

THE COSTS AND BENEFITS OF PAYING CARE HOME WORKERS IN THE UK THE LIVING WAGE

This research investigated earnings below the Living Wage (LW) for staff in care homes for older people; what the costs and benefits of increasing pay might be; and identified how this pay increase could be funded. In light of budget announcements this summer, the research also explored the implications of the new National Living Wage (NLW) and reductions to in-work benefits.

Key points:

- Low pay in care homes is widespread, but differences emerge by gender, age, type of provider and geographical area.
- The estimated annual wage cost of paying the LW to all care home staff in 2014 is £830 million for the UK, increasing to almost £1 billion when National Insurance and pension contributions are factored in.
- Paying higher wages reduces the need for in-work benefits, conservatively estimated at £19 per week per household – in 2014. This LW would not therefore necessarily bring about significant increases to household income for low-income households.
- The new NLW announced in the Summer 2015 budget will affect at least 50% of care home workers. Including National Insurance and pension contributions, it would cost £387 million per year for the UK. Proposed reductions to in-work benefits mean that many low-income households will lose out on any potential gains in income.
- Care homes with self-funded residents are most likely to be able to afford a wage increase. Providers heavily dependent on local authority funding are least likely, given that local authorities fees are currently failing to cover the cost of residential care.
- The most compelling funding option is for central government to make more funds available to care home providers, given that it will receive additional funds from increases in tax and national insurance receipts and reductions to in-work benefits payments. The net public sector cost of the LW would be £286 million per year.

The research

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BACKGROUND

Increasing the pay of care home workers, alongside improving other terms and conditions of employment, is an important driver of better jobs for care home workers and increased quality of care for care home residents.

In 2015 the LW would raise pay to a minimum of £9.15 per hour in London and £7.85 in the rest of the UK. In light of the Summer 2015 budget announcements, the research also explores the implications of the new NLW of £7.20 and proposed reductions to in-work benefits.

Low pay and the care home sector

More than 1.5 million people work in the care sector in England and this figure is likely to exceed two million by 2025. It is a female intensive sector and many workers lack qualifications or opportunities for progression.

Analysis of the Skills for Care National Minimum Data Set for Social Care (NMDS-SC) indicates that in 2014, median hourly earnings in the care sector in England were £6.50 for Ancillary Staff, of whom there are over 110,000, £6.75 for Care Workers, of whom there are around 390,000, and £7.60 for Senior Care Workers, of whom there are over 60,000. These are average earnings and a number of workers in the care sector are paid significantly less.

Data from the NMDS-SC shows that some care home staff are being paid less than the NMW (the main cause being not being paid appropriately for sleepovers). When taken in conjunction with high levels of part-time and other forms of flexible employment, this means that work in the care sector is associated with high levels of in-work poverty.

Low pay in the care sector

	Paid Less than the National Minimum Wage (%)	Paid Less than the Living Wage (%)
Ancillary Staff	1.5	85
Care Workers	4.2	78
Senior Care Workers	13.9	52

Source: Skills for Care National Minimum Data Set for Social Care (NMDS-SC)

Organisations providing social care range from SMEs to multinational enterprises. Smaller businesses dominate the sector and at a national level, four major suppliers control 16% of provision (Laing, 2014). The private sector employs over 72% of the care home workforce, making it the main supplier. Any move to the adoption of the LW would affect the private sector the most as almost 90% of their employees are paid less than this.

Pay rates below the LW are common across England but there is a north-south divide. In the South East, which is the best remunerated region, 60% of our care workers are paid below this rate. In the North East, the worst remunerated region, almost 90% are paid less than the LW.

The care home market has significant buyer power because of the importance of local authorities in funding care. In recent years, cuts to local authority budgets have meant that fee increases have not been paid in line with inflation and currently fail to cover the cost of residential care. There is substantial cross-subsidisation from privately-funded residents to those in receipt of local authority funds (Isden *et al.*, 2013). The sector is polarised; on the one hand there are care homes in affluent areas with mainly privately-funded residents, on the other there are those care homes which are heavily reliant on local authorities for their income.

Implications of paying the Living Wage

Increasing the pay of care workers would have implications for a range of stakeholders, including workers themselves, care home providers, local and central government.

Costs

The costs of paying the Living Wage include increased wage costs, borne by employers, increased National Insurance contributions, borne by both employees and employers, and higher payments into pension schemes, borne by employees, employers and the Government. The estimated overall costs per year for England and the UK are summarised in the table below.

Increases in costs as a result of paying the Living Wage		
	England (£ million)	UK (£ million)
Wage Costs	688.8	831.5
Employer National Insurance Contributions	129.6	156.4
Employee National Insurance Contributions	112.8	136.2
Employer Pension Contributions	6.9	8.3
Employee Pension Contributions	20.6	24.9
Government Pension Contributions	13.8	16.6
Total	972.5	1,173.9

On average, raising wages to the level of the LW would increase the amount paid to the Ancillary Worker by £1,359 per year, to the Care Worker by £1,257 and to Senior Care Workers by £631. Once higher National Insurance and pension contributions are added, the total costs of implementing the LW for employers and the Government amount to £1,673 for each member of Ancillary Staff employed, £1,528 for each Care Worker and £758 for each Senior Care Worker.

Grossed up to the national level, the total bill for employers and Government is almost £840 million for England and over £1 billion for the UK.

Under these calculations, the figures reported reflect the costs involved if only those being paid less than the Living Wage are given a wage increase. This obviously erodes pay differentials between care workers and any move to restore these differentials would increase the costs further.

Benefits

The two main beneficiaries of adopting the LW would be care home workers themselves, through increased income and central government through increases in tax and national insurance receipts and reductions to in-work benefits payments. It is difficult to accurately quantify such benefits as, although wages accrue at an individual level, eligibility for benefits is determined at a household level. As such, it is influenced by family circumstances such as partner's earnings and the number of dependent children.

The 2014, Household Labour Force Survey (LFS) was used to gather information on the 'typical' family structure of care workers. Although this analysis concluded that there was no dominant family structure, it did reveal that around 40% of direct care workers received some form of benefit, which might include Income Support, Tax Credits, Council Tax Reductions and/or Housing Benefit. A number of hypothetical household scenarios were developed to generate the indicative savings that adopting the LW would generate.

A conservative estimate would be that for a 'typical' household the benefits saving in 2014 would have been £19 per week, almost £1,000 per year. This income-benefits trade off does mean that, for low-income households, the Living Wage will not necessarily bring about significant increases to household income.

The combined benefits to the Government, of higher tax revenues and lower benefits spending equate to £200 million, or 44% of the gross public cost of implementing the Living Wage.

The implications of the Summer 2015 Budget

The new NLW announced by the Chancellor in July 2015 will be paid to all those aged 25 and over from April 2016. It will affect at least 50% of care home workers. The NLW is set at a lower rate than the LW and including National Insurance and pension contributions, would cost £387 million per year for the UK.

Alongside the announcement of the NLW came some details of reductions in benefits spending, with the biggest reductions to in-work benefits. Whether increases in earnings through the NLW offset benefits reductions will depend on the household circumstances of care workers. Those in higher income households will gain and low-income households will lose.

Funding a Living Wage

Care homes with self-funded residents are most likely to be able to afford a wage increase; providers heavily dependent on local authority funding are least likely, given that local authorities have not increased fees in line with inflation and are currently failing to cover the cost of residential care.

On reviewing funding options, it would be a challenge for care home providers to make efficiency savings on the scale that would be needed. Asking self-funders to pay more would be an unpopular choice, especially as these residents are already cross-subsidising local authority funded places. Also, it is wrong to assume that all self-funders are wealthy. Given the current picture of local authority funding of care, it is unlikely that local authorities will be willing or able to provide additional funds to pay the LW.

The most compelling case is that central government should make more funds available to care home providers, on the basis that it will receive additional funds from increases in tax and national insurance receipts and reductions to in-work benefits payments. In relation to the LW, the net public sector cost would amount to £286 million per year.

About the project

The research report follows on from *John Kennedy's Care Home Inquiry* (2014) and is part of JRF's wider work on low-paid sectors.

FOR FURTHER INFORMATION

The full report, *The costs and benefits of paying care home workers in the UK the Living Wage* by Hilary Ingham, Sally-Marie Bamford and Geraint Johnes is available as a free download at www.jrf.org.uk

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