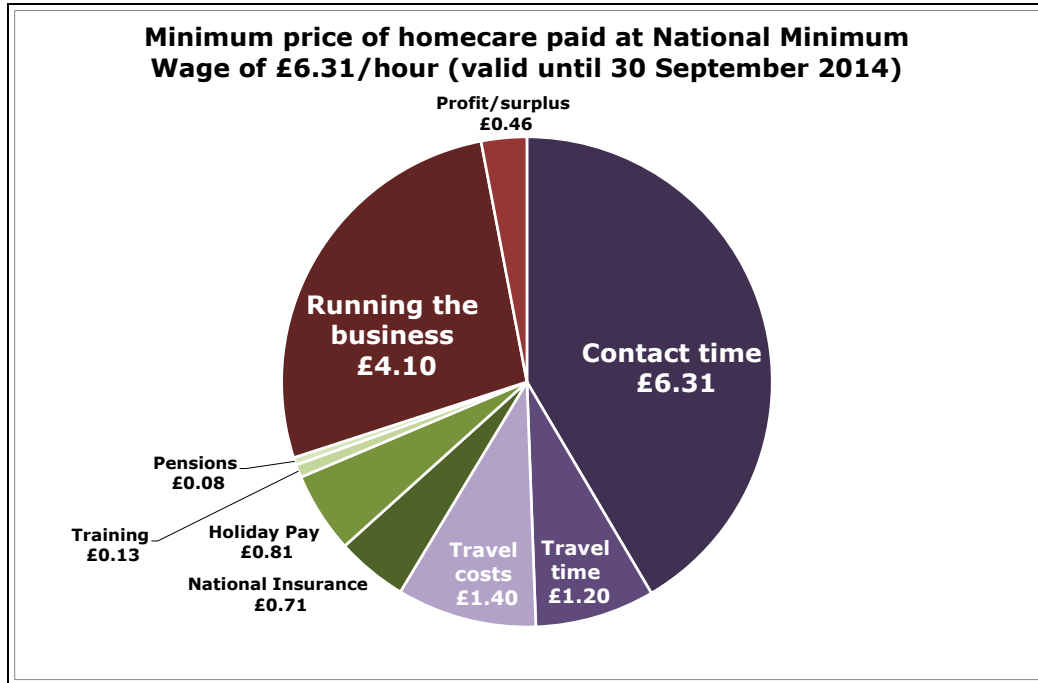
Our assumptions have been made to reach a theoretical minimum price for an hour of homecare commissioned by local authorities. We do not suggest that this rate recognise the demanding tasks required of homecare workers; employers' ability to be competitive within their local employment market; nor the additional costs associated with providing care services to individuals who fund their own care.

## Summary of assumptions and breakdown of the price of an hour of homecare

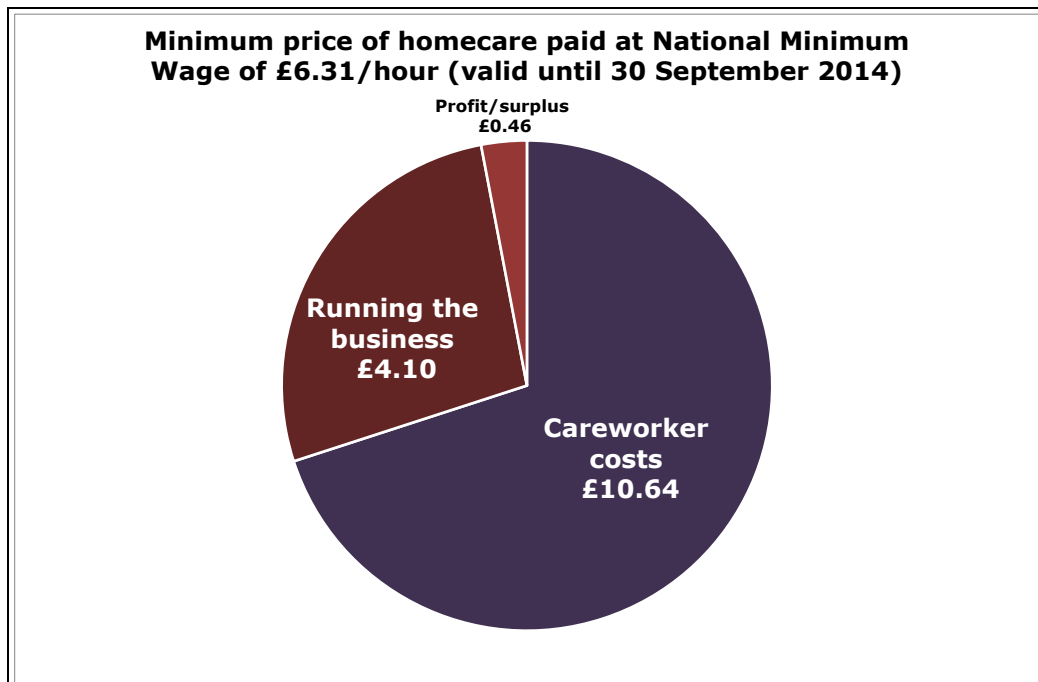
Assumption		Minimum Wage	UK Living Wage	London Living Wage
Basic hourly rate for "contact time":		£6.31	£7.65	£8.80
Enhancement for unsocial hours, weekends etc:	0% of basic hourly rate	£0.00	£0.00	£0.00
Travel time:	11.4 minutes to 1 hr of contact time	£1.20	£1.45	£1.67
National Insurance Contributions:	9.50% of gross pay	£0.71	£0.86	£0.99
Holiday pay:	10.77% of gross pay	£0.81	£0.98	£1.13
Training and supervision:	1.73% of gross pay	£0.13	£0.16	£0.18
Pension contributions:	1.00% of gross pay	£0.08	£0.09	£0.10
Distance travelled:	4.0 miles to 1 hour of contact time			
Mileage rate:	£0.35 per mile	£1.40	£1.40	£1.40
Running the business (see page 15):	27% of total price	£4.10	£4.86	£5.51
Profit or surplus:	3% of total price	£0.46	£0.54	£0.61
<b>Total price:</b>		<b>£15.19</b>	<b>£18.00</b>	<b>£20.40</b>

## Compliance with the National Minimum Wage for 2013-14

The price for homecare, to ensure compliance with the 2013-14 National Minimum Wage, is estimated to be a minimum of £15.19 per hour, using the assumptions described in this document.



For convenience the following graph shows the split between the careworkers' costs, running the business and a profit/surplus element:



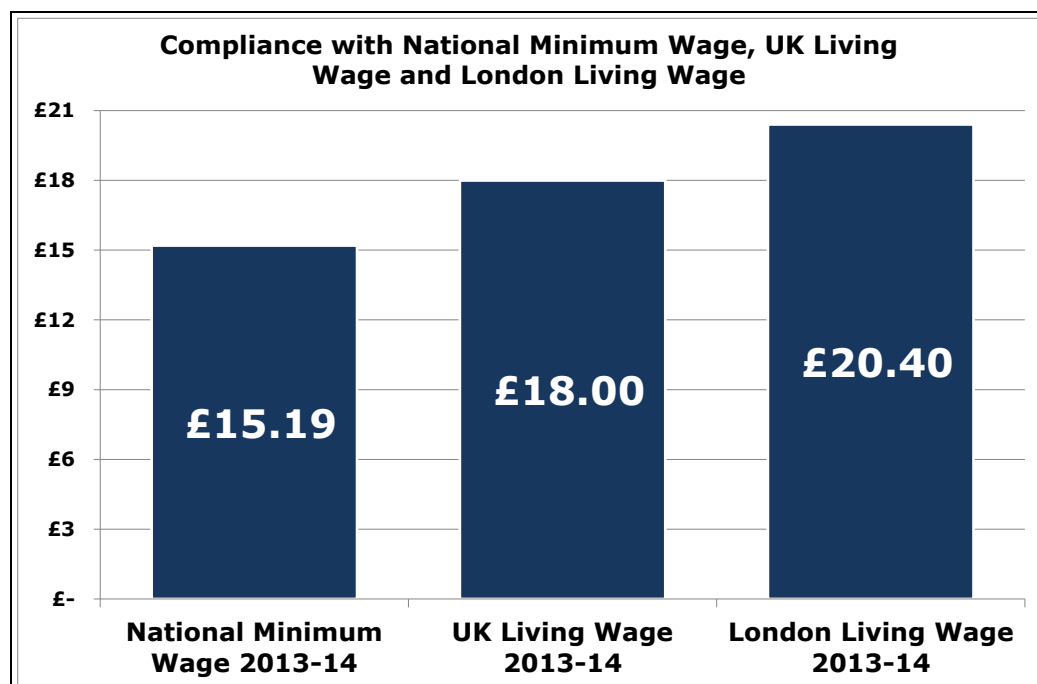
## The Minimum Price for UK Living Wage and London Living Wage

UKHCA is highly supportive of councils who have expressed a genuine interest in contracting with the independent and voluntary sector at a rate which enables providers to pay their staff at the prevailing Living Wage.

However, we believe that some local authorities are attempting to achieve payment of living wage to workers without recognising the substantial costs incurred by providers of uplifting workers' wage rates.

We are particularly aware that the vast majority of councils pay providers solely by reference to "contact time" and may incorrectly calculate the costs of Living Wage on this basis, without recognising that the time workers spend travelling and training also constitutes "working time" and should be paid at the same rate. UKHCA's minimum price for the UK Living Wage and London Living Wage assumes that all working time is paid at the prevailing Living Wage rate.

The following graph shows the relative costs of the three wage rates, using identical assumptions, as described in this briefing.



A breakdown of the major components of these costs is illustrated below:



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