

# UKHCA Briefing

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## A Minimum Price for Homecare

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## **Disclaimer and caution**

UKHCA’s “minimum prices” for homecare services to comply with National Minimum Wage, the National Living Wage or the (voluntary) 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 or other purchasers 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=436](http://www.ukhca.co.uk/downloads.aspx?ID=436).

## Introduction

Growing focus has been placed on the quality of home-based care services and public sector spending constraints which have severely impacted on homecare services. 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 not only to providers, but also 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 (for workers aged under 25) or the National Living Wage, including any 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 voluntary Living Wage or above,<sup>1</sup> with recommendations to this effect being

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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 Greater London; (b) The UK Living Wage for outside of London. 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 possible and within 6 months of the annual announcement. For more information see: [www.livingwage.org.uk](http://www.livingwage.org.uk). The (voluntary) Living

advanced by a range of stakeholders, including Scottish Government, the Burstow Commission,<sup>2</sup> and Unison's Ethical Care Charter.<sup>3</sup>

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 (including the National Living Wage), the Scottish Living Wage, the UK Living Wage and London Living Wage.

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Wage predates the National Living Wage which became law from April 2016 for workers of 25 and over.

<sup>2</sup> Koehler, I (2014) Key to Care: Report of the Burstow Commission on the figure of the home care workforce, pages 6-7. See: [www.lgiu.org.uk/wp-content/uploads/2014/12/KeyToCare.pdf](http://www.lgiu.org.uk/wp-content/uploads/2014/12/KeyToCare.pdf).

<sup>3</sup> Unison (2013) Unison's Ethical Care Charter, page 5. See: [www.unison.org.uk/upload/sharepoint/On%20line%20Catalogue/22014.pdf](http://www.unison.org.uk/upload/sharepoint/On%20line%20Catalogue/22014.pdf).

## **Definitions**

Five rates of pay are referred to in this document, as follows:

### Statutory rates, defined by legislation:

- **National Minimum Wage (NMW)** – For the purposes of this document we refer to the statutory rate applicable to adults aged 21 years, until they reach their twenty-fifth birthday.
- **National Living Wage (NLW)** – An enhanced statutory rate of pay, applicable to adults aged 25 years and above. This rate was introduced into legislation which became effective in April 2016.<sup>4</sup>

### Voluntary Living Wage rates:

- **UK Living Wage** – A pay rate calculated by the Resolution Foundation and endorsed by the Living Wage Foundation. It uses assumptions about the costs needed to support what is described as “wage which is enough to live on” in the UK.<sup>5</sup>
- **The Scottish Living Wage (SLW)** – This is currently the UK Living Wage. It is endorsed by The Scottish Living Wage Accreditation Initiative, which is hosted by The Poverty Alliance.<sup>6</sup>
- **London Living Wage (LLW)** – A pay rate calculated by the Resolution Foundation and endorsed by the Living Wage Foundation, which covers all boroughs in Greater London.

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<sup>4</sup> The National Living Wage is effectively a higher band of the National Minimum Wage for workers aged 25 years and above. It was announced in the Chancellor’s July 2015 Budget Statement (See: [www.gov.uk/government/speeches/chancellor-george-osbornes-summer-budget-2015-speech](http://www.gov.uk/government/speeches/chancellor-george-osbornes-summer-budget-2015-speech)).

<sup>5</sup> See: <https://www.livingwage.org.uk/what-is-the-living-wage>.

<sup>6</sup> See: <http://scottishlivingwage.org/>

## **What's new in Version 5.1**

Version 5.1 of UKHCA's Minimum Price for Homecare updates our calculations of prices based on two important changes in providers' cost pressures, which come into effect in April 2018, as follows:

- The increase in the National Minimum Wage and National Living Wage, as announced in the Autumn Budget 2017;<sup>7</sup> and
- An increase in employers' contribution to workplace pensions (from 1% to 2% of gross pay).<sup>8</sup>

Both factors create a significant increase in UKHCA's Minimum Price for Homecare from April 2018, compared to our previous published figures.

This new version also builds on the significant updates implemented in Version 4.0, which included the following:

- Revised calculations for the (voluntary) UK Living Wage, the London Living Wage and the Scottish Living Wage, based on updated rates announced in November 2017 (see page 37).
- We re-tested the assumptions used in our costings with five experienced finance directors from different sized organisations in the independent and voluntary sector.<sup>9</sup> A number of our assumptions were adjusted up or down to ensure that they reflect current business conditions. These are noted in the relevant sections of this briefing.
- In response to feedback from stakeholders, we changed our approach to the calculation of providers' business costs. Before version 4.0 we calculated the costs of running the business as a *gross margin percentage*. We now present costs as a *percentage mark-up of the direct costs*. We have also modified the calculation of careworkers' holiday pay, training time, sick pay and notice pay.<sup>10</sup>

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<sup>7</sup> This change was implemented in version 5.0.

<sup>8</sup> This change was implemented in version 5.1.

<sup>9</sup> The organisations represented include a large national provider, and medium regional provider, three small providers, one of which is from the voluntary sector. We extend our thanks for their assistance.

<sup>10</sup> From version 4.0 of this briefing these items are calculated as a percentage of the careworkers' gross pay *including* employers' national insurance contributions and pension contributions.

- Our assumptions for the age profile of front-line careworkers was updated to ensure that the balance between workers entitled to the National Minimum Wage and National Living Wage is reflected in our calculations (see page 19).
- Assumptions to cover careworkers' sickness and notice pay are now added as separate items in amongst staff on-costs.<sup>11</sup>

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<sup>11</sup> In previous versions of this briefing, these costs were included in the 'gross margin' calculation.

## Why adequately funded homecare is under scrutiny

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

- The 2017 Autumn Budget confirmed increases in the National Minimum Wage, effective from April 2018. However, this budget was virtually silent on any additional funding of social care in England,<sup>12</sup> while a forthcoming green paper consultation on the funding of social care in England was postponed until the summer 2018.<sup>13</sup>
- The Chief Executive of England’s Care Quality Commission (CQC) raised the regulator’s concerns that while England’s adult social care services have been able to maintain quality, “there are indications that the sustainability of adult social care is approaching a tipping point”.<sup>14</sup>
- The introduction of a new statutory “National Living Wage” in April 2016 has called into question the economic sustainability of the social care sector.<sup>15</sup>
- In February 2016, First Minister of Scotland, Nicola Sturgeon MSP, urged councils to adopt the higher (voluntary) Scottish Living Wage for social care workers.<sup>16</sup>
- In October 2016 UKHCA’s report “The Homecare Deficit 2016” used Freedom of Information legislation to reveal the extent of under-funding of older people’s homecare across the United Kingdom.<sup>17</sup> We found that just one-in-ten councils in the UK were paying our Minimum Price for Homecare at the rate which covered the full costs of the new National Living Wage.

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<sup>12</sup> The funding of care in Wales, Scotland and Northern Ireland is decided by the governments of each devolved nation.

<sup>13</sup> England’s forthcoming social care green paper (generally referred to as a “consultation”) is unlikely to bring forward any specific announcement about the short-term funding of social care.

<sup>14</sup> Care Quality Commission (2017) The state of health care and adult social care in England 2015/16, page 7. URL: [www.cqc.org.uk/publications/major-report/state-care](http://www.cqc.org.uk/publications/major-report/state-care).

<sup>15</sup> Brindle, J (2015) George Osborne’s ‘living wage’ could be the death of social care. The Guardian. 24<sup>th</sup> July 2015. URL: [www.theguardian.com/society/2015/jul/14/george-osborne-living-wage-death-social-care](http://www.theguardian.com/society/2015/jul/14/george-osborne-living-wage-death-social-care)

<sup>16</sup> <https://news.gov.scot/news/living-wage-for-care-workers>.

<sup>17</sup> UKHCA (2016) The Homecare Deficit: A report on the funding of older people's homecare across the United Kingdom. Sutton: United Kingdom Homecare Association. URL: [www.ukhca.co.uk/downloads.aspx?ID=458](http://www.ukhca.co.uk/downloads.aspx?ID=458).

- Just one in ten councils could provide UKHCA with their own calculation of the cost of an hour of care, even when asked to do so under freedom of information legislation.<sup>18</sup> We believe that this suggests that many councils have failed to consider accurately the actual costs of care their independent and voluntary sector providers face.
- The ADASS Budget Survey 2017 found that in 117 councils responding to the question, 8,805 people using homecare services had been affected by their provider handing back contracts to the council, or the provider ceasing trading. This compares to just 2,124 people using residential services for the same reasons during a six-month period.<sup>19</sup> All other things remaining equal, if this figure is grossed-up to cover all councils during a twelve-month period, over 22,000 people would have been affected by some form of withdrawal from service by a homecare provider.
- 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>20</sup>
- Government committed to "rule out crude 'contracting by the minute'" in England in the Care and Support White Paper "Caring for our future".<sup>21</sup>
- The Equality and Human Rights Commission (EHRC) reported on the impact of maximum prices imposed by councils in contracts with homecare providers.<sup>22</sup>

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<sup>18</sup> Angel, C (2016) The Homecare Deficit at [www.ukhca.co.uk/downloads.aspx?ID=525](http://www.ukhca.co.uk/downloads.aspx?ID=525) and "Councils 'don't pay fair price for care'" at [www.bbc.co.uk/news/health-37756433](http://www.bbc.co.uk/news/health-37756433).

<sup>19</sup> Association of the Directors of Adult Social Services (2017) ADASS Budget Survey 2017. page 25. URL: [www.adass.org.uk/adass-budget-survey-2017](http://www.adass.org.uk/adass-budget-survey-2017).

<sup>20</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>21</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>22</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).

- 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>23</sup>
- HM Revenue and Customs (HMRC) reported in 2013 on the pattern of non-compliance with National Minimum Wage in the residential and homecare sectors.<sup>24</sup>
- Unison has challenged local authorities to sign-up to an “Ethical Care Charter”, calling for councils to commit to paying homecare workers, including those outsourced to the independent and voluntary sector, the applicable (voluntary) Living Wage and to ensure that careworkers are paid for travel time, travel costs and other necessary expenses<sup>25</sup> (See page 37 for issues associated with such intentions).

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<sup>23</sup> Low Pay Commission (2013) National Minimum Wage, Low Pay Commission Report 2013, pages 130-131. URL: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/226822/National\\_minimum\\_wage\\_Low\\_Pay\\_Commission\\_report\\_2013.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226822/National_minimum_wage_Low_Pay_Commission_report_2013.pdf).

<sup>24</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).

<sup>25</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).

## Near-monopsony purchase power of local councils

The majority of homecare providers are based in the independent and voluntary sector (an estimated 94% in England). However, they operate in a market dominated by statutory sector purchasers, primarily local authorities, who exercise – and sometimes arguably exploit – their dominant purchasing power in an attempt to pay for care from their constrained budgets.

The degree of 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 independent and voluntary sector providers.<sup>26</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 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>27</sup>

UKHCA first published its Minimum Price for Homecare in February 2014. Just four of 101 councils in England responding to a BBC Freedom of Information enquiry consistently paid UKHCA’s original Minimum Price.<sup>28</sup> These findings which were backed-up by the ADASS Budget Survey 2017, which noted that “councils overall have been unable to meet the desired 2016/17 UKHCA benchmark of £16.70 [per hour]”.<sup>29</sup>

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<sup>26</sup> Very little data exists on privately purchased homecare. UKHCA’s estimate is built upon knowledge of the size of statutory purchase (where known) and reasonable estimates of privately purchased care.

<sup>27</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).

<sup>28</sup> See: “Councils in England “pay too little for home care”” at <http://www.bbc.co.uk/news/uk-26021026> and the transcript of the “File on 4” broadcast “Cut Price Care”, broadcast on 4<sup>th</sup> February 2014 at <http://www.bbc.co.uk/programmes/b03szh9m>.

<sup>29</sup> Association of the Directors of Adult Social Services (2017) ADASS Budget Survey 2017. page 20. URL: [www.adass.org.uk/adass-budget-survey-2017](http://www.adass.org.uk/adass-budget-survey-2017).

In its 2014 report, the Low Pay Commission stated:

“The adult social care sector continues to be under severe financial pressures stemming from the reductions in local authority budgets and the related constraints on the level of fees paid to independent care providers. On our visits around the country and in written and oral evidence, we were given many examples of very low levels of care fees. In our judgement providers will be faced in such circumstances with either being NMW non-compliant or failing to meet some other duty...”<sup>30</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 by councils when letting contracts and the use of competitive tendering processes to depress prices is widespread.

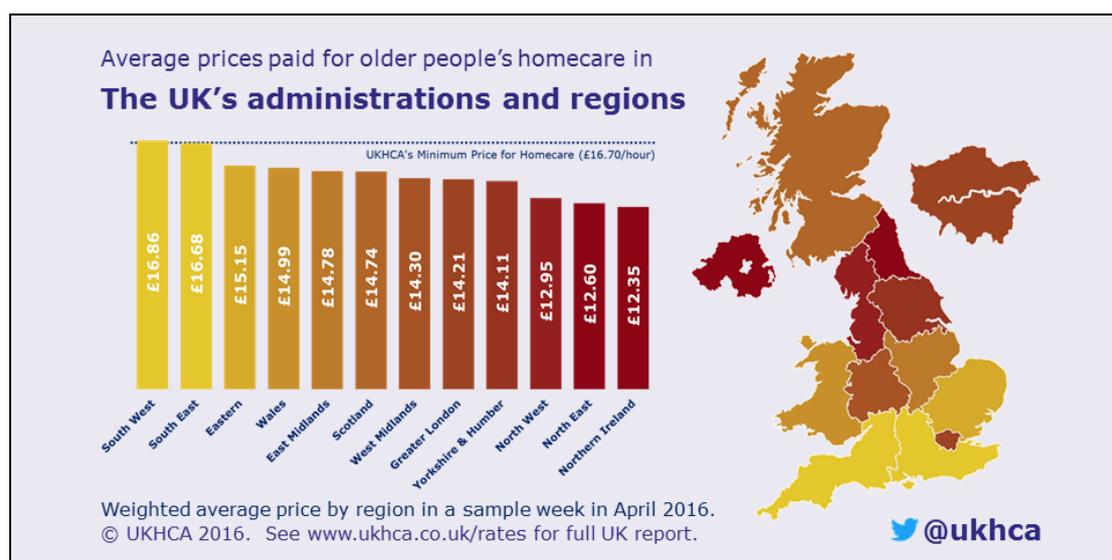


Figure 1: Average prices paid for older people's homecare during a sample week in April 2016.

<sup>30</sup> Low Pay Commission (2014) National Minimum Wage, Low Pay Commission Report 2014, paragraph 4.61, page 141. URL: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/288841/The\\_National\\_Minimum\\_Wage\\_LPC\\_Report\\_2014.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/288841/The_National_Minimum_Wage_LPC_Report_2014.pdf).

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

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. The Commission concluded:

"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>31</sup>

In 2013 UKHCA released a free online costing model for homecare services.<sup>32</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, without imposing any pre-determined assumptions, other than checking that pay rates do not fall below the statutory National Minimum Wage.

Using the UKHCA Costing Model can 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 online model in producing the minimum prices for care in this briefing.<sup>33</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. The costing model was updated in November 2017, in line with the changes in methodology introduced in version 4.0 of this briefing.

Although disputing UKHCA's original minimum price (of £15.19 per hour, at the time), the then President of the Association of Directors of Adult

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<sup>31</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).

<sup>32</sup> The UKHCA Costing Model is available at [www.ukhca.co.uk/CostingModel](http://www.ukhca.co.uk/CostingModel). The 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.

<sup>33</sup> The model round-figures up to down to the nearest penny, which accounts for any variations (usually £0.01) difference in the price quoted in this paper compared to the use of the on-line version.

Social Services (ADASS), Sandie Keene, publically endorsed UKHCA's Costing Model:

"We're strongly recommending that people use the UKHCA model to work through with providers alongside looking at all local conditions that would then determine what is a reasonable price for care.

"But there isn't a set amount for the price of homecare because of course it costs very different amounts of money depending on where people are in the country, whether it's a rural area or a city and urban area."<sup>34</sup>

Commenting on the disparity between the average prices paid by councils and UKHCA's Minimum Price for Homecare, the then immediate past President of ADASS, David Pearson, subsequently added:

"Each local authority should work with providers to establish between themselves the costs of care. This must take into account the local economic environment, so that fees are consistent with the expectations of an improving social care market."<sup>35</sup>

Since the publication of our original minimum price, the Care Act 2014 has come into force in England. The Statutory Guidance for Section 5 of the Act states:

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<sup>34</sup> See: [www.bbc.co.uk/news/uk-26021026](http://www.bbc.co.uk/news/uk-26021026).

<sup>35</sup> See: [www.adass.org.uk/adass-press-release-ukhca-homecare-deficit-report/](http://www.adass.org.uk/adass-press-release-ukhca-homecare-deficit-report/).

“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...”<sup>36</sup>

The Guidance specifically cites UKHCA’s Minimum Price for Homecare as one of the forms of guidance on minimum fee levels. Where councils undertake costing exercises and choose to deviate from the assumptions described in this paper (particularly where such deviation decreases the prices paid) they should have a clear rationale, supported by engagement with their local providers, and robust evidence from their local employment market.

In 2017 the Chartered Institute of Public Finance and Accountancy (CIPFA) produced “Working with care providers to understand costs”.<sup>37</sup> This guidance was commissioned by the Department of Health, ADASS and the Local Government Association for local authority commissioners in England. However, the principles in the guidance can be applied in all four UK administrations. UKHCA encourages homecare providers to share the guide with their local authority commissioners to promote the principles of engaging with local providers to understand factors affecting the actual costs of care.

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<sup>36</sup> Department of Health (2017) Care and support statutory guidance, Updated 24 February 2017, paragraph 4.31. See <https://www.gov.uk/government/publications/care-act-statutory-guidance/care-and-support-statutory-guidance#chapter-4>.

<sup>37</sup> CIPFA (2017) Working with Care Providers to Understand Costs. URL: [www.cipfa.org/policy-and-guidance/reports/working-with-care-providers-to-understand-costs](http://www.cipfa.org/policy-and-guidance/reports/working-with-care-providers-to-understand-costs).

## **Assumptions used in our calculations**

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

- A combination of the prevailing rates of the National Minimum Wage (NMW) and the National Living Wage (NLW);
- The UK Living Wage (outside London);
- The Scottish Living Wage;
- The London Living Wage.

We have used a consistent methodology for calculating minimum prices throughout this paper, as described on the following pages.

For definitions of the above rates of pay, please see “Definitions” on page 6.

## **Careworkers' 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>38</sup>

Local authority contracts generally require providers to meet all their arising costs from the fee paid for contact time,<sup>39</sup> with the expectation that the worker's pay rate is uplifted sufficiently to cover all working time, including applicable travel.<sup>40</sup> We believe this practice remains 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>38</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, where the worker is engaged in "unmeasured work" for the purposes of the National Minimum Wage Regulations.

<sup>39</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>40</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 and National Living Wage**

In April 2016, a new banding system for the National Minimum Wage was introduced, with a new “National Living Wage” becoming the main rate for workers aged 25 years and over.<sup>41</sup> Several lower hourly rates apply to workers under 25 years and below and to apprentices.<sup>42</sup>

In our calculations, we combine the “National Living Wage” and the National Minimum Wage for workers aged between 21 and 24 years inclusive, at the rate applicable from April 2018, which are as follows:

National Minimum Wage from 01 April 2018:	£7.38 per hour.
National Living Wage from 01 April 2018:	£7.83 per hour.

We produce a combined hourly rate, based on the proportions of the front-line workforce above and below their twenty-fifth birthday.<sup>43</sup> This produces combined hourly wage rate, as follows:

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<sup>41</sup> The National Minimum Wage (Amendment) Regulations 2016, Regulation 3. See: [www.legislation.gov.uk/uksi/2016/68/made](http://www.legislation.gov.uk/uksi/2016/68/made).

<sup>42</sup> We estimate that workers below this age account for just 6% of the domiciliary care workforce. For ease of calculation and because this small proportion of the workforce would make a minor change to the hourly rate in our calculations, we assume that all workers aged under 25 years receive the rate applicable to workers aged 21-24 years inclusive.

<sup>43</sup> Analysis of 179,511 records held on the National Minimum Dataset for Social Care (NMDS-SC) for staff working for private, voluntary or third sectors in adult and children’s homecare services. The sample includes roles described as: care staff, senior care workers, and other roles which directly provide care for service-users. Note that this data source only contains records of workers in England; the age profile of the homecare workforce in each UK administration may be subject to some variation. Analysis undertaken on 23 January 2017 using the on-line NMDS-SC “Workforce Age Profile” dashboard at <https://www.nmds-sc-online.org.uk/reportengine/GuestDashboard.aspx?type=AgeBand&lp=1>.

<b>Minimum wage rate according to age</b>	<b>Proportion of workforce</b>	<b>Applicable hourly wage rate from April 2018</b>
National Minimum Wage (assumed to be paid to all workers under 25 years of age)	11.0%	£7.38
National Living Wage paid to workers aged 25 years and above	89.0%	£7.83
<b>Combined hourly rate</b>		<b>£7.78</b>

Our calculations for the cost of an hour of care to comply with the National Minimum Wage and National Living Wage is therefore based on a combined pay rate as follows:

Combined hourly rate for National Minimum Wage and National Living Wage, from April 2018:	£7.78 per hour.
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We have sought views from a number of employers to assess their approach to using differentiated pay rates to workers above and below 25 years of age. In practice, employers appear to be paying their workers aged below 25 years the same rate as their older peers.<sup>44</sup> We therefore recommend that local authority costing exercises take this into consideration when undertaking their own cost of care exercises with providers.

The calculation of the minimum price for homecare at this combined rate of National Minimum Wage and National Living Wage are shown on page 35.

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<sup>44</sup> We have retained our methodology of differentiating pay rates for workers above or below 25 years of age, to be sure that we are calculating wage costs which would be compliant with the *legal minimum*. Our calculations may therefore slightly under-estimate the costs of careworkers' wages in practice, and we will keep our approach to using a "combined rate" under review.

## **UK Living Wage, Scottish Living Wage and London Living Wage**

The equivalent UK Living Wage rate has been calculated by the Resolution Foundation and published by the Living Wage Foundation.<sup>45</sup>

Unlike the statutory National Minimum Wage, the voluntary Living Wages are applicable to all workers, regardless of their age.

Our calculations for equivalent minimum prices to comply with these rates are therefore based on the following pay rates for working time, correct at the time of publication:

Scottish Living Wage, until 05 November 2018:	£8.75 per hour.
UK Living Wage, until 05 November 2018:	£8.75 per hour.
London Living Wage, until 05 November 2018:	£10.20 per hour.

Calculations for the minimum price of homecare at these rates of pay are shown on pages 38 and 39.

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<sup>45</sup> From November 2012 both living wage rates are have been published each November. Accredited Living Wage Employers are 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.

## **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, public holidays, nor to incentivise workers to undertake homecare visits of under one hour).

However, while our calculations describe terms and conditions of employment for careworkers which allow full compliance with the applicable wage rates, a flat rate of pay for unsocial hours working at the statutory minimum rates 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 on days of the week when many workers expect to be resting.

Under no circumstances should UKHCA's "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, or a sustainable organisation.<sup>46</sup>

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<sup>46</sup> We note a number of councils, and other authors, who refer to UKHCA's Minimum Price for Homecare as a "fair price" for care. This misrepresents the purpose of our calculation.

## **Careworkers' travel time and travel costs**

In 2012, we found virtually no evidence of councils making additional payments to providers to enable them to reimburse careworkers for their travel costs, or their time spent travelling while on duty.<sup>47</sup> We have no reason to believe that this situation has changed substantially, and we therefore include these costs within the hourly rate that the provider is paid for "contact time".

### **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 high proportion of very short homecare visits that many councils continue to purchase 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, need to be particularly aware that the prices paid for contact time may be inadequate to cover the real costs of care services they purchase.

The National Minimum Wage Regulations make it clear that "working time" includes the time spent travelling; waiting to begin a journey; waiting to begin carrying out duties at the end of a journey and waiting between different stages of a journey.<sup>48</sup> Where councils require providers to use electronic call monitoring (ECM) systems to capture the start and end times of a homecare visit in order to generate invoice values, the amount of time needed to gain access and egress from the service users' home should be factored into the length of the visit.

Councils and providers undertaking cost of care exercises are therefore urged not to adopt a narrow definition of travel time, which in practice

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<sup>47</sup> Angel, C (2012) Care is not a Commodity, pages 39-40. URL: [www.ukhca.co.uk/downloads.aspx?ID=356](http://www.ukhca.co.uk/downloads.aspx?ID=356).

<sup>48</sup> National Minimum Wage Regulations 2015, Section 20. See: [www.legislation.gov.uk/uksi/2015/621/regulation/20/made](http://www.legislation.gov.uk/uksi/2015/621/regulation/20/made)

would fall short of calculating careworkers' actual working time, and increases the risk of providers becoming non-compliant with the National Minimum Wage Regulations.

The episodic nature of homecare, 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, LaingBuisson, report data supplied by electronic call monitoring supplier CM2000, estimating travel time of 19% of contact time in 2010.<sup>49</sup> We have therefore based our calculations on:

Careworkers' travel time: Add 11.4 minutes to 1 hour of "contact time".<sup>50</sup>

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<sup>49</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>50</sup> This means that the careworker's total "working time" would be 71.4 minutes (or 119%) for each hour of the "contact time" spent in a service user's home.

## **Travel costs (mileage rate and distance travelled)**

HMRC publishes a maximum mileage rate of £0.45 per mile for use of private vehicles.<sup>51</sup> HMRC's 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.<sup>52</sup>

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>53</sup>

The assumptions for careworkers' travel costs are:

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

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<sup>51</sup> See: [www.gov.uk/government/publications/rates-and-allowances-travel-mileage-and-fuel-allowances](http://www.gov.uk/government/publications/rates-and-allowances-travel-mileage-and-fuel-allowances).

<sup>52</sup> For the purposes of costing exercises, we note that The AA publish median total standing and running costs mileage costs for petrol and diesel cars. See: [www.theaa.com/motoring\\_advice/running\\_costs/advice\\_rcosts\\_guide.html](http://www.theaa.com/motoring_advice/running_costs/advice_rcosts_guide.html)

<sup>53</sup> For example, bus fares in London from April 2017 were at a standard £1.50 per journey, capped at £4.40 per day using Oyster and contactless cards. London Underground fares and daily caps are at higher rates. Daily bus tickets in Manchester or the West Midlands around £5.00 per day.

## **Employers' contribution to National Insurance and pensions**

Employers must cover the costs of their contribution to National Insurance and pension contributions, which are calculated on the careworkers' gross pay, as follows:

Employers' National Insurance:	8.0% of gross pay. <sup>54, 55</sup>
Pension contribution:	2.00% of gross pay. <sup>56</sup>

Please note that employer's minimum contribution to workplace pensions increases from 1% to 2% on 6<sup>th</sup> April 2018. A further increase from 2% to 3% will apply from 6<sup>th</sup> April 2019 onwards. Providers offering alternative pension schemes may be making higher contributions towards their workers' pensions than these minimum amounts.

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<sup>54</sup> In version 4.0 we revised the rate of Employers' National Insurance Contributions *down* from 9.5% to 8.0%. This is because the first £157 of earnings is under the NI threshold. Based on an employers' NI rate of 13.8%, the average member of staff would have to be working a 40-hour week and earning £12.50 per hour in order to have an effective employers NI rate of 9.5%. In practice, employers' actual rate may vary between 7% and 9%, depending on careworkers' working hours and pay rates above the National Minimum Wage.

<sup>55</sup> The announcement of the National Living Wage in the Summer Budget 2015 stated that government will increase the National Insurance Contributions Employment Allowance from £2,000 to £3,000 a year (See HM Treasury (2015) Summer Budget 2015, paragraph 1.127. URL: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/443232/50325\\_Summer\\_Budget\\_15\\_Web\\_Accessible.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443232/50325_Summer_Budget_15_Web_Accessible.pdf)). As this reduction is applied on a "per organisation" basis (not to the individual worker), the effect on employers' National Insurance contributions for all but the very smallest organisations will be negligible.

<sup>56</sup> For more information please see: [www.workplacepensions.gov.uk/employer](http://www.workplacepensions.gov.uk/employer).

## **Holiday pay, training time, sickness and notice pay**

The following items are calculated as a percentage of the sum of:

- The careworker's gross pay; and
- The employer's National Insurance contributions; and
- The employer's contribution to the worker's pension.

This is because employers will make NI and pension contributions on them:<sup>57</sup>

Holiday pay:	12.07% of gross pay, NI and pension. <sup>58</sup>
Careworkers' training time:	1.73% of gross pay, NI and pension. <sup>59</sup>
Sickness pay:	0.50% of gross pay, NI and pension. <sup>60</sup>
Notice pay / suspension pay:	0.30% of gross pay, NI and pension. <sup>61</sup>

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<sup>57</sup> The calculation of the above costs as percentage mark-up of the workers' gross pay, employers' NI and pension contributions has changed from the methodology adopted before the publication of versions 4.0 of this briefing.

<sup>58</sup> The costs of statutory holiday pay can only be earned while the employee is actually working and is therefore 52 weeks less the 5.6 weeks that the worker takes as annual leave. The calculation for holiday pay expressed as a percentage is  $(5.6 \div 46.4) \times 100$  or 12.07%. For more information on holiday pay see: [www.gov.uk/holiday-entitlement-rights](http://www.gov.uk/holiday-entitlement-rights).

<sup>59</sup> This figure covers the cost of paying the worker's wages while he or she attends training and supervision (and is therefore not generating a fee for services). The other costs associated with training (the trainer's fee or wages, course materials, room hire etc) are met from the costs of running the business (the providers' indirect costs).

<sup>60</sup> A sickness pay assumption has been introduced into version 4.0 of this briefing. In earlier versions, we had expected these costs to have been reclaimed by the provider, which is no longer possible (See: <https://www.gov.uk/employers-sick-pay/help-with-sick-pay>). Maternity pay, on the other hand, can still be reclaimed, currently at 92% (or 103%, if the business qualifies for Small Employers' Relief).

<sup>61</sup> The costs of notice and suspension pay was introduced into version 4.0 of this briefing. Notice pay covers payments to workers who are either suspended on full pay (for example during safeguarding investigations), or who must be paid in lieu of working their notice as a result of employment disputes. In earlier versions, the costs were assumed to have been included in the providers' indirect costs.

## **Business costs**

The costs of running a business include (but are not limited to) the following items:

### Staffing, recruitment and training

- **Management / office team:** Employing the Registered Manager and other members of the management team, supervisors, assessors, coordinators, finance and admin staff.
- **Staff recruitment:** Recruitment advertising and undertaking criminal record disclosures and identity checks.
- **Training costs:** The costs of in-house and externally sourced training and qualifications, including workers' induction training.
- **Apprenticeship levy:** Payable by large organisations towards the costs of training apprentices.

### Premises, utilities and services

- **Rent, rates & utilities:** Building lease, business rates, maintenance, water, lighting and heating and cleaning.
- **IT equipment:** Computer software and licenses, including rostering and call monitoring systems.
- **Telephony:** Line leases, call charges and data transfer.
- **Equipment hire:** Rental of office and field-based equipment.

### Consumables

- **PPE and consumables:** Personal protective equipment, disposable items and staff uniforms.
- **Stationery:** Stationery, printing and postage.

### Professional costs

- **Marketing:** Producing handbooks, care records and customer information.
- **Cost of finance:** Bank charges, interest and depreciation.
- **Insurance:** Premiums to cover buildings; employers' liability; public liability; professional indemnity and medical malpractice.
- **Legal/professional:** Legal, accountancy and registration fees.

### Other business overheads

- **Business travel:** Fares, fuel, tax, insurance, vehicle leasing, repairs.
- **General:** Donations, subscriptions, translation services, general expenses.

In previous versions of our Minimum Price for Homecare, we presented these costs as a single calculation of providers' gross margin, based on reasonable expectations stated by number of homecare providers of differing sizes.<sup>62</sup>

Starting with version 4.0, we have changed our approach and now present providers' costs for running their business and their profit or surplus as a percentage of the providers' direct workforce costs.

Our new approach has been adopted because the concept of "gross margin" was not well understood by readers who do not have a strong financial knowledge. We had also received a number of requests from councils for a more detailed breakdown of the operational costs that providers face.

We set-out our cost assumptions, below. Readers should note that not all providers will record the costs of running their business under the same headings, or allocate their costs in the same way. Caution is therefore needed when comparing providers' costs with each other, or when comparing providers' costs against a theoretical model. It is important to consider not just individual cost lines, but the overall cost of running the business. Our assumptions are:

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<sup>62</sup> In August 2016 (after the introduction of the National Living Wage) we surveyed ten national homecare providers, including franchise operators, to obtain an estimate of the gross margin figure for their local authority business. Responses ranged from 21.2% to 42.4%, with a median gross margin of 30.4%. This confirms our original assumption was reasonable.

**Staffing, recruitment and training:**

Management / office team:	12.00% of careworker costs
Staff recruitment:	2.25% of careworker costs
Training costs:	3.00% of careworker costs
Apprenticeship levy:	0.00% of careworker costs <sup>63</sup>
<b>Subtotal:</b>	<b>17.25% of careworker costs</b>

**Premises, utilities and services:**

Rent, rates and utilities:	1.25% of careworker costs
IT:	2.35% of careworker costs
Telephony:	1.25% of careworker costs
Equipment hire:	0.90% of careworker costs
<b>Subtotal:</b>	<b>5.75% of careworker costs</b>

**Consumables:**

PPE and consumables:	1.45% of careworker costs
Stationery:	2.00% of careworker costs
<b>Subtotal:</b>	<b>3.45% of careworker costs</b>

**Professional costs:**

Marketing:	1.00% of careworker costs
Cost of finance:	1.85% of careworker costs
Insurance:	1.00% of careworker costs
Legal and professional:	1.00% of careworker costs
<b>Subtotal:</b>	<b>4.85% of careworker costs</b>

**Other business overheads:**

Business travel:	1.50% of careworker costs
General:	1.00% of careworker costs
<b>Subtotal:</b>	<b>2.50% of careworker costs</b>

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<sup>63</sup> The apprenticeship levy requires all employers with a pay bill over £3 million each year to make an investment in apprenticeships. The levy is charged at a rate of 0.5% of the annual pay bill, with an allowance of £15,000 per year to offset against the levy to be paid. In theory, employers should be able to reclaim the cost of their levy by taking on and training apprentices, so our assumption is that the apprenticeship levy is cost-neutral. This may not always be the case in practice, and for some larger providers, the apprenticeship levy may represent a cost, as their contributions to the levy are lost if it is not used within the prescribed time.

Combining all of the costs, above, produces the total percentage mark-up of providers' costs of sale needed to run a sustainable business:

Business costs:	33.8% of careworker costs.
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## **Profit / Surplus**

Organisations undertaking social care under contract with local authorities realistically make a net profit or surplus of 2-3% and usually not more than 5% of the total price.<sup>64</sup> For the purposes of illustration in this paper, we show profit/surplus as a 3% return on providers' total costs (the sum of employee costs and business costs).

Profit / surplus:	3.0% of careworker costs & business costs.
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Some councils maintain that they can and should control the profit/surplus which their subcontractors should be able to earn, arguing that they have a responsibility as to how public money is spent. Councils should be aware that profit/surplus requirements are effectively the cost of an organisation's willingness to do business.

If attempting to cap profit/surplus expectations in the local market councils should remember that this can reduce providers' willingness to trade with them and such practices may exclude some providers from the local market.

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<sup>64</sup> Readers should note that the published profit or surplus of businesses may vary from these figures in practice, particularly where the provider combines state-funded and privately funded care, or where published accounts include other services apart from state-funded homecare.

## The minimum price for homecare services



### 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, National Living Wage, the Scottish and UK Living Wages 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” (ie. applicable travel time, and when undergoing supervision and approved training) at the same hourly rate as for “contact time”;<sup>65</sup>
- 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.

Our assumptions have been made to reach a theoretical minimum price for an hour of homecare commissioned by local authorities. We do not

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<sup>65</sup> We have applied the principles of “working time” from the National Minimum Wage Regulations consistently in all calculations.

suggest that this rate adequately recognises 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.

## Cost calculation to cover the National Minimum Wage and National Living Wage

Cost item		Assumptions	Costs (Apr 2018-Mar 2019)			
Careworker costs	Gross pay	Hourly rate for "contact time"	Combined for of NMW (11%) and NLW (89%)	£7.78	£9.26	£13.08
		Careworkers' travel time	11.4 minutes per hour of "contact time"	£1.48		
	NI & Pension	Employer's National Insurance	8% of gross pay	£0.74	£0.93	
		Pension contribution	2% of gross pay	£0.19		
	Other wage related on-costs	Holiday pay	12.07% of gross pay, NI and pension	£1.23	£1.49	
		Training time	1.73% of gross pay, NI and pension	£0.18		
		Sickness pay	0.5% of gross pay, NI and pension	£0.05		
		Notice and suspension pay	0.3% of gross pay, NI and pension	£0.03		
	Travel costs	Mileage payment	£0.35 per mile 4 miles per hour of contact time	£1.40	£1.40	
	Gross margin	Business costs	Staffing, recruitment and training	17.25% of careworker costs	£2.25	
Premises, utilities and services			5.75% of careworker costs	£0.75		
Consumables			3.45% of careworker costs	£0.45		
Professional costs			4.85% of careworker costs	£0.63		
Other business overheads			2.5% of careworker costs	£0.33		
Profit		Profit / surplus	3% of careworker costs & business costs	£0.52	£0.52	
<b>Total price</b>			<b>£18.01</b>	<b>£18.01</b>	<b>£18.01</b>	

## **Illustrations of costs at National Minimum Wage and National Living Wage**

The following diagrams summarise the costs shown in the table on page 35. Figures are valid until 31<sup>st</sup> March 2019.

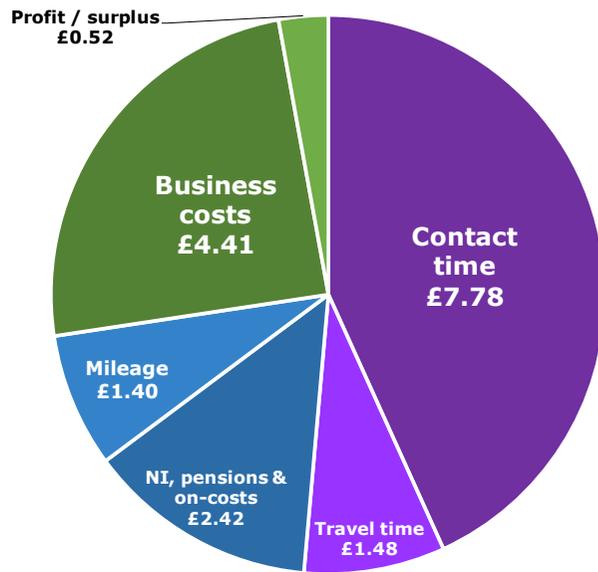


Figure 2. Component costs of UKHCA's Minimum Price for Homecare at the National Minimum Wage and National Living Wage.

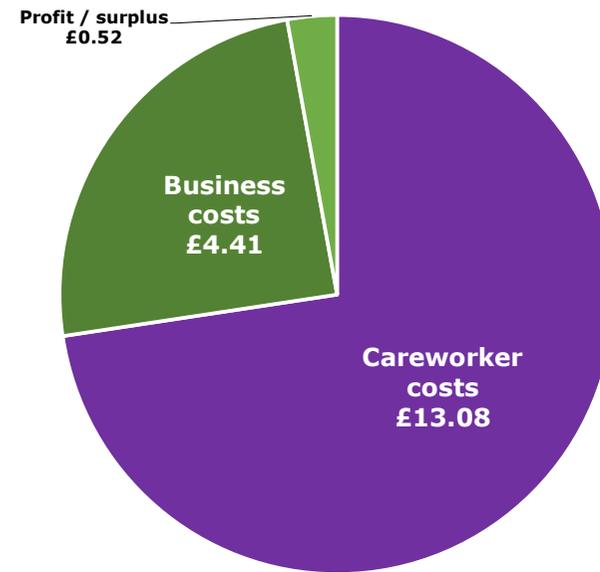


Figure 3. Simplified diagram of UKHCA's Minimum Price for Homecare at the National Minimum Wage and National Living Wage, showing careworker costs, business costs and profit/surplus.

## **The Minimum Price for the Scottish Living Wage, the UK Living Wage and London Living Wage**

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

However, we believe that a number of authorities are attempting to achieve payment of a Living Wage to workers without recognising (or paying) the substantial additional costs incurred by providers of uplifting workers' wage rates.

Careworkers' wage costs include not just the "contact time" spent in a service user's home, but also the time they spend travelling between visits and during training and supervision, as all of these items constitute "working time".

Authorities that wish to honour the principles of the Living Wage should recognise the full costs incurred by employers in the rates they pay to their providers. We believe that a significant proportion of councils stating that their contracts with providers enable workers to receive a voluntary living wage rate are making a claim which does not stand up to scrutiny.

UKHCA's minimum price for the Scottish Living Wage, the UK Living Wage and London Living Wage assumes that *all* working time, including careworkers' travelling time, must be paid at the same rate as "contact time", in order to honour the principles of the Living Wage movement.

Where employers increase wages to meet the additional costs of a voluntary living wage for front-line care staff, they will most likely need to consider the effect on the wage expectations of staff whose role includes additional supervisory or managerial duties. These members of staff may reasonably expect to maintain a pay rate differential which recognises their additional responsibilities. Employers must also consider the incentives needed to promote career progression for front-line workers.

The costs of maintaining pay differentials for supervisory and managerial staff is therefore reflected in the higher gross margin costs of our minimum prices for the voluntary living wage rates, as the salaries of supervisory and managerial staff are funded from the providers' business costs, as shown on page 40.

## Cost calculation to cover at the (voluntary) UK Living Wage or the Scottish Living Wage

Cost item		Assumptions	Costs (until Oct 2018)			
Careworker costs	Gross pay	Hourly rate for "contact time"	UK Living Wage or Scottish Living Wage	£8.75	£10.41	£14.52
		Careworkers' travel time	11.4 minutes per hour of "contact time"	£1.66		
	NI & Pension	Employer's National Insurance	8% of gross pay	£0.83	£1.04	
		Pension contribution	2% of gross pay	£0.21		
	Other wage related on-costs	Holiday pay	12.07% of gross pay, NI and pension	£1.38	£1.67	
		Training time	1.73% of gross pay, NI and pension	£0.20		
		Sickness pay	0.5% of gross pay, NI and pension	£0.06		
		Notice and suspension pay	0.3% of gross pay, NI and pension	£0.03		
	Travel costs	Mileage payment	£0.35 per mile 4 miles per hour of contact time	£1.40	£1.40	
	Gross margin	Business costs	Staffing, recruitment and training	17.25% of careworker costs	£2.51	
Premises, utilities and services			5.75% of careworker costs	£0.83		
Consumables			3.45% of careworker costs	£0.50		
Professional costs			4.85% of careworker costs	£0.72		
Other business overheads			2.5% of careworker costs	£0.37		
Profit		Profit / surplus	3% of careworker costs & business costs	£0.58	£0.58	
<b>Total price</b>				<b>£20.03</b>	<b>£20.03</b>	<b>£20.03</b>

## Cost calculation to cover at the (voluntary) London Living Wage

Cost item		Assumptions		Costs (until Oct 2018)		
Careworker costs	Gross pay	Hourly rate for "contact time"	London Living Wage	£10.20	£12.14	£16.70
		Careworkers' travel time	11.4 minutes per hour of "contact time"	£1.94		
	NI & Pension	Employer's National Insurance	8% of gross pay	£0.97	£1.21	
		Pension contribution	2% of gross pay	£0.24		
	Other wage related on-costs	Holiday pay	12.07% of gross pay, NI and pension	£1.61	£1.95	
		Training time	1.73% of gross pay, NI and pension	£0.23		
		Sickness pay	0.5% of gross pay, NI and pension	£0.07		
		Notice and suspension pay	0.3% of gross pay, NI and pension	£0.04		
	Travel costs	Mileage payment	£0.35 per mile 4 miles per hour of contact time	£1.40	£1.40	
	Gross margin	Business costs	Staffing, recruitment and training	17.25% of careworker costs	£2.88	
Premises, utilities and services			5.75% of careworker costs	£0.96		
Consumables			3.45% of careworker costs	£0.57		
Professional costs			4.85% of careworker costs	£0.82		
Other business overheads			2.5% of careworker costs	£0.42		
Profit		Profit / surplus	3% of careworker costs & business costs	£0.67	£0.67	
<b>Total price</b>				<b>£23.02</b>	<b>£23.02</b>	<b>£23.02</b>

## Comparison between costs at statutory and voluntary living wage rates

The price for homecare, to ensure compliance with the applicable National Minimum Wage (and the National Living Wage), using the assumptions described in this document:



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