

# The impact of the National Living Wage on the care sector in Wales

January 2016

A report produced in collaboration and consultation with commissioners, providers and representative bodies of care in Wales. It identifies key challenges facing the care sector and proposes ways forward through a constructive, cooperative approach and immediate support from Welsh Government.



This document has been written collaboratively by Association of Directors of Social Services Cymru (ADSSC), in consultation with the National Provider Forum (including Care Forum Wales, United Kingdom Homecare Association (UKHCA) Cymorth Cymru, Carers Trust Wales, Learning Disability Wales and Age Cymru).

It aims to set out the costs and consequences of the increase in the National Minimum Wage from April 2016, which will introduce a National Living Wage. Whilst we recognise National Minimum Wage increases will also impact on other sectors, the care sector in Wales is particularly hard hit because the vast majority of income is set and paid for by the public sector and it is unable to independently increase income. It is also a sector where a very high proportion of costs, around two thirds, are for staffing. As well as the care sector, these issues are also going to hit Supporting People providers hard, particularly those providing 24 hour projects and floating support.

Across the care sector the general principle of increasing the financial rewards for care workers is welcomed. The principle of care staff being appropriately paid for their efforts is endorsed by all concerned and may go some way to assisting with the significant challenge of recruitment and retention of care staff who are needed to care for increasingly vulnerable members of our communities. This is particularly important as demographics in Wales change dramatically and the number of people living with long term, complex conditions increases.

Whilst welcomed, the increases from April 2016, together with further increases leading to a statutory minimum wage of £9 per hour in April 2020, poses serious issues for both providers and commissioners of care across Wales. It should also be noted that increases in the minimum wage pose an additional pressure for providers in terms of wage differentials. Increases in wages for care workers will have to be mirrored in increases for senior care workers and other groups of staff in order to ensure that wage differentials are maintained.

### **Purpose of the document**

- To provide a joint submission to Welsh Government on behalf of commissioners and providers
- To identify the scale of the issues and costs concerned
- To identify the risks to service users, providers and commissioners
- To raise public awareness of the issue
- To assist Welsh Government in any dialogue with Government at Westminster.

## **Background**

The increase in the National Minimum Wage, to a National Living Wage from April 2016 is the latest in a series of factors that have increased or will increase the costs of providing care services in Wales. Other factors include:

- Sleeping in judgement (care provided overnight)
- Pension changes
- Travel costs – Domiciliary care
- Moving away from the commissioning of 15 minute calls
- Impact of HMRC changes
- Avoidance of zero hour contracts
- Moves to outcome focussed approaches and other legislative changes arising from the Social Services & Wellbeing (Wales) Act 2014 and Regulation & Inspection Bill.

Although in some areas there may have been small increases in fees paid for by commissioners these have tended to be inflationary increases as opposed to increases that reflect the true costs of the issues referred to above. Ongoing financial austerity measures for local authorities mean that there is little scope for cost pressures to be reflected adequately in prices paid for care in the near future. Consequently the only way authorities will be able to cope with increased costs is by commissioning less care service.

Clearly increases in costs of the nature referred to above cannot be absorbed by care providers indefinitely. Unless a solution is found then there will be significant consequences across the social care market. Amongst the consequences are likely to be:

### **Uncertainty over sustainability of the market**

The provider market within social care has been fragile for some time and all the signs are that the difficulties will increase. The Southern Cross experience in Wales several years ago demonstrated the impact that provider failure can have. There are a number of signs at the moment which indicate that further problems are likely to be forthcoming. UKHCA have indicated that 71% of their members across England and Wales turned down local authority funded packages of care over the last 12 months. If fee levels fail to keep pace with increased costs then it is inevitable that this figure will rise. Fees to homecare providers have been an issue in Wales for some time. UKHCA in March 2015 published information which demonstrated that hourly rates paid by local authorities in Wales varied between £11.67 to £16.24 per hour with only two local authorities paying rates that exceeded UKHCA's indicative minimum price of £15.74 per hour. It should be noted that this minimum price does

not take account of the forthcoming increases in the minimum wage. Furthermore UKHCA are stating that 11% of domiciliary care providers believe they will cease trading across England and Wales in the next 12 months.

Difficulties in this area are not restricted to domiciliary care. Of the largest learning disability providers one has indicated that at future costs their reserves will not allow them to operate beyond the end of 2016 while six others have indicated they will cease to operate in 2017. To put the cost pressures in this area into context learning disability providers have estimated that additional costs in 2016/17 will vary between £60,000 and £1.054m for individual providers.

Market failure in this area will seriously affect continuity of care for vulnerable people and could mean the reduction of professional knowledge and experience of local care requirements.

Difficulties in the care home market for older people are well known. Some areas of Wales are already reaching crisis point in terms of availability of provision. As previously referenced the experience with Southern Cross demonstrates the impact provider failure can have on the sector. Clearly the impact of the Judicial Review into Nursing Care fees may have an impact in this area but that will still leave the residential care market unresolved.

### **Fragmentation of the market**

Cost pressures faced by care providers as a result of the National Living Wage will inevitably be dealt with in different ways by local authorities. Some may be in a position to part fund the increases whilst the financial position of others will prevent them from doing so. The prospect that some local authorities will make provision for additional costs in this area, while neighbouring authorities do not, is likely to pose a real threat to the shape of the market. Providers will naturally be drawn to authorities paying the higher rates, effectively cherry picking packages whilst leaving other authorities struggling for capacity.

### **Impact of market failure**

The consequences of market failure in any aspect of the social care sector will be felt far more broadly than simply in local authorities. The impact of market failure on the health sector will be profound. Social care capacity is fundamental to the hospital discharge process and any capacity issues will inevitably lead to further delays in this area. In addition, problems in securing care packages / placements could lead to increased numbers of people being admitted to hospital.

Failure of businesses will impact on unemployment in Wales. The social care sector is a major employer and business failures could have a major impact on this position.

Local authorities commission many services in order to provide support to family members / unpaid family carers. Difficulties or delays in securing care packages could result in greater instances of family carer breakdown with additional costs in the future in relation to carers and the cared-for person for both local authorities and health boards. They also make it harder for family carers to sustain their own employment.

### **Ability of local authorities to respond**

The obvious place for providers to go in terms of increased staffing costs is to the local authorities who have commissioned the services. However, the impact of financial austerity on local authorities has severely impacted on their ability to respond. Even where local authorities may be able to make some provision it is extremely unlikely that they will be able to meet extra costs in full. The submission by ADSS Cymru to the Comprehensive Spending Review in August 2015 indicated that social services departments in Wales faced unavoidable cost pressures and demand pressures that will increase from £68m in 2016/17 to £234m by 2019/20. Clearly the ability to absorb any additional costs is virtually non-existent.

At the Comprehensive Spending Review 2015, the Chancellor announced a possible 2% Council Tax levy in England to assist with social care pressures has been noted. However, even in the event of a similar approach being taken in Wales it is estimated that this would only bring in around £25m, nowhere near sufficient to cover the cost pressures being faced.

### **Potential Solutions**

#### Changes in Procurement /tendering processes

Almost all providers spoken to complained of time consuming, overly bureaucratic procurement processes by local authorities / health boards. Likewise there is confusion and a lack of consistency amongst authorities in the way that procurement processes are applied. The view of all parties was that current procurement practices waste both provider and local authority resources and undermine the potential for cost efficiencies through collaboration.

Whilst it is appreciated that the processes are driven by EU rules it is important to ensure that the process is applied consistently and proportionally. It is felt that a piece of work by the National Commissioning Board in conjunction with Value Wales could bring about changes

that will reduce bureaucracy and costs in this area. Further benefits / efficiencies could be seen if integrated commissioning processes could be applied.

### Consistent Standards

Different commissioners often apply different standards and quality thresholds in terms of contracts. This is particularly difficult for providers working across local authority boundaries. The position is made even more difficult when regulators then apply a further set of requirements. A set of consistently applied standards would help providers greatly.

### Commissioning Differently

A move to commissioning outcomes rather than outputs would be beneficial. Current processes for commissioning and monitoring against set time allocation are bureaucratic, expensive and counterproductive in achieving outcomes. Furthermore, this also offers a win-win opportunity for providers to pay their staff more as a result of fewer hours being required to achieve outcomes. It is hoped that the Social Services & Wellbeing (Wales) Act will facilitate more imaginative commissioning practices based on a greater level of trust between commissioner and provider.

### Changes in VAT Status

Currently regulated services are exempt from VAT. This has the effect of reducing costs for self-funding service users but may increase provider costs as they cannot normally claim back the VAT on related purchases. The Five Nations group of care providers including UKHCA and Care Forum Wales has been asked by its members to revisit this issue and determine if a change in VAT status would be beneficial. Whilst it is appreciated that VAT is a non-devolved matter it is felt that this piece of work is clearly worth exploring further.

### Additional funding

All parties recognise the current climate of public sector finances in Wales and some of the difficult choices that have to be made. It is recognised that other mechanisms need to be explored to offset additional costs in this area and some examples are given above of where this may be possible. However, the financial implications of the increase in the National Minimum Wage in April 2016 and beyond will be able to be fully met if additional funding is allocated to the social care sector. Without an element of additional funding there is a very real danger that local authorities will only be able to meet costs by reducing the number of care hours and placements that they purchase.

## **Conclusion**

In summary the increase in the National Minimum Wage and subsequent progression across to a National Living Wage is welcomed and will go some way to appropriately paying staff that our communities are increasingly reliant on. However, the financial consequences of this remain unresolved and pose a major risk to the social care market from April 2016 onward. The consequences of provider / market failure will be felt far more widely than simply in local authorities and providers, with major consequences for the National Health Service in Wales. Whilst this document identifies some areas where changes in practice may offset some of the additional costs, an element of additional funding will be essential in ensuring a stable provider market going forward.

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