FABIAN SOCIETY

SEIZING THE OPPORTUNITY

THE FAIR PAY AGREEMENT IN SOCIAL CARE

Joe Dromey and Ben Cooper

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About the authors

Joe Dromey is the general secretary of the Fabian Society.

Ben Cooper is research manager at the Fabian Society.

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SUMMARY

The treatment of our social care workforce is a national scandal. England's 1.6 million care workers suffer from endemic low pay and poor conditions, with almost half of care workers paid below the real living wage, and many earning below the legal minimum wage when travel time is taken into account. There are few opportunities for progression, with senior care workers earning just £3 per shift more than care workers. A third of the workforce have received no training for their role; three in ten care workers are on zero-hours contracts, nine times the average for the economy as a whole; and few care workers receive more than the legal minimum in terms of sick pay or pensions.

The government is currently legislating for a fair pay agreement in the sector. This report makes the case for an ambitious and fully funded fair pay agreement in order to improve pay and conditions, tackle the workforce crisis, and improve the quality of care.

Low pay and poor conditions are the major driver of the workforce crisis in social care, which jeopardises the very sustainability of the sector. There are 120,000 unfilled vacancies in social care, with one in ten care worker roles vacant. Three in ten care workers left their role last year, a turnover rate three times higher than that seen in the NHS.

Low pay and poor conditions in care are the result of an underfunded and dysfunctional commissioning model. Local authorities lack the resources to pay for decent care, with 95 per cent commissioning below the minimum required to comply with employment rights. In an underfunded marketplace, providers minimise labour costs to win contracts and remain viable. The care workforce has low levels of union membership and bargaining power, limiting their ability to secure fair pay. Enforcement of employment rights is insufficient; HMRC inspects just 1 per cent of providers each year. Underpinning all of this is the chronic under-valuing of social care as a sector, and the social care workforce itself.

The fair pay agreement offers an opportunity to transform pay and conditions in the sector. In this parliament, the fair pay agreement should seek to:

- **Introduce a higher minimum wage** set at a rate equivalent to healthcare assistants in the NHS (£13.17/hr). This higher minimum wage – along with an uplift for senior care workers in order to protect differentials and support progression – would cost **£1.5bn** a year.
- **Provide occupational sick pay**, covering at least 50 per cent of pay, at a cost of **£117m** a year.
- **Increase employer pension contributions** to 5 per cent, matching employee contributions under auto-enrolment, at a cost of **£343m** a year.
- **Increase investment in training and development**, with all staff expected to have or be working towards the Care Certificate.

The total cost of these measures would be **£2bn**. At a minimum, the first fair pay agreement should introduce both the real living wage and occupational sick pay for the sector, at a cost of **£805m**.

While an ambitious fair pay agreement would represent a significant direct cost, it would also bring substantial benefits:

For care workers

- Introducing a higher minimum wage for the sector, aligned to NHS band 3, would benefit **603,000** care workers, with the average pay rise being **£2,050** a year.
- Improved sick pay would save the average care worker **£253** a year in lost pay compared to the current system.
- Improving pay would tackle poverty. Almost **one in five** care workers are in poverty, over double the rate of workers in the health sector.

For care recipients

- Through reducing turnover, care recipients would benefit from greater consistency of care, with support delivered by a team of staff who understand their needs.
- Higher pay would improve quality by better attracting, retaining and motivating the workforce. Introducing the higher minimum wage could lead to an additional **105** care homes being rated good our outstanding.
- Occupational sick pay would enable care workers to take time off when they are unwell, thereby protecting care recipients. During the pandemic, **one in 20** workers who tested positive for COVID were pushed by their employer to carry on working.

For care providers

- Improving pay would reduce high levels of turnover. Introducing the higher minimum wage would lead to **27,000** fewer care workers leaving their roles each year, saving providers **£163m** in recruitment and training costs.
- Better pay would help tackle chronic staff shortages. Introducing this higher minimum wage could be expected to attract a further **90,000** care workers, eliminating the long-standing staff shortages in the sector.

For the NHS

- The dysfunctional social care system is putting pressure on the NHS. Eliminating delays in discharges relating to social care could reduce the number of people waiting beyond 4 hours in A&E by **6 per cent**. This would mean an additional **125,000** people being seen within the target time.

For the economy and public services

- Introducing the higher minimum wage in social care would reduce the number of people paid below that real living wage across the economy as a whole by **10 per cent**. This would be the largest reduction in the number paid below the living wage since its inception in 2011.
- The fair pay agreement could narrow the gender and ethnicity pay gaps. **Eight in ten** workers in care are women, and the proportion of care workers from Black, Asian and minority ethnic backgrounds is almost twice as high as the economy as a whole.
- Improving pay in care would narrow regional inequalities. Care accounts for **one in 13** jobs in the north-east – the region with the lowest average pay – and just **one in 26** in London.
- Improving pay would reduce benefit spend and increase tax revenue. While introducing the higher minimum wage would cost £1.5bn, the Treasury would recoup **£600m** through lower universal credit costs and higher tax income.

For the fair pay agreement to be effective, it must be fully funded. Neither local authorities nor providers have the capacity to absorb the costs of improved pay and conditions. The agreement must also be properly enforced by the new Fair Work Agency, with support from local authorities and a stronger role for unions.

Investing in improved pay and conditions of the care workforce would deliver huge benefits. But it would come with a significant upfront cost. We set out a range of options for funding this investment, including increasing insurance premium tax on private health insurance to the level of VAT, and reducing the tax-free pension lump sum to £100,000.

1. INTRODUCTION

Across England, thousands of people receive social care to help them to live fulfilling, dignified, and independent lives. This is only possible because of the commitment and skills of 1.6 million care workers across the country. As more people live with complex needs in an ageing society, the importance of the care workforce will only grow. The government cannot build a National Care Service and guarantee high-quality social care without a properly rewarded and valued workforce.

However, social care is facing a workforce crisis. This should come as no surprise: care workers are underpaid and undervalued. Many care workers are providing high-quality care and support within a context of endemic low pay, insecure work, limited investment in training, and few opportunities for progression. As a result, far too many of those who provide care live in poverty or financial insecurity. Poor pay and conditions contribute to acute issues with recruitment and retention, undermining the quality of care, placing additional pressure on the NHS, and threatening the overall viability of the sector.

To fix the workforce crisis, the government has committed to introducing a fair pay agreement in adult social care. It forms a key part of the Employment Rights Bill which is currently progressing through parliament. The aim of the fair pay agreement, as set out in Labour's 2024 manifesto, is to "tackle the serious recruitment and retention crisis facing the sector, deliver higher standards for those receiving care and help us to tackle NHS waiting lists".[1]

The fair pay agreement will be a sectoral collective agreement which empowers workers, employers and other sector representatives to negotiate minimum pay, and other terms and conditions, for the entire sector. The fair pay agreement will be renegotiated annually, with a similar structure of negotiations and uprating of pay that is seen in other public services.

This will be the first time an incredibly fragmented sector – with over 40,000 settings and 18,500 employers – has come together nationally to establish a binding agreement.[2]

The fair pay agreement represents a once-in-a-generation opportunity to transform pay and conditions in this crucial sector. This report sets out how an ambitious fair pay agreement could deliver tangible benefits for care workers, for those who receive care, for providers, and for our wider economy. We highlight how the fair pay agreement could be implemented and enforced, so care workers feel the benefits. We also set out why it must be fully funded by the government, and how it could be paid for.

The report is based on a literature review, data analysis and modelling, and a stakeholder workshop.

2. THE ADULT SOCIAL CARE WORKFORCE

There were 1.6 million people working in adult social care in England in 2023 – 24.[3] The social care workforce is larger in headcount than the NHS, and the sector employs more people than the construction, transport, and food and drink industries.[4]

According to Skills for Care:

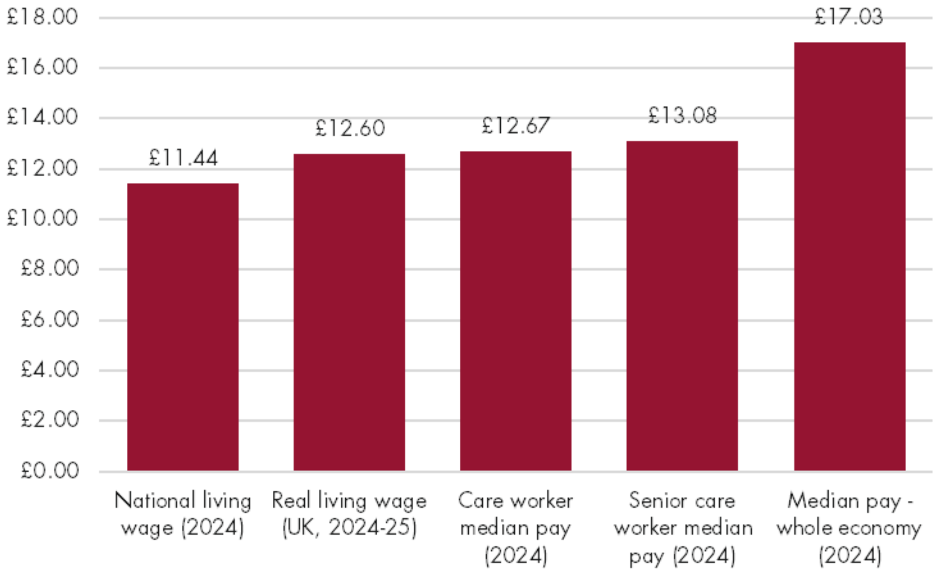
- There are 905,000 care workers, and 62,000 senior care workers, accounting for 62 per cent of the workforce.
- The vast majority of the workforce work either in the domiciliary care sector (740,000 workers), which supports people in their own homes, or in residential care (695,000), which supports people in care homes.
- 85 per cent of the workforce are employed by independent care providers, with 8 per cent employed by recipients of direct payments, and 7 per cent by local authorities. The proportion employed by independent care providers has increased significantly in recent decades.
- Women account for eight in ten (79 per cent) workers in the sector, compared to five in ten (48 per cent) across all sectors.[5]
- Workers aged 55 and over account for 27 per cent of filled posts. This means that 428,000 jobs in social care are occupied by a worker who is due to reach pension age in the next 12 years.
- Workers from Black, Asian and minority ethnic backgrounds account for a third (32 per cent) of the social care workforce, compared to fewer than one in five (18 per cent) employees across the economy as a whole.
- A quarter of social care roles are filled by non-British nationals. In London, social care is more reliant on migrant workers, with nearly half (46 per cent) of the workforce being non-British.

Low pay

The social care workforce is characterised by endemic low pay. Across the sector:

- The average care worker in 2024 earned just £12.67 an hour. This was only slightly higher than the real living wage at the time, which was £12.60 in 2024/25. The median care worker earns a quarter less than median pay for the economy as a whole (£17.03).[6]

FIGURE 1 – PAY IN SOCIAL CARE IS LOW WITH THE MEDIAN CARE WORKER EARNING ONLY JUST ABOVE THE REAL LIVING WAGE



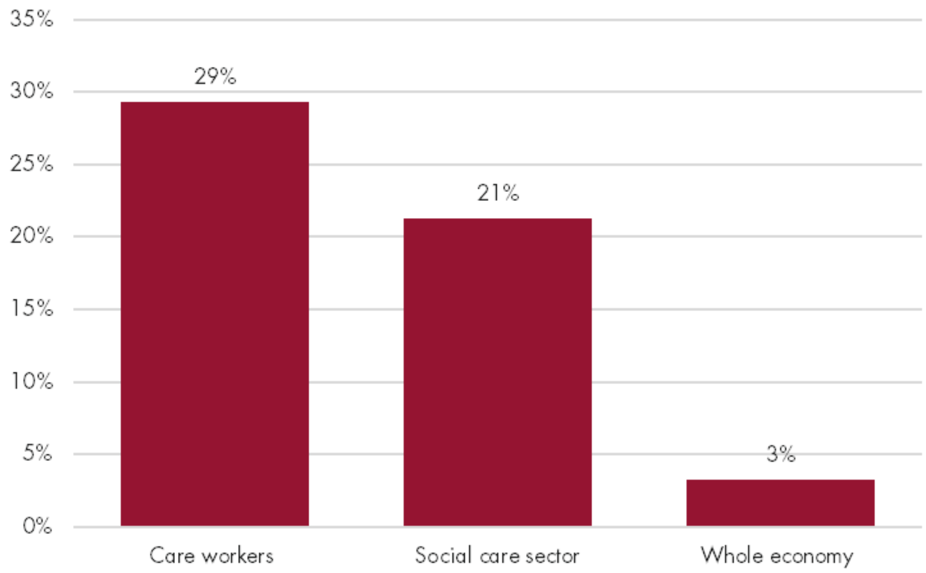
- Around 15 per cent of low-paid care workers are paid less than the national living wage – despite it being a legal obligation. People who provide homecare are particularly at risk, as they are often not paid for travel time between appointments. Once travel time is factored in, median hourly pay for workers in domiciliary care is below the legal minimum.[7] The supreme court has ruled that care workers who do 'sleep-in' shifts are only entitled to the minimum wage for the hours they are awake and performing work-related tasks – not the entire duration of their shift.[8]
- 466,000 care workers and senior care workers earn less than the national rate of the real living wage – equivalent to 46 per cent of care workers.[9] Adult social care accounts for just 5.6 per cent of employees in England, but 10.3 per cent of those paid below the real living wage.[10]
- Wage differentials within social care have essentially disappeared. The average senior care worker earns just 3 per cent more than the average care worker, equivalent to just £3 per shift. This is a decrease from 11 per cent in 2017.[11] This has been driven by the increases in the wage floor in recent years, which has compressed pay just above the minimum wage in the sector. Even managers in the independent sector are relatively low paid. They earn £32,000 a year, nearly a fifth below average pay across the economy as a whole (£39,000).[12]

Poor terms and conditions

In addition to endemic low pay, the social care sector is characterised by insecure work and poor terms and conditions:

- One in five (21 per cent) workers in social care are employed on a zero-hours contract, rising to three in ten care workers (29 per cent). The use of zero-hours contracts is far higher among independent providers (23 per cent) than among local authority providers (5 per cent).[13]
- Care workers are nine times as likely to be working on a zero-hours contract than workers across all sectors (3.3 per cent).[14]
- Only half (48 per cent) of care workers receive statutory sick pay when they are unwell, with a further 8 per cent saying they received no sick pay at all.[15]

FIGURE 2 – USE OF ZERO-HOUR CONTRACTS IS WIDESPREAD IN ADULT SOCIAL CARE



Limited training and progression opportunities

While social care is important work and requires a high degree of skill, the workforce tends to have low qualifications and limited access to training and progression:

- Most workers in social care (54 per cent) have no relevant qualification – and just a quarter have a qualification at level three or above, equivalent to A-level or T-level.[16]

- 39 per cent have achieved the Care Certificate, an identified set of introductory skills, knowledge and behaviours to provide high quality care. A further 15 per cent of care workers are working towards the Care Certificate.
- 36 per cent of workers in social care have received no training at all for their role.

Recruitment and retention

Chronic low pay and poor conditions in social care contribute to the workforce crisis:

- There are 120,000 vacancies in social care, representing 8.3 per cent of roles. Vacancies are higher for care worker roles, with one in ten (9.9 per cent) vacant.
- Care also suffers from high levels of turnover. One in four workers (24.2 per cent) leave their roles each year, rising to 26.5 per cent of direct care workers. The turnover rate is well over double the rate in the NHS (10 per cent).[17]

3. THE DRIVERS OF THE CRISIS

There are several factors that contribute to the poor conditions experienced by care workers. This chapter explores these factors, and sets out why a fair pay agreement is essential to improve conditions in the sector.

Underfunding and poor commissioning practices

The root cause of low pay and poor conditions in social care is the chronic underfunding of the sector.

Local government is responsible for funding most social care. Local authorities have seen large reductions in funding in recent years, with total spending per person falling by nearly 10 per cent in real terms in England between 2010-11 and 2024-25.[18] Spending on social care has increased slightly over this period, rising by 5 per cent.[19] However, this has been vastly outweighed by rapid increases in demand for care, with much of this demand going unmet. As a result, there are now some 2 million older people in England who are living with some unmet need for social care.[20]

Financial pressures also arise because adult social care is funded through a local government finance system that is itself broken. The capacity of councils to raise revenue locally varies massively across the country. It is poorer areas that have the least potential to raise resources through council tax or business rates.

In the context of a broken system for funding social care, many local authorities are commissioning care at a rate below the level needed to comply with employment rights. According to the Homecare Association, the minimum hourly price for homecare in England to employ a care worker on the national living wage[1] is £32.40 an hour in 2025-2026.[21] However, 95 per cent of the public organisations which commission care pay below this rate.[22] Considering 70 per cent of the costs for a homecare provider are staff costs, this underpayment has a direct impact on wages and conditions.

[1] The national living wage is the statutory minimum wage for workers aged 21 and over.

The shift to private provision and impact of private equity

In recent decades, we have seen a shift in provision from the public sector toward private providers of social care. In 1979, two in three (64 per cent) beds in residential and nursing homes were provided by local authorities or by the NHS. By 2023, just 4 per cent of social care provision was public.[23]

This matters because there is a difference in pay between private and public provision. The average care worker in the independent sector is paid around 10 per cent less than their public sector counterparts.[24]

The shift towards private providers also matters because the logic of competition within the care market. Most care providers want to provide high quality care, and the majority recognise that low pay is causing problems for the sector.[25] However, private and independent providers must compete in an underfunded and under-regulated market. Consequently, providers have to minimise labour costs in order both to win contracts and to remain viable. The shift from public to private provision has coincided with the unit cost of care falling by half. Most of this reduction was delivered through cutting labour costs of care workers, not through greater efficiency or innovation.[26]

While margins in social care are relatively small, they do vary, and some providers turn a substantial profit. The gross operating surplus of private and voluntary providers in social care was £2.9bn in 2023.[27] The majority of private care home providers (55 per cent) and four in ten (39 per cent) of private homecare providers had a return on capital of below 5 per cent in 2019. This represents a large number of providers with very small margins and limited viability. However, 13 per cent of private care home providers and 39 per cent of private homecare providers had a return on capital of over 15 per cent.[28] By comparison, the net rate of return on capital for the service sector as a whole across the UK was 15.5 per cent in the same year.[29]

Concerns have been raised that the increased role of private equity in the sector could contribute to further pay challenges. This is because many private equity providers operate with very high levels of debt. Some organisations, such as IPPR, have warned that this could lead to poorer conditions for the workforce.[30]

Lack of collective bargaining power

Trade unions play a vital role in supporting workers to enforce their rights and secure good pay and conditions.

However, union density in social care is low. Around a fifth of the care workforce are members of a trade union – falling to around 15 per cent in the private sector.[31] This is far lower than nurses in the NHS, of which around 80 per cent are union members.[32] Low levels of union density are in part due to challenges in accessing workplaces, and to resistance and hostility from some employers in the sector.

Low levels of union density in social care mean the workforce lacks bargaining power, limiting their ability either to push for sustainable funding for the sector, or to secure decent pay and conditions.

Limited state enforcement

The system for enforcement is dysfunctional and wholly inadequate, failing thousands of care workers each year.

There is evidence of widespread abuse of employment rights in social care. The average care worker in 2022 earned £11.07 per hour. However, after taking into account unpaid travel time, this fell to £9.20 an hour. This was 30p below the adult minimum wage at the time.[33]

Enforcement of employment rights in the UK is based on two approaches:

- **Workers can enforce their rights through employment tribunals.** However, this system is ineffective in sectors such as social care. It requires workers both to be aware of their rights, and to be confident in enforcing them. Low levels of union density mean that workers lack support to pursue claims, and high levels of zero-hours contracts mean that workers may be fearful of seeking to enforce their rights for fear of retribution. Workers in insecure work are three times as likely to say that they feel vulnerable to victimisation at work comparted to those in secure employment.[34]
- **The state can proactively enforce employment rights.** This is ineffective, both in social care and across the wider economy. HM Revenue and Customs investigates fewer than one per cent of providers a year.[35] This is largely due to a lack of capacity: there is just one labour market inspector for every 34,000 workers in the UK, less than a third of the minimum recommended level.[36]

Some local authorities have sought to enforce better pay and conditions in their area, including by signing up to Unison's ethical care charter for home care. However, an evaluation found that many councils lacked the capacity to monitor compliance with the terms of contracts.[37]

The undervaluing of social care

Underlying the above factors is the chronic undervaluing of both social care as a sector and the workforce who provide the care we need.

While the NHS is a cherished national institution, with a much-valued workforce, social care is an overlooked and undervalued service. This is partly because the NHS is used regularly by a significant proportion of the population, whereas many people have limited contact with and understanding of the social care system.

While social care is vital work, it is seen as being 'low-skilled' work. These perceptions are reinforced by chronically low levels of pay in the sector.

The undervaluing of the sector, and the underpaying of the workforce, may also relate in part to the demographics of the workforce. Women make up four in five (80 per cent) of the direct care workforce, and Black, Asian and minority ethnic workers make up nearly two in five (36 per cent) workers.[38]

Why we need a fair pay agreement in social care

Addressing low pay and poor conditions will be vital if we are to tackle the workforce crisis and deliver higher quality care. This can only be achieved through a legally binding fair pay agreement. This is because:

- **Voluntary approaches are not working.** While welcome, the impact of voluntary approaches on improving pay and conditions in the sector has been limited. The Ethical Care Charter is a scheme pioneered by Unison which encourages local authorities to commit to commissioning care through contracts that pay the living wage and for travel time. However, the distribution of pay for direct care roles in local authorities which have signed up to the Ethical Care Charter are broadly similar to those which have not.[39]
- **Increasing funding alone is not enough**. Increased funding for local authorities may not be passed on to providers, especially given the extreme pressure on council budgets. In Wales, for instance, there are concerns that increased funding intended to ensure payment of the real living wage has not been passed onto providers – even though there is a ringfence for social care generally. And even if rates are increased, there is no guarantee that providers will use this additional funding to improve pay. While labour costs represent the majority of a provider's cost, for every additional £1 received by care providers, pay increases by just 14p in care homes and 18p for homecare.[40]

Consequently, we need to see an ambitious and fully-funded fair pay agreement, which raises the pay floor, improves terms and conditions for the sector nationally, and ensures that additional funding makes its way to the pockets of care workers.

4. WHAT SHOULD THE AGREEMENT INCLUDE?

The first fair pay agreement will not solve all of the challenges in the sector, particularly given the challenging fiscal context. However, it should aim to deliver tangible improvements in pay and conditions, and start to both address the workforce crisis and to improve the quality of care.[2] The first fair pay agreement will also mark the start of a negotiating process, which should be built on over time. Unison has produced an initial position statement on the fair pay agreement which indicates how they will be approaching negotiations.[41]

In this section, we set out what the first fair pay agreement should include, what should be delivered this parliament, and longer-term priorities for the next parliament.

A higher minimum wage for social care

Since endemic low pay in social care is the major cause of the social care workforce crisis, improving pay should be the central focus of fair pay agreement. Unison has called for a significant increase in pay rates for care workers, moving toward a minimum of £15 per hour.

At a minimum, the first fair pay agreement should introduce a higher sectoral minimum wage for social care, aligned with the national rate of the real living wage.[3] Increasing pay to the national rate of the real living wage, currently £12.60, would mean a pay rise for **466,000** care workers.

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[2] Unison – the largest union in social care – has set out its priorities for the fair pay agreement. These include: a significant increase in pay, moving toward a minimum of £15/hr; an occupational sick pay scheme covering full average pay; all hours of travel time to be paid; a new national social care pension scheme with a minimum employer contribution; sleep in shifts to be treated and paid as working time; full pay for mandatory training.

[3] The real living wage is a voluntary minimum rate of pay which is set annually by the Living Wage Foundation based on the cost of living. This is distinct from the national living

Over the course of this parliament, the fair pay agreement should seek to increase minimum pay in social care to align with pay for healthcare assistants (band 3) in the NHS. Healthcare assistants with two years of experience currently earn £13.17 per hour.[42] Lifting pay in the sector to this level, and adding a 10 per cent increase over and above this level for senior care workers, would deliver a pay rise for **603,000** care workers.

As set out below, this higher wage floor would help make the industry more attractive, tackle labour shortages, reduce turnover and associated costs, and increase quality of care.

A formal structure for pay progression

Pay in social care is highly compressed, with senior care workers earning just £3 a day more than care workers, a very small return given the additional skill and responsibility. The limited opportunities for progression within social care are a key factor in explaining challenges with recruiting and retaining workers.

The highly compressed pay distribution and lack of opportunities for progression in social care stands in stark contrast to the NHS. The 'Agenda for Change' grading system sets out nine pay bands that group together posts in NHS, with nationally agreed pay rates, and clear progression opportunities through occupations.

While a higher wage floor in social care is essential, in the absence of other measures on pay, this would likely lead to further compression of pay – potentially reducing opportunities to progress beyond the wage floor, and limiting the impact on retention.

In this medium term, in this parliament, the fair pay agreement should introduce a higher rate of pay for senior care workers. If this was set at 10 per cent above the minimum wage for the sector as a whole, it would benefit **60,000** senior care workers.

In the longer term, the fair pay agreement should **introduce a formal structure for pay progression**, aligned with the Care Workforce Pathway. Developed by Skills for Care, the Care Workforce Pathway sets out a universal career structure for the sector, with 8 specific role categories.[43] Through setting out mandatory pay bands for these specific role categories, the fair pay agreement could establish clear opportunities for progression,

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wage, which is the statutory minimum wage for workers aged 21 and over. The living wage currently stands at £12.60 nationally and £13.85 in London, whereas the national living wage is £12.21.

reversing the pay compression seen recently in the industry, and supporting retention.

Due to both the complexity of creating pay progression and the additional cost of this measure, this should be a priority for the next parliament, rather than one that is negotiated in the first years of the fair pay agreement.

Fair payment for all working time

The first fair pay agreement should also ensure that care workers receive fair payment for their working time.

While time spent travelling between appointments legally counts as working time, most care workers are not paid for this time. The non-payment of this time means that many domiciliary care workers are effectively paid below the legal hourly minimum wage across all their hours worked.[44] Similarly, care workers who do sleep-in shifts are not entitled to be paid for the entire duration of their shift.

The first fair pay agreement should require employers to pay care workers for all of their working time during the day, including travel time, at least at the level of the sectoral minimum wage. To support this, employers in the sector should be required to provide transparent and clear pay slips which include travel time, enabling employees to understand how their pay is calculated.

In the medium term, the fair pay agreement should address other barriers to ensuring fair pay for all working time – including adequate sleep-in pay for overnight shifts. The agreement should also establish minimum mileage rates for domiciliary care workers.

Pensions

In addition to improving pay, the fair pay agreement should seek over time to improve pension entitlements in social care over time. Currently, pensions entitlement in social care are very limited, particularly in comparison to the NHS. Few care workers – asides from those working for local authorities – benefit from occupational pension schemes that go beyond the statutory minimum. Most receive employer contributions of just 3 per cent. In contrast, under the NHS pension scheme, NHS employers contribute 23.7 per cent of pensionable pay.

In the medium term, the fair pay agreement should require employers to offer occupational pension policies with employer contributions of at least 5 per cent of pensionable pay. This would ensure employer contributions match those of employees under auto-enrolment.

In the long term, the fair pay agreement should increase employer and employee contributions to 6 per cent. This would be in line with the Pensions and Lifetime Savings Association's 'Pension Quality Mark'.

Strong pension entitlements could support recruitment and retention, by making social care an attractive long-term job on a par with the NHS.[45]

Sick pay

The fair pay agreement should seek to improve coverage and generosity of sick pay within the sector.

Half of care workers (48 per cent) receive only statutory sick pay when they are unwell, with one in 12 (8 per cent) receiving no sick pay at all. This leaves care workers facing a significant income loss when they are unwell.[46]

The first fair pay agreement should require employers to offer occupational sick pay, covering at least half of an employee's usual pay for any days that they are unwell, up to an agreed period. In the medium term, sick pay entitlement should be brought into line with the NHS, which offers employees full pay for at least a month.

Enhanced sick pay in the sector would enable workers to take time off when they are sick, cushion the financial impact of illness, and protect the people they care for.

Training and development

Alongside increasing pay, the fair pay agreement in social care should seek to support training and development opportunities, both for inducting new staff and for career progression.

In the medium term, the fair pay agreement should require that all care workers achieve the care certificate as part of their induction. Employers should ensure that all staff have either completed the care certificate or are actively working towards it.

In the longer term, the fair pay agreement should set out further training and qualification requirements for the different roles in the Care Workforce Pathway so that there are clear progress routes to more senior roles within the sector.

There should also be a requirement to offer paid training time to care workers, so they can undertake training and development.

Job security and control

The fair pay agreement, and the government's wider employment rights reforms, should ensure that care workers have greater job security and control.

The employment rights bill will give workers a right to a guaranteed-hours contract if they work regular hours over a defined period. This will reduce the use of zero-hours contracts in the sector. However, it is likely some use of zero-hours contracts will continue.

In the medium term, the fair pay agreement could establish a right to compensation for workers on zero-hours contracts who face late notice cancellation of shifts, in line with the Living Hours campaign.[47] This would ensure workers are fairly compensated for the insecurity that they face on such contracts, and it would act as an incentive for employers to plan effectively and provide regular hours.

Employee voice

The fair pay agreement should ensure that the voice of care workers is heard – both within providers and across the sector as a whole.
The employment rights bill includes welcome measures to strengthen the rights of unions to access workplaces in order to recruit, represent and organise workers. The right of digital access – which will form part of the legislation – will be particularly important for homecare staff, who work remotely.

At the firm level, the fair pay agreement should ensure that unions in the sector have effective rights of digital access. Care workers should be informed both of their right to join a union on starting employment, and provided with information on their legal entitlements under the fair pay agreement.

FIGURE 3 – PHASING OF RECOMMENDATIONS FOR THE FAIR PAY AGREEMENT

	Pay and pensions	Training and development	Sick pay	Job security and control	Employee voice
Short term – The first fair pay agreement	Sector minimum wage aligned to the real living wage as a bare minimum Payment for travel time		Occupational sick pay of at least 50 per cent of usual pay	Right to a guaranteed hours contract	Workers informed of right to join union and rights under the fair pay agreement.

	Transparent pay slips			
Medium term – fair pay agreements in this parliament	Sector minimum wage aligned with NHS band 3 Minimum mileage rates Sleep in rates Employer pension contributions of 5%	All staff to have or be working toward the Care Certificate		Compensation for short-notice shift cancellations
Long term – fair pay agreements in the next parliament	Pay bands aligned to Care workforce pathway Employer pension contributions of 7%	Training and qualification requirements aligned to the care workforce pathway	Occupational sick pay at 100 per cent of usual pay	

5. BENEFITS OF AN AMBITIOUS FAIR PAY AGREEMENT

The workforce crisis underpins many of the challenges experienced across the wider social care system. An ambitious fair pay agreement, by tackling the workforce crisis, could address these challenges and transform the sector. It could deliver significant benefits not just for care workers, but for the recipients of care, for care providers, for the NHS, and for our economy and public finances too.

This section sets out the potential benefits of an ambitious fair pay agreement in social care.

Benefits for care workers

Most obviously and directly, the fair pay agreement would deliver significant benefits for the workers who deliver social care, and their families, through increased pay, greater security, and reduced poverty.

Increased pay

An ambitious fair pay agreement is the only practical way to deliver a significant improvement in pay for social care workers.

As we set out above, in the absence of a robust, enforced and funded fair pay agreement, there is no guarantee either that additional funding provided to local authorities will make it to providers, or that additional funding for providers will make it to staff.

Setting a sectoral minimum wage at the level equivalent to healthcare assistants (NHS band 3), along with a higher pay band for senior care workers, would mean a pay rise for **603,000** care workers – with the average increase for these care workers being **£2,050** a year. This would directly raise living standards for some of the lowest paid people in the country.[48]

Improved sick pay

An ambitious fair pay agreement should seek to improve coverage of sick pay.

If employers were required to pay occupational sick pay at the value of half of usual earnings, the average care worker would be **£253 per year** better off compared to the current entitlement to statutory sick pay.

Improved sick pay would reduce the insecurity facing care workers, allowing them to take time off when they are sick, and cushioning the financial impact of getting ill.

Reducing poverty and child poverty

An ambitious fair pay agreement in social care could significantly reduce both in-work poverty and child poverty.

Care workers are far more likely to be living in poverty than workers in most other sectors. Between 2017-18 and 2019-20, nearly one in five (18.5 per cent) residential care workers lived in poverty. This was higher than the average for the economy as a whole (12.5 per cent) and over double the rate of the health sector (8.5 per cent). A further 8.5 per cent of care workers were living just above the poverty line.[49]

Nearly one in 10 care workers experienced food insecurity, and around one in eight children of care workers were 'materially deprived', meaning they lacked access to essential resources such as fruit and vegetables or winter clothing. Children of care workers were nearly four times as likely to experience material deprivation as those of health workers.[50]

The high rate of poverty is a direct consequence of the low pay and poor conditions in social care. Boosting pay for the lowest-paid care workers would significantly reduce in-work poverty, and help tackle child poverty, both of which are key priorities for the government.

Benefits for care recipients

In addition to the benefits for care workers themselves, the fair pay agreement could deliver significant benefits to recipients of care through more consistent care, higher-quality care, and better infection control.

Consistency of care

Consistency of support is vital for the quality of care and for the wellbeing of care recipients.

Care often involves personal tasks, which care recipients may want delivered by someone they are familiar with. The National Institute for Clinical Excellence's quality standard for social care states that care users should receive "support from a consistent team of social care workers who are familiar with their needs".[51]

There is clear evidence that consistency of care between GPs and patients leads to better outcomes – particularly for older people and those who have complex, long-term conditions.[52] While this is obviously a different setting, it is reasonable to expect a similar impact in social care.

Currently, the rapid turnover of staff in the social care sector, driven by low pay and poor terms and conditions, actively undermines the consistency and quality of care. More than one in four workers in care left their roles last year, and turnover for frontline care stuff is three times higher than in the NHS.[53]

As is set out below, there is clear evidence that pay increases would lead to a reduction in turnover in the sector (see benefits for care providers). Through increasing pay in the sector, the fair pay agreement would reduce turnover and improve the consistency of care – creating better outcomes for those who receive care.

Care quality

Most care workers are committed to delivering high quality care. However, the dysfunctional social care workforce model leads to high levels of turnover, an overstretched workforce, and low levels of morale. This undermines both the quality of care and outcomes for care recipients.

There is a link between pay at a care home and quality. Evidence suggests a 10 per cent increase in the average hourly wage of direct care workers increases the likelihood of a care home receiving a high rating from the Care Quality Commission by 7.1 per cent.[54]

Increasing pay to align with NHS band 3 could therefore be expected to lead to an additional **105** care homes in England having a high-quality rating. This would mean an estimated additional **4,300** residents in care homes that have a high-quality rating.[55] And a much larger number of care recipients would benefit from improved quality care in homes that are already rated good or outstanding.

Infection control

Improving sick pay in social care is vital to ensuring effective infection control. Currently, many care workers have limited sick pay. This means that many have to continue working when they fall ill. This is clearly bad for the workers themselves, but it also puts the people they care for at risk of infection.

The lack of support for care workers when they are unwell had very concerning consequences during the pandemic. Some 7 per cent of care workers said they had to carry on going to work despite testing positive for Covid-19 because they could not afford to lose their wages. A further 5 per cent were pushed to continue working by their employer after a positive result. Care homes that did not offer sick pay were more likely to have high levels of Covid-19 infection among residents.[56]

Improving access to sick pay is essential to ensuring care workers are able to take time off when they are sick, protecting both their health and that of the people they care for.

Benefits for care providers

While an ambitious fair pay agreement would increase total labour costs for care providers, it would also help to reduce both turnover and vacancies, leading to savings and more general benefits for care providers.

Reducing turnover

There are very high levels of turnover in the adult social care workforce. One in four (24 per cent) workers in social care left their roles in the last year, equivalent to some **349,000 workers**. This turnover rate is higher still for care workers, with around 30 per cent leaving their role in the last year. The rate of turnover for care workers is three times that seen in the NHS, which stood at 10 per cent last year.[57]

High levels of churn can have a negative impact on providers, increasing their recruitment and training costs and reducing their ability to maintain reasonable staff workloads and good motivation.[58]

There is a direct connection between improving pay in the social care sector and reduced turnover. Vadean and Saloniki found that a 10 per cent increase in wages in social care reduced the 'job separation' rate by about 3 percentage points.[59]

Based on these figures, increasing pay to align with NHS band 3 would reduce turnover by just under 2 percentage points. While this sounds like a relatively small figure, it would represent **27,000 fewer care workers leaving their roles each year**. Based on the estimated cost for recruitment and training for new staff (£6,000), this would represent a saving for providers of **£163m** annually.[60]

Addressing staff shortages

The social care sector faces high levels of vacancies and staff shortages, driven largely by low pay and poor conditions. An ambitious fair pay agreement which lifted pay in the sector could help address staff shortages.

Using data from the Adult Social Care Workforce Data Set, it has been estimated that the elasticity of labour supply in the sector is 1.80. This would mean that an increase in wages of just 1 per cent would – all else being equal – increase labour supply in the sector by almost 2 per cent.[61]

Setting a sector-wide minimum wage for social care equivalent to NHS band 3 would lead to a total increase in wages of 5.6 per cent across care workers and senior care workers. Based on the estimated elasticity of labour supply, this would lead to an increase in employment of **10 per cent** in the sector – equivalent to an additional **90,000** care workers and senior care workers. This would eliminate the longstanding high levels of unfilled vacancies in social care.

Raising wages and offering better terms and conditions is critical to attracting the large number of new workers to replace retiring care workers, and meet the staffing requirements from growing social care demand. Around 428,000 roles in social care are occupied by a worker who will reach pension age by 2037. The care workforce will need to expand by 55 per cent between 2018-19 and 2030-31 to keep up with growing demand.[62]

Benefits for the NHS

Easing the pressure on the NHS

Addressing the social care workforce crisis is vital to easing the pressure on the NHS.

The lack of availability of appropriate social care is a major cause of delayed discharges of care. NHS England analysis found that a fifth of bed days lost are due to patients accessing adult social care packages on discharge. Their analysis suggests that eliminating these discharge delays for adults who receive adult social care packages when they leave hospital could improve compliance with the A&E four hour waiting target by **6 per centage points.**[63]

This would be equivalent to an additional **125,000** people being seen within the four hour waiting time target in the last month.[64]

Benefits for the wider economy and public finances

While it would come with a substantial direct cost, an ambitious fair pay agreement in social care would also lead to significant benefits for the economy and for the exchequer.

Tackling low pay

The social care workforce represents a significant proportion of the low paid workers in England. An ambitious fair pay agreement could substantially reduce levels of low pay.

There are some **466,000** care workers earning below the national rate of the real living wage. Introducing a sectoral minimum wage in social care, set at the level of the real living wage, would reduce the total number of people paid below this level living wage across the economy as a whole by a tenth (**10.3 per cent)**. This would represent the biggest single reduction in the number of people paid below the real living wage since its inception in 2011.

Narrowing inequalities

Previous research by the Fabian Society has found that increased spending on social care generally, as opposed to pay specifically, would significantly narrow inequalities.[65] An ambitious fair pay agreement would be the main mechanism to do so, and help narrow gender, ethnic and regional inequalities.

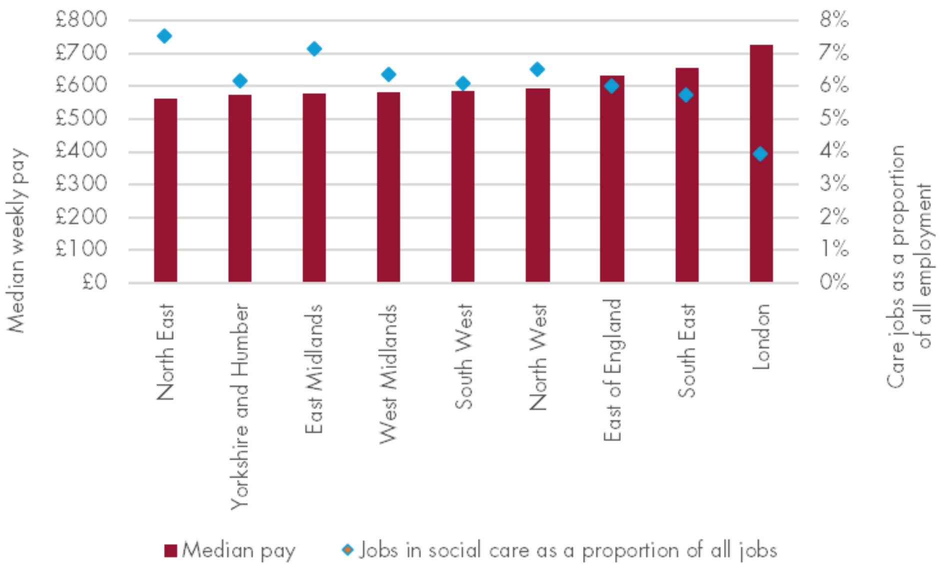
A fair pay agreement would lift the wages of a workforce that is:

- **Overwhelmingly female**, with 80 per cent of workers in social care being women – compared to 48 per cent of workers across the economy as a whole.[66]
- **More ethnically diverse**, with 32 per cent of workers in social care from a Black, Asian or minority ethnic background, compared to 20 per cent across all sectors.[67]

Through doing so, an ambitious fair pay agreement would help tackle the gender and ethnicity pay gaps. Currently, median hourly pay for women is 7 per cent lower than for men.[68] Similarly, pay for Black, African, Caribbean or Black British employees is 5.7 per cent less than for white employees.

An ambitious fair pay agreement would also have a positive impact on regional inequalities by boosting pay in a sector that makes up a larger part of deprived economies. Social care employees more people, as a percentage of the economy, in places with lower levels of average pay. Care accounts for **one in 13 jobs** in the North East, the region with the lowest average pay overall. In London, care accounts for just **one in 26 jobs**.

FIGURE 4: CARE ACCOUNTS FOR A HIGHER PROPORTION OF EMPLOYMENT IN REGIONS WITH LOWER MEDIAN PAY



Increased economic growth

The social care sector is a significant contributor to the England's economy – and boosting pay would be a direct injection into the economy as a whole.

The sector has a total gross value added (GVA) of £51.5bn in England, when including both indirect and induced effects.[69]

Investing in social care could generate a significant return. Skills for Care have estimated that a £6.1bn additional investment in adult social care could deliver £10.7bn of economic benefits, a return on investment of 175 per cent.[70]

Increased tax revenue and reduced benefit spending

Given the very low levels of pay in social care, a large proportion of the workforce are reliant on universal credit in order to top up their income. Increasing pay for the social care workforce would therefore lead to a large reduction in universal credit payments, as well as a smaller but still significant increase in tax revenue.

The Department for Business and Trade's impact assessment of the fair pay agreement finds that for each additional £1 spent on fees to providers in order to raise pay, approximately 40p of this is recouped through increased tax revenue and reduced universal credit payments.[71]

Introducing a higher minimum wage in social care, aligned to NHS healthcare assistants (band 3), would represent a direct cost of **£1.5bn**. However, the Treasury would see increased tax revenue and reduced benefit spending of **£600m.**[72]

Box 1: Delivering on the missions and milestones

An ambitious fair pay agreement could help deliver on a number of the government's missions, milestones and wider policy priorities:

Missions and milestones:

- **Growth** – the government has committed to boosting growth and to delivering higher levels of real household disposable income in every region. The fair pay agreement would boost incomes for low paid workers across England. The impact would be twice as large per resident in the north-east – which has the lowest pay – compared to in London – which has the highest.
- **NHS** – through improving the quality and availability of care, the fair pay agreement could reduce both unnecessary admissions and delayed discharges, reducing the pressure on hospitals and the wider NHS.
- **Opportunity** – the government has committed to reducing child poverty. One in nine (11 per cent) children living in a household with a care worker are materially deprived, nearly double the rate for all sectors (7 per cent), and almost four times the rate for workers in the health sector (3 per cent).[73] Improving pay in social care would have a positive impact on reducing both in-work poverty and child poverty.

Wider policy priorities:

- **Reducing immigration** – migrant workers have long played a vital role in the social care workforce. One in three (35 per cent) care workers were born abroad, with this number having increased significantly in recent years.[74] The government has committed to reducing net migration, and to ending recruitment of care workers from abroad. This is forecast to lead to 7,000 fewer care workers coming to the UK annually.[75] In the absence of other measures, ending recruitment from care workers from abroad would risk aggravating the social care workforce crisis. If the government does want to proceed with this measure, it must ensure the fair pay agreement makes social care significantly more attractive to UK-based workers, in order to avoid an increase in vacancies arising from a more restrictive immigration policy.

6. COSTS OF AN AMBITIOUS FAIR PAY AGREEMENT

While an ambitious fair pay agreement would offer significant benefits, it would represent a substantial direct cost that would need to be funded by the state. In this section, we highlight the cost of different elements of the potential fair pay agreement.

Eradicating underpayment of minimum wage

Before looking at the cost of raising the wage floor in social care, it is important to address the widespread underpayment of the existing wage floor. Analysis by Skills for Care found that enforcing the minimum wage for adult social care workers would have cost approximately **£42m** in 2023, with £30m paid by the state and £12m by self-funders.[76]

Introducing a higher minimum wage

Our analysis suggests that the cost of raising all care workers and senior care workers across England to the UK rate of the real living wage would be **£688m**.[77] This would mean a pay rise for **466,000** care workers, with the average increase for these care workers being **£1,478** a year.

However, as set out above, increasing pay in social care leads to a significant reduction in universal credit spending, and a smaller increase in tax revenue. Taking this into account, the cost of increasing wages in social care to the UK rate of the real living wage is reduced to **£413m**.

In the medium term, the government should seek to harmonise pay for social care workers and similar roles in the NHS. Under the NHS Agenda for Change pay scales, a band 3 healthcare assistant with two years' experience earns £13.17 an hour. This is 4 per cent higher than median pay for a care worker (£12.67). Increasing the pay of all care workers to at least this level, and adding a pay band 10 per cent above that level for senior care workers would represent a direct cost of **£1.5bn** annually. The net cost, when taking into account lower universal credit payments and higher tax revenue would be **£775m**.

This would represent a pay rise for **603,000** care workers, with the average pay rise being **£2,050** a year.

FIGURE 5 – COST AND IMPACT OF DIFFERENT PAY INCREASES

Measure	Number of workers benefitting	Average pay rise per care worker	Total cost
Sectoral minimum wage set at the **real living wage**	466,000	£1,478	£688m
Sectoral minimum wage equivalent to **NHS band 3**, with 10 per cent uplift for senior care workers	603,000	£2,050	£1.5bn

Introducing pay bands to maintain differentials

In addition to raising the floor of the pay in the social care sector, in the long term the fair pay agreement should seek to introduce pay bands aligned to the care workforce pathway. This would avoid further compression of pay in the sector, and support progression and retention.

Introducing incremental pay bands would significantly increase the cost of the fair pay agreement. While the direct cost of introducing the national rate of the real living wage would be **£688m**, the additional costs of introducing pay bands on top of this wage floor would be **£1.2bn.**[4] This would bring the total cost to nearly **£1.9bn**. Considering the reduction in universal credit spend and increase in tax revenue that would result from this increase in pay, the net cost would be **£1.1bn**.

The cost of increasing the wage floor in social care to NHS band 3 would be **£1.5bn**, with the cost of increasing pay bands above that higher wage floor being **£1.8bn.** The cost of both policies together would be over **£3.3bn**.

[4] In order to model the cost of pay bands, we assume that workers in the bottom three deciles are paid at the new wage floor, with those in the subsequent five deciles (i.e. 4th – 8th decile) being paid 5 per cent more than the previous decile, and those in the final decile (9th) being paid 10 per cent more than the previous decile, This would represent seven distinct pay bands, with workers at each decile earning more than workers at the same decile in the current wage distribution.

Considering the reduction in universal credit spend, and increase in tax revenue, the net cost would be **£2bn**.

Enhanced pension contributions

We estimate the cost of increasing pension contributions to 5 per cent to be **£343m** per annum. This is based on the assumption that opt-out rates are in line with the average for private sector employers.[78]

Occupational sick pay

We estimate that the cost of introducing an entitlement to occupational sick pay in social care, paying at least 50 per cent of usual income, to be around **£117m** annually.[5]

In the medium term, harmonising sick pay with the NHS, which generally offers at least a month of sick pay on full pay, would cost around **£298m** annually based on current rates of pay.

[5] This is based on an assumption that the average number of days a care worker takes off sick per year would increase slightly from the current average of 5 days to 6 days due to enhanced entitlement to sick pay. It assumes that the 44 per cent of employers in the social care sector who do offer occupational sick pay do not face additional costs. The costing is based on the additional cost compared to the current cost of statutory sick pay. Calculation is based on current rates of pay.

Box 2: Self-funders

The government could choose not to support self-funders with the increased cost they will face as a result of the fair pay agreement. More than one in three (37 per cent) care-home residents and one in four (23 per cent) individuals using community care services are self-funders.[79] They are already paying higher prices than they would for local government funded care, and effectively subsidise the low fees paid by councils. In 2017, the Competition and Markets Authority found that, at least in the case of larger providers, self-funders were charged an average of 41 per cent more than those with their places funded publicly.[80]

Leaving self-funders to cover the additional costs they would face as a result of the fair pay agreement would significantly reduce the direct cost to the state. However, this risks individuals accessing less care, or being cared at home by family members – with knock-on effects for unpaid carers. And from a purely practical point of view, many care workers assist both council funded and state funded individuals. It will be difficult for providers to make an accurate assessment as to how much of the improved pay, terms and conditions should be funded through the state and through self-funders. Therefore, we recommend that the government covers the increased costs that self-funders would face as a result of the fair pay agreement, and we assume this in our calculations.

We recognise that this would be a significant additional cost for a government that is facing difficult fiscal circumstances – and many other public services require investment. And while there are significant benefits and savings over the long-term that will offset some of the investment, funding is still required.

Total cost of the fair pay agreement

We estimate that the total cost of the measures recommended to be delivered through the fair pay agreement this parliament to be **£2bn** per annum. This includes:

- The cost of eliminating non-payment of the current minimum wage (£42m).
- The cost of raising the wage floor to the level of a healthcare assistant in the NHS. (band 3), and of a higher rate for senior care workers (£1.5bn).

- The cost of occupational sick pay (£117m).
- The cost of employer pension contributions at 5 per cent (£343m).

7. ENFORCING THE FAIR PAY AGREEMENT

As a binding agreement on all employers, a fair pay agreement should lead to higher wages and better terms for care workers. However, it should not be assumed that this will occur without a significant focus on enforcement. The existence of widespread underpayment of the minimum wage in the social care sector today demonstrates that statutory rights need to be matched by sufficient funding and effective enforcement.

There will need to be regulatory and commissioning changes to ensure the successful implementation of the fair pay agreement. Otherwise, the government could increase spending but fail to realise the benefits of higher pay and better conditions outlined in this report. The main three bodies responsible for enforcing the fair pay agreement are:

- **The Fair Work Agency.** The Fair Work Agency will be the single national enforcement body for employment rights, and should supervise the enforcement of the agreement by councils. They could provide guidance on how to do so – and require monitoring information from local authorities.[6] However, the Fair Work Agency should not be expected to be exclusively responsible for enforcing the fair pay agreement. It will be a relatively new enforcement body, with a substantial array of employment rights to enforce across the entire UK economy – risking severe capacity challenges.
- **Councils.** Those who commission care directly are likely to be assume most of the responsibility for enforcing the fair pay agreement. This is currently the case in Wales, where care commissioners are responsible for monitoring compliance with the real living wage.[81] English local authorities should be required to only commission care from providers that comply with the requirements of the fair pay agreement. This may require changes to commissioning to enable more providers to comply – for example,

[6] This would be similar to the Welsh government's oversight mechanism for the enforcement of the real living wage in social care.

eliminating 'time and task' in homecare, where services are delivered in short time slots and focused on completing specific care tasks.

- **Unions.** Even with more proactive action from central and local government, capacity will remain a barrier to guaranteeing compliance across 18,500 employers who organise or provide care across 40,000 establishments.[82] There will remain a need, therefore, for individuals to enforce the fair pay agreement with their employer – and unions will be crucial to supporting their efforts. Within the fair pay agreement, consideration should be given to any additional or sector-specific measures to promote trade union organisation in social care – beyond the right for unions to access workplaces to speak to workers currently in the Employment Rights Bill.[83]

Box 3: Lessons from abroad

Labour's 2024 manifesto committed to 'learn from countries where [fair pay agreements] operate successfully'. In line with this, the government should:

- **Build and maintain consensus.** There is currently consensus around a fair pay agreement in social care between trade unions, employers, and the government. In New Zealand, such a consensus also existed – but broke down soon after the implementation of the fair pay agreements Act in 2022. The Act was repealed before any agreements were implemented.[84]
- **Accompany the fair pay agreement with funding.** New Zealand provided NZ$2bn to cover increased wage bills for providers as part of the Care and Support Workers (Pay Equity) Settlement Act 2017, resulting in better pay for social care staff. The funding was also guaranteed for five years – giving providers long-term certainty over their ability to pay for increased wage bills.[85]
- **Focus on enforcement from the start.** The New Zealand fair pay agreement system had 'teeth' built into the legislation, with breaches defined as legal violations. The system relied on existing standard dispute resolution mechanisms and the New Zealand Labour Inspectorate – rather than a new body like the Fair Work Agency. In Australia, providers in receipt of public funding are required to provide financial transparency reports annually about expenditure, including on wages.[86]

8. FUNDING THE FAIR PAY AGREEMENT

An ambitious fair pay agreement in adult social care would be transformative for the sector. This report sets out the substantial benefits for care workers, for those who receive care and support, and for care providers and the NHS.

The measures we recommend over this parliament would cost **£2bn**. It is essential that this additional cost is fully funded by the government as neither local authorities nor care providers are able to manage this cost:

- **Local authorities** – councils have very limited ability to absorb significant additional cost relating to the fair pay agreement. Since 2010, local authorities have been placed under significant financial pressure – with social care being one of the major causes. A growing number of local authorities are close to financial crisis. The fees paid by local authorities are already often below the cost of providing care, even before any increases in pay, terms and conditions.[87]
- **Care providers** – many providers, particularly those most reliant on council-funded individuals, tend to operate on very small margins, with many struggling to remain viable. While many employers recognise that low pay is having a negative impact on recruitment and retention, they are not able to increase wages substantially to address this.

The government is facing very significant fiscal pressures. In recognition of this challenging context, we have set out a number of options for raising revenue in order to cover the direct cost of the fair pay agreement in social care:

- **Bringing the insurance premium tax on private health insurance in line with VAT**. Currently, the insurance premium tax is charged on health insurance at a rate of 12 per cent. This is well below the main rate of VAT at 20 per cent, representing a significant tax advantage. This benefits a relatively small group of people who have private health insurance, and who tend to have significantly higher incomes.

Increasing insurance premium tax on private health insurance would raise between **£500m** and **£1.5bn** a year.[88]

- **Reducing the tax-free pension lump sum to £100,000**. Currently, people can access a tax-free lump sum of £268,275 from their pension on retiring. These funds are taxed neither when they are paid into the pension nor when they are paid out in a tax-free lump sum. This generous and costly tax break tends to benefit pensioners with relatively larger saving pots. Reducing the tax-free lump sum to £100,000 would eventually raise an estimated **£2bn** a year.[89]
- **Cap ISA tax relief to savings of £100,000. C**urrently, people can save tax-free into an ISA, up to the value of £20,000 a year. A large proportion of the cost to the state of ISA savings accrues to the already wealthy. Capping the total amount of ISA savings that are tax-free at £100,000 would affect only 1.5m people, yet raise an estimated **£1bn** a year.[90]
- **Non-resident house purchase tax. M**any non-UK residents purchase homes in the UK as an investment, fuelling house prices and putting pressure on affordability. Currently non-residents pay only an extra 2 per cent on stamp duty, far lower than the surcharge seen in many countries. SMF analysis suggests that a 10 per cent levy on non-residents purchasing homes in the UK would generate around **£500m** a year.[91]

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