Homecare Association

Spring Budget Representation 2024

Submitted online, 24th January 2024

Executive Summary

Please summarise your Budget representation in no more than 250 words.

The homecare sector is already operating at a deficit. Our Homecare Deficit research shows that the fee rates being paid by public sector commissioners do not meet the true cost of delivery. On top of this, the sector is facing significant financial stress because of wage pressures, difficulties with recruitment and retention and inflationary pressures for factors such as transport. The sector needs to change and modernise, including digitising care records. The funding allocated to date is insufficient.

We urge the Government to provide adequate funding for the social care sector to cover costs in full and meet rising demand. The Health Foundation has estimated that this will require an additional £8.4bn for 2024/25.

In order to maintain service quality and people's confidence in social care services, we recommend a consistent approach to regulatory oversight of care, which is based on activities delivered, rather than the employment status of workers.

In our submission, we also challenge the rationale for charging care providers Care Quality Commission (CQC) fees, as well as international recruitment related costs (such as sponsorship fees). We suggest that the care sector should be zero-rated for VAT purposes. Transport costs significantly affect the sector, including the mileage allowance. We suggest increasing this allowance and implementing taxation on company vehicles based on their current market value.

Key Issues

International recruitment

International recruitment is costly and is only a short-term solution to workforce shortages. It is, however, necessary to meet needs. We call on the Government to recognise the additional expense involved and to fund this.

International recruits need to meet a higher salary threshold than domestically-recruited staff (currently £10.75 per hour and £20,960 per annum). To meet this salary threshold, employers must offer sponsored workers full-time contracts. Recruitment costs per candidate can run into four or five-figure sums, with professional advice and staff time on top of visa fees. There

are also costs of staff time managing the administration, providing pastoral care and support with other difficulties, such as finding accommodation. Additional training is often required for sponsored workers to explain cultural aspects of life in the UK (such as food culture), and how services (like the NHS) work.

To stretch tight budgets further, public sector commissioners often commission on a zero-hours basis. This leads directly to zero-hour employment and makes it hard for homecare providers to meet the salary requirements for international staff unless they also have local staff working variable hours or can secure block-contract work (which is more common, for example, for reablement packages – but some of this work is being done in-house and not accessible to independent providers).

We call on the Government to fund local authorities adequately to reduce reliance on zero-hour contracts and zero-hour employment of both UK and sponsored workers.

Regulation of careworkers

The Government passed legislation to regulate care to protect people from harm. The legislation defines regulated activities, such as personal care and treatment of disorder, disease and injury.

Individual workers, operating as sole traders (often referred to as "personal assistants"), are, however, exempt from regulatory oversight, even if they are performing identical activities. This gap in regulating care provision can put people drawing on services at risk, as well as careworkers. It can also make it harder to flag concerns about the fitness to practise of specific workers.

Skills for Care estimates that there are 130,000 filled job roles for personal assistants funded by direct payments. Self-funders employ others privately, though data are unavailable on numbers.

Employing personal assistants and micro providers holds significant appeal for many people in need of care support, offering a greater level of autonomy and empowerment than care commissioned by a local authority or the NHS.

Because of the financial deficit of many councils, a growing number are encouraging use of unregulated care, which is cheaper. Some are also potentially breaching tax law by designating personal assistants as "self-employed" when they may not meet the criteria for self-employment and should be employees on PAYE. At least one local authority paused a scheme for 'self-employed' personal assistants after it realised that it may have wrongly advised older and disabled people, who may now have to deal with historic tax liabilities.

Some micro providers and introductory agencies, which connect individual careworkers with people in need of support, also claim workers are self-employed rather than employees. Anecdotally, this has created a cash-in-hand grey economy which risks underpayment of tax and over-claiming of benefits.

We call on the Government to fund care adequately and regulate care consistently, to reduce tax avoidance and non-compliance with employment, care and tax regulations.

Digitalisation of care and assistive technology solutions

The 2022 White Paper on integrating health and social care called for 80% of care providers to have digital care records in place by 2024. The sector has not met this target (60% had switched to digital care plans by November 2023), which is perhaps unsurprising given that digital transformation requires investment in IT infrastructure, software, staff training and staff

time to administer the changes. This is difficult to do when there are significant financial and workforce shortages, as described elsewhere in this response.

Though the Government has offered grants to encourage adoption of digital care records, and assistive technology solutions, which are welcome, such funding is by nature short term. Providers must consider their ability to cover these costs and achieve a return on investment in the longer term. A significant proportion of providers feel unable to make such a commitment in the current funding environment.

Use of technology solutions by lone workers also incurs additional training costs because careworkers must be able to use it without supervision.

Poor mobile phone coverage and Wi-Fi connectivity in many areas limit the incentive for homecare providers to digitise and their ability to increase productivity.

We call on the Government to invest heavily in improving mobile and Wi-Fi infrastructure, which would help all businesses to grow and operate more efficiently.

Costs of dealing with the aftermath of cyber-attacks to care software are massive, as evidenced by the Advanced Health cybersecurity incident. Costs of insurance against cyber-attacks are increasing. All this is adding to the financial pressures experienced by care providers.

Phishing and ransomware attacks are becoming more sophisticated and despite impetus facilitated by measures such as the Data Security and Protection Toolkit, many providers are still at a relatively immature level of maturity in cyber protection.

We call on the Government to recognise the risks and costs of digitalising care and to continue supporting care businesses to use digital and other technology solutions safely and affordably.

Wider economic implications and impact on growth

According to Skills for Care, social care contributed at least £55.7 billion to the economy in 2022/23 and thus makes up an important part of the economy.

There is a range of wider economic implications when considering investing in care services. Labour supply is critical for economic growth in the UK when over 2.6 million UK adults of working age are out of the labour market owing to long-term sickness.

Timely access to health and social care services depends on the entire system working. If hospitals cannot discharge patients who are medically fit for discharge into homecare, other people cannot get the emergency or planned care that they need. The Nuffield Trust estimates that as at November 2023, over 7.6 million people were waiting for NHS treatment and analysis by The Health Foundation predicts that this waiting list will grow longer well into 2024. Without the care people require, levels of long-term sickness can only rise.

The impact on widespread ill-health goes beyond just the supply of labour. Population health has significant effects on Government spending, and the Office for Budget Responsibility projects that Government spend on health-related and disability benefits will rise from £39.1 billion to £58.1 billion over the next five years. By 2028-29, these benefits will represent around 4% of total public spending.

A lack of access to health and care services also has an indirect impact on labour supply when people give up their jobs to care for loved ones. In their recent *State of Caring* report,

Carers UK found that 40% of carers said that they had given up work to provide unpaid care, and 22% had reduced their working hours because of their caring role.

Adult social care is also a significant source of employment – 1.52 million people worked in the sector in 2022/23, more than in the NHS, and with the UK population continuing to age (almost a quarter of the population will be over sixty-five by 2030), demand can only increase.

Finally, it is also clear that well-resourced and timely social care keeps people healthy and prevents the need for healthcare interventions, which are substantially more expensive than preventative measures.

We call on the Government to invest in social care, recognising its vital role in supporting public health and economic growth.

Existing policy measures

The Government announced the publication of the Care Workforce Pathway earlier this month. This aims to improve the career prospects of the domestic care workforce. It included £53.9m for a new Level 2 qualification for social care; an uplift to the Workforce Development Fund and also £20m to support apprenticeships. This is welcome. However, it is difficult to see how the Pathway will support real career progression in a context in which employers can only afford to pay staff with 5 years' experience on average 6 pence per hour more than new starters (Skills for Care).

Besides supporting careworkers with career progression, the Government has maintained access to the Health and Social Care Visa route during 2023/24, enabling care providers to recruit from overseas. In December, the Home Secretary announced that the Migration Advisory Committee will revise the Shortage Occupation List to create a new Immigration Salary List. This could have significant cost implications for care providers which, because of the timing of the announcement and changes, they cannot consider in their fee negotiations with councils for the 2024/25 financial year, which are already underway. That careworkers can no longer bring dependants to the UK may also reduce the number of potential applicants.

The funding announced in the 2022 Autumn Statement will increase funding by £692m next year. There is also other additional grant funding, including for workforce and hospital discharge. For comparison, the Institute for Government has estimated that total spend for adult social care for 2023/24 will come to around £25.7bn. Our Minimum Price for Homecare estimate increased to £28.53 per hour for 2024/25 compared to £25.95 per hour for 2023/24 - an increase of 9.9% year on year showing significant increases in the cost of delivering care. If cost increases in the residential care sector were similar, this would suggest that we would need around £2.5bn extra to tread water.

Unfortunately, besides inflationary pressures, we believe that in 2023 there is already an outstanding deficit in funding in the homecare sector – where providers receive payments that do not cover the costs of delivery.

If careworkers were to be paid the equivalent of NHS healthcare assistants at Band 3 with 2+ years' experience, this would demand an extra £2.08 billion per annum across the UK. In 2024/25, the Government will allocate £1,050m via the Market Sustainability and Improvement Fund (some of which is allocated for specific purposes – this includes the workforce funding announced in July 2023). This is clearly not enough to meet the deficit once you consider the needs of the residential care sector as well.

Looking at the wider social care sector, the Health Foundation has estimated a funding gap of £8.4bn for 2024/25 if social care is going to meet the growth in demand, improve access to services and cover the true costs of delivering care. To suggest Councils might meet this from raising Council tax seems unrealistic.

£200m is allocated through the Discharge Fund to support social care with hospital discharge and ease winter pressures. Short-term grant funding to cover winter pressures is likely to be an inefficient solution as systems have insufficient time to establish routine seasonal approaches to managing pressures when planning hospital discharge support and ad hoc arrangements are likely to have higher overheads to set up service agreements, finding and recruiting staff and so on. The Government must plan for winter pressures as part of its annual processes and not maintain a cycle of emergency funding year on year.

The Government allocated funding to support adoption of digital technology in adult social care. This included a project based Adult Social Care Technology Fund to implement and evaluate care technology (which has included some projects in homecare). The Adult Social Care Digital Transformation Fund which should support providers to transition to using Digital Social Care Records, with the ambition that 80% would go digital by March 2024. This has been operating through Integrated Care Systems. The Department of Health and Social Care has said that around 60% of providers are using Digital Social Care Records and that they were not expecting to reach their target by spring. Further financial and practical support is likely to be needed to achieve the 80% goal.

Policy proposals

Recommendation 1: Adequately fund social care commissioned by the public sector

Alleviating the pressures on the social care sector that we have described in this response demands sustainable long-term funding. In our most recent Homecare Deficit report, we have shown again that the fees paid by public sector commissioners are substantially below the true cost of delivery of care, let alone that of delivering pay and conditions that would make social care a truly attractive proposition for the UK's workers.

Every year, we produce a Minimum Price for Homecare, which calculates the minimum fee rate needed to fully cover the costs of care delivery – including the careworker's time during the visit but also training, travel, pension, supervision, IT costs, office costs, administration costs and so on.

In the following table we illustrate how, even at minimum wage (i.e. National Living Wage of £11.44 (applicable from April 2024)), care providers would need £28.53 per hour in 2024/25 in order to cover their delivery costs.

The direct careworker costs alone, which include pay for time spent caring and travel time, National Insurance, pension, holiday pay, training pay, sick pay, notice and suspension pay and mileage amount to £19.90. A further £8.63 is required to cover management and supervision, back-office staff, recruitment, training, regulatory fees, office costs, IT, PPE, finance, legal and professional services, insurance, other overheads and surplus.

Minimum Price for Homecare in England at the National Living Wage (2024-25)						Costs	
Careworker costs	Gross pay	Hourly rate for contact time	National Living Wage		£11.44	£13.79	£19.90
		Careworkers' travel time	20.56%	of hourly rate for contact time	£2.35		
	NI & pension	Employers' National Insurance	6.38%	of gross pay	£0.88	£1.29	
		Pension contribution	3.00%	of gross pay	£0.41		
	Other wage related on-costs	Holiday pay	12.07%	of gross pay, NI & pension	£1.82	£2.92	
		Training time	2.91%	of gross pay, NI & pension	£0.44		
		Sickness pay	4.20%	of gross pay, NI & pension	£0.63		
		Notice & suspension pay	0.20%	of gross pay, NI & pension	£0.03		
	Mileage	Travel reimbursement	£0.45 per mile for 4.20 miles per hour of contact time		£1.89	£1.89	
Gross margin	Business costs	Management & supervisors		Estimated fixed cost	£2.47	£7.27	£8.63
		Back-office staff		Estimated fixed cost	£0.91		
		Staff recruitment		Estimated fixed cost	£0.36		
		Training costs		Estimated fixed cost	£0.41		
		Regulatory fees		Estimated fixed cost for average-sized provider	£0.07		
		Rent, rates and utilities		Estimated fixed cost	£0.47		
		IT & telephony		Estimated fixed cost	£0.57		
		PPE and consumables		Estimated fixed cost	£0.72		
		Finance, legal & professional		Estimated fixed cost	£0.41		
		Insurance		Estimated fixed cost	£0.34		
		Other business overheads		Estimated fixed cost	£0.52		
	Profit	Profit/surplus/investment	5.00%	of careworker costs & business costs	£1.36	£1.36	
Total price based on the National Living Wage (2024-25)					£28.53	£28.53	£28.53

Our Homecare Deficit research revealed that the average rate paid for an hour of care in England during the sample week in 2023 was £21.59 per hour, almost £7 lower than our calculated minimum price.

If homecare workers were to receive a wage equivalent to that paid in the NHS (based on a Band 3 pay rate of £12.45 per hour, for someone with 2+ years' experience), then using the same calculation method we would see hourly rates providers need to charge increase to £30.31 per hour of care delivered.

Even this figure does not cover the costs of implementing better working conditions (for example, shift patterns rather than zero-hour working and/or clear career progression structures). To see substantial and sustainable changes, further ongoing investment will be required – and this must be as reliable income and not short-term grants. It is very difficult for employers to improve workers' conditions without a guarantee of sustainable funding because temporary increases in pay, for example, could lead the organisation into financial or HR difficulties should the temporary funding cease.

We urge the Government to meet this deficit and pay a fair and sustainable rate for care of at least a rate that provides parity with the NHS. This would be £30.31 to cover all delivery costs in a way that provides parity in terms of pay, but it would cost more than that per hour for total delivery costs if parity for terms and conditions were also to be matched.

Earlier in this response, we mentioned the international recruitment of careworkers. It is important to reiterate that if the sector must rely on an increased level of international recruitment in the future, this will further drive up overhead costs. Commissioners must also meet these costs.

Recommendation 2: Reduce direct costs associated with International Recruitment in Adult Social Care

We would urge the Government to reduce the Sponsorship fees, Immigration Skills Surcharge and other direct costs for applicants using the Health and Social Care Visa route.

Recommendation 3: Make travel more affordable for careworkers

Careworkers, who remain among the lowest-paid members of the workforce, suffer disproportionately from the effects of high inflation and rising costs of living. Many, particularly in rural areas, have to use their own vehicles to travel between the homes of those they support.

HMRC's mileage allowance rates of 45p for cars, 24p for motorcycles and 20p for bicycles have not increased since tax year 2011/2012.

Tax applied to company vehicles presents a further financial obstacle because employees given the use of such vehicles are charged the same amount as a P11D benefit, irrespective of whether the company provides them with a car that is brand new or many years old. A fairer structure would encourage more care providers to offer company vehicles to their careworkers.

The Government could use its procurement power to source a fleet of electric vehicles for homecare workers, which would also support the environmental agenda.

We call on Government to increase the mileage allowance, to tax company vehicles in accordance with the current market value, to provide access to interest-free loans, comparable to student loans, for staff in the care sector that wish to learn to drive and purchase their own car, and to offer affordable options to increase use of electric vehicles in the care sector.

Recommendation 4: Zero-rate the care sector for VAT

VAT costs in the care sector are effectively increasing the costs for public sector purchasers of homecare services (or increasing the deficit between what the public sector fee rates are and the cost of delivery). Where care is purchased privately, they are inflating the costs to individuals in need of care and support of vital and necessary services.

"Welfare services" provided by regulated social care providers are currently rated exempt. This means that the care provider does not charge VAT on services that they provide. However, if these services were zero-rated it would also mean that providers would not need to pay VAT on goods and services they need to operate – which could range from business services to disinfectant.

Some other analogous goods and services, such as some mobility aids, are zero-rated already. Social care also provides an essential service to disabled and older people.

We recommend that homecare businesses which provide "welfare services" should be able to recover input VAT costs on all goods and services which they purchase on an ongoing and permanent basis – moving them from "exempt" to "zero-rated".

Recommendation 5: Consistent regulatory oversight of care

The purpose of regulation in adult social care is to ensure that providers meet national standards and to protect the public from the risk of harm. Oversight of safety and quality should be based on the activities performed rather than the employment status of workers.

Recommendation 6: Waive CQC fees

The state should bear the costs of regulation of social care rather than through fees paid by individual organisations, and the current policy of full cost recovery reversed.

We have previously argued that the Government would have a more effective incentive to hold the CQC to account for its use of funds if the Government fully funded it.

The state should pay for the public good of a well-regulated social care system and ensure confidence and public accountability.

Public sector commissioners should cover the cost of regulatory fees for most care provided – meaning most of the funding should already be coming out of HM Treasury through one route or another; it just becomes more administratively complex to collect this funding as fees than as a direct grant fund to the CQC – thus making it less efficient spending.

To quantify this cost, the CQC's latest set of financial reports suggest fee income from Adult Social Care in the community amounted to £23.1m in 2021/22 (Table 3.1).

Recommendation 7: Funding for Digital Transition

The goal of having 80% of care providers using Digital Social Care Records by spring 2024 will not be achieved. Additional funding to support Digital Transformation will be needed in 2024/25 to continue the development of this goal. There must be ongoing support for providers to understand cyber security risks and manage incidents.