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BRIEFING

Care to pay?

Meeting the challenge of paying the National Living Wage in social care

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Executive Summary

Adult social care plays a vital and growing role in our society. Yet the cocktail of rising demand, falling funding, and increasingly complex care needs has put the sector under significant strain in recent years. At the heart of this conundrum sits the workforce, which experiences low wages and working conditions that are often poor. Most care workers are highly committed to the work they do but such conditions are putting them under significant strain. It's becoming clear that if we want a social care system that can grow to meet the needs of our ageing population and treat recipients in a dignified way, then we need to invest better in the workforce that provides it.

In this context, the significant increase in the legal wage floor for over-24s brought about by the National Living Wage (NLW) is extremely welcome, **directly affecting up to 1 million frontline care workers across the UK by 2020 and increasing the annual household incomes of those affected by more than £800**. Other recent workforce developments, for example the apprenticeship levy announced alongside the NLW, are also welcome in a sector with very low levels of training.

But these come at a cost – in particular **the National Living Wage will increase payroll costs associated with frontline care workers by £2.3 billion by 2020, on top of £1.7 billion of costs already implied by above-inflation increases in the National Minimum Wage (NMW)**.

We assess the options for finding this money. Our view is that:

- » **Productivity increases** show some long-term promise but are likely to be limited within the NLW phase-in period.
- » **'Trimming' other costs or profits** also appears a limited option, particularly as the sector has been seeking ways to 'cut the fat' already in recent years in the face of falling funding. In particular, holding down wage costs via further compression of already-flat pay distributions or increasing non-compliance with the legal wage floor are deeply undesirable outcomes.

- » **'Rationing' of publicly-funded services**, for example via further shortening of visits in domiciliary care or more stringent eligibility criteria, is similarly undesirable.
- » **Increasing the national funding settlement for social care** therefore appears the most viable option.

Based on the split of expenditure between local authority-funded care recipients and self-funders, **this entails an increase in funding of £1.4 billion across the UK by 2020 to pay the NLW across the frontline care workforce, on top of £1.0 billion required to finance above-inflation NMW increases.**

It is therefore imperative that – as well as considering the wider context for social care resourcing to ensure that demand is met in the long term – the Spending Review later this month sets out funding provisions for social care specifically related to rising legal wage floors.

Of course this isn't an easy task. The fiscal constraints facing central and local government are substantial, and the Spending Review is set to deliver around £20 billion of further cuts to public services through to the end of the parliament. In thinking about where the money might be found it's worth considering the balance of support for different groups, for example the trade-off between the 'triple lock' on the state pension that supports all pension incomes and more targeted support provided via publicly-funded social care services. It's also worth highlighting the potential for greater cost pressures down the line elsewhere in health and social services budgets if social care providers are not equipped to meet legal wage commitments in coming years (let alone address rising unmet need).

Beyond finding the money, consideration should be given to ensuring that increased national funds flow through to workers pockets via local authority commissioning models and provider workforce practices. And a specific focus on ensuring that the adult social care sector is equipped to meet new legal minimum wage requirements should not detract from broader goals of further raising pay levels, improving working conditions, and promoting training and progression opportunities in social care in order to put the sector and in particular the workforce on a sustainable footing for the long term.

The challenges and opportunities facing the adult social care sector

This briefing quantifies the cost of the National Living Wage (NLW) in the adult social care sector and discusses where the money might come from, as well as highlighting other recent developments in workforce policy and desirable longer-term improvements to care worker terms and conditions. In doing so, it provides an update to previous Resolution Foundation estimates of the costs of paying the NLW – and also the voluntary Living Wage – in the sector (see Box 1 for details).

We discuss the context for recent developments in workforce policy affecting the social care sector, and the overall cost implications of these, in this first section, before considering where this money might be found in the next section.

Social care faces substantial and growing challenges...

Adult social care plays a vital and growing role in our society. Just under one-in-ten adults are limited ‘a lot’ in their day-to-day activities by illness, disability and old age. As well as widespread reliance on informal care from family and friends, more than three million of these adults use formal care services in their homes and communities or in residential settings. Expenditure on formal services amounts to around £30 billion annually in England alone, and trends in demography and public health mean demand for such services is set to rise by as much as 60 per cent in the next two decades.^[1]

i Box 1: Data and methods used to estimate the cost of the National Living Wage and the number of workers affected

In this briefing we update previous Resolution Foundation estimates of the cost of paying the NLW (and voluntary Living Wage) to frontline care workers, and the number of workers affected.^[1]

Estimates are updated on the basis of new data on workforce pay and characteristics (our primary source being the National Minimum Dataset for Social Care – NMDS-SC – provided by Skills for Care), new workforce totals from Skills for Care, and new economic forecasts from the Office for Budget Responsibility (OBR). It is for these reasons that the analysis presented here differs slightly from that previously published. As with all modelling of this type, there is much uncertainty, so findings should be considered indicative rather than definitive. Nonetheless, the new data means that the estimates presented here should be considered the most up-to-date and accurate assessment we currently have.

While some data sources have been updated in this analysis, our methodology and assumptions remain the same as in the previous studies. As such, we do not repeat the details of our approach – set out in the annexes to our original report – here, and readers should refer back to this previous study for the specifics.

[1] L Gardiner & S Hussein, *As if we cared: the costs and benefits of a living wage for social care workers*, Resolution Foundation, March 2015; L Gardiner, ‘Budgeting for the National Living Wage in the social care sector’, *Resolution Foundation blog*, 13 July 2015

[1] See Annex 1 of our original report on the costs of raising pay for care workers for more details of the statistics in this paragraph, and data sources: L Gardiner & S Hussein, *As if we cared: the costs and benefits of a living wage for social care workers*, Resolution Foundation, March 2015

But while care needs are rising, expenditure has been falling. This reflects sharp reductions since 2009-10 in the budgets of local authorities, which are the main purchasers of services for those adults whose care needs and financial means deem them eligible for public support (the remaining expenditure comes from adults who fund their own care). To date these reductions have been absorbed through a mixture of limiting access to publicly-funded services and cutting the prices paid to providers.^[2]

Add into the mix the fact that the nature of care services is changing as conditions become more complex to manage, and it is clear that the sector has been challenged to do more with less, raising concerns over the quality and sustainability of provision.

We estimate that by 2020 up to 1 million frontline care workers in the UK will directly benefit from this minimum wage increase

With the sector spending a greater share of turnover on wages than almost any other, the UK's 1.4 million frontline care workers sit at the heart of this conundrum.^[3] Wages are low (sometimes illegally so) and have been falling (reflecting the funding constraints described above), and conditions

are often poor with prevalent use of zero-hours contracts, little training and few employee benefits. Despite the fact that most care workers are highly committed to the work they do, such conditions are putting the workforce under strain and hampering its ability to deliver high-quality care, as a series of recent public enquiries have highlighted.^[4] It's becoming clear that if we want a social care system that can grow to meet the needs of our ageing population and treat recipients in a dignified way, then we need to invest better in the workers who provide it.

With recent developments offering some support for care workers...

In this light, a series of recent developments in the national policy landscape can be seen as welcome. Foremost among these was the announcement of the National Living Wage at the July Budget, significantly increasing the minimum wage for those aged 25 and over.^[5] This unprecedented rise in the wage floor has been rightly welcomed as delivering a pay rise to millions of Britain's low paid workers, with the benefits of course concentrated in the lowest paying sectors, including social care. Indeed, **we estimate that by 2020 up to 1 million frontline care workers in the UK will directly benefit from this minimum wage increase** (see Box 2 for further details of the effects of this policy on care workers).

[2] National Audit Office, *Adult social care in England: Overview*, March 2014

[3] Estimates for the number of frontline care workers in the UK are derived by extrapolating Skills for Care data for England using Labour Force Survey data on the size of the care workforce in each nation (see our original report for more details).

[4] *The Cavendish Review: An Independent Review into Healthcare Assistants and Support Workers in the NHS and social care settings*, July 2013; D Kingsmill, *The Kingsmill Review: Taking Care: An independent report into working conditions in the Care Sector*, May 2014; I Koehler, *Key to Care: Report of the Burstow Commission on the future of the home care workforce*, LGiU, December 2014

[5] This new higher minimum wage for over-24s will be introduced initially in April 2016 at a rate of £7.20 (equivalent to 55% of median earnings for this group). The intention is for it to reach 60% of median earnings for over-24s by 2020, which the OBR projects will be over £9 per hour.

i Box 2: The impact of the National Living Wage on frontline care workers

To assess the impact of the NLW on the social care sector, we cast the 2014-15 frontline workforce forward to 2020 based on assumptions about workforce growth and changes in pay over the period. In line with the OBR, we assume that the NLW will have reached a value of £9.35 at this point.

Of the projected 1.7 million frontline care workers in the UK in 2020 we estimate that **between 51 and 64 per cent** will be directly affected by the raising of the pay floor for over-24s, equivalent to a pay rise for **between 850,000 and 1 million workers**.^[1] If there are indirect or 'spillover' effects from the higher wage floor, for example to maintain differentials between different staff grades, then these numbers would rise further still.^[2]

The impact on these employees will be sizeable. We estimate that **the average annual wage rise for those directly affected will be £1,250**. And the benefits remain even after accounting for withdrawal of means-tested welfare and higher tax and National Insurance payments as wages rise: **net household incomes will be £825 higher per year** for the employees directly affected by the increasing wage floor.^[3]

[1] The range in our estimates reflects different assumptions for changes in the distribution of care worker wages around the National Minimum Wage in coming years. See our original report for more details.

[2] While our discussion of the numbers of frontline care workers affected by the NLW covers only those directly affected, our cost estimates later in this briefing include an assessment of modest 'spillover' effects, as in our previous analysis. Such indirect effects are discussed in more detail in previous Resolution Foundation analysis of the impact of the National Living Wage across sectors of the economy. Note that our estimates of the numbers of individuals affected (and the cost of the policy) are not comparable to the sector-specific estimates in this report (or the OBR's estimates), due to the use of different datasets and different assumptions about changes in workforce size and wages distributions over the parliament. See: C D'Arcy & A Corlett, *Taking up the floor: Exploring the impact of the National Living Wage on employers*, Resolution Foundation, September 2015

[3] These figures are deflated to today's prices using CPI.

And concurrent developments may provide a further boost to care worker terms and conditions. In September 2015 an EU court ruled that time spent travelling from home to work and back counts as working time for those with no fixed place of work (such as domiciliary care staff). While this doesn't necessitate that such time should be paid (the National Minimum Wage is UK legislation and has a different definition of paid hours to the EU working time directive), this move may add weight to calls for care providers to properly remunerate travel time as well as 'contact' hours.

In addition, the announcement of the apprenticeship levy on large employers at the July Budget would be hoped, in time, to bring about a much-needed increase in apprenticeship and training opportunities within the sector.

That come with a price tag attached

While providing a very welcome boost to workers, developments such as these will of course come at a cost to a sector that has already experienced a significant squeeze on budgets in recent years. For example, **we estimate that the NLW will increase payroll costs (wages, employer National Insurance and pension costs) across adult social care by £2.3 billion by 2020**.^[6] Note that this is over and above the £1.7 billion of costs associated with expected above-inflation increases in the National Minimum Wage (NMW) over the same period (see the annex for details). Note also that beyond these specific pressures from rising wage floors, several years of falling funding is likely to have stored up unmet demand requiring further spending increases (which we do not attempt to capture in this analysis).

While less easy to quantify at this point, other recent developments that have a positive impact on workforce terms may bring additional cost pressures. And any efforts to really secure the

[6] See the tables and notes in the annex, and our original report, for the sources and methods used to calculate this figure.



sustainability of the sector and workforce – for example via further pay improvements (such as paying the voluntary Living Wage as our original report called for), better conditions and a more comprehensive training offer – would drive costs further still.

Particularly in light of the implementation of the NLW over the next five years – but also with an eye to these wider cost implications of an improved offer to care workers – the question is, where will this money come from?

Meeting the costs of a rising wage floor

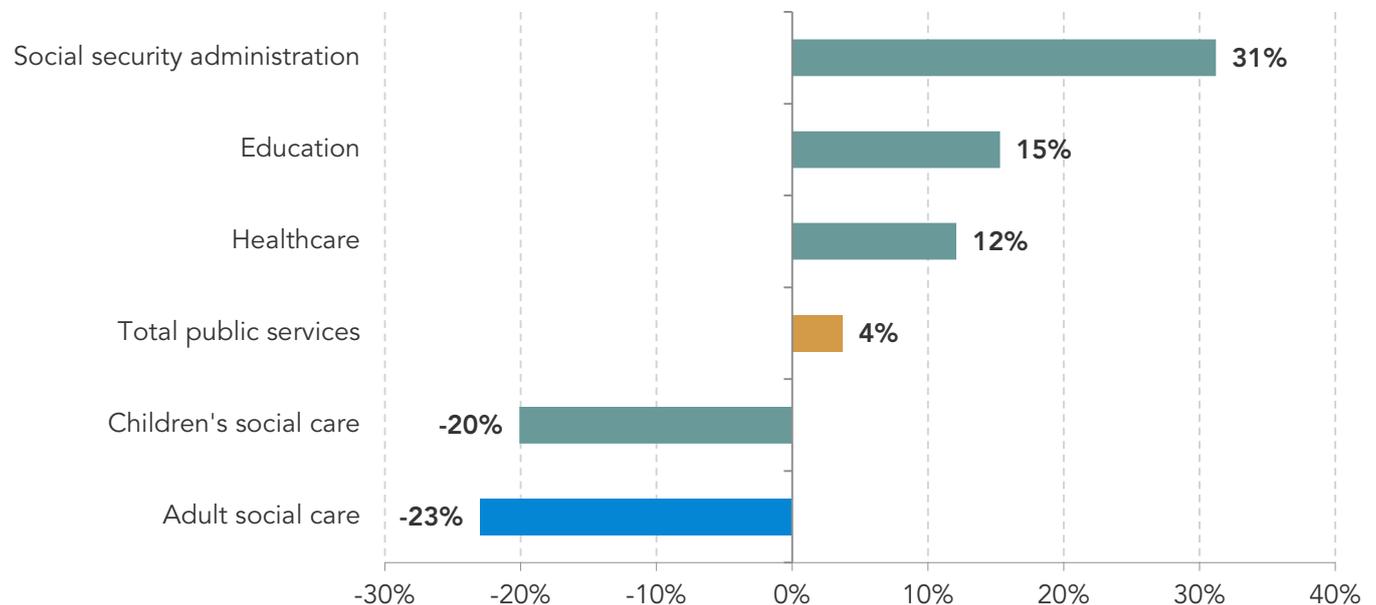
As our broader assessment of the impact of the NLW on employers has set out, there are a range of ways in which firms and sectors could respond in order to absorb the costs of a rising wage floor, and previous experience in relation to the NMW shows that they have used a mixture of these.^[7] Here we discuss the potential of some of the main approaches in social care: improving productivity; ‘trimming’ other costs or profits; ‘rationing’ service availability for publicly-funded care; or increasing funding.

Productivity gains have an important role to play, but may be difficult in the short term

Raising productivity might be considered the ‘holy grail’ in terms of absorbing increases in the wage floor without adverse employment or quality effects. In social care this is not just about shorter appointments, but rather different ways of working and using technology in order to more effectively meet care recipient needs. And evidence would suggest that productivity improvements are particularly necessary in this sector, which has the poorest record on productivity growth among public service areas since the late 1990s, as Figure 1 shows (although note that productivity measures for social care are not quality adjusted so this mainly reflects rising unit costs).

Figure 1: Declining productivity in the adult social care sector

Change in public service productivity by individual service area since 1997



Notes: Service areas in which the quantity of outputs is not measurable (defence, policing, etc.) are excluded as constant productivity is assumed in these areas. Healthcare and education outputs are quality-adjusted, other service areas are not.

Sources: RF analysis of ONS, *Public Sector Productivity Estimates*

[7] C D’Arcy & A Corlett, *Taking up the floor: Exploring the impact of the National Living Wage on employers*, Resolution Foundation, September 2015

However the scope for productivity increases appears relatively limited, at least in the short term, as the Low Pay Commission has set out:

“In sectors such as social care and childcare it may be difficult to raise productivity within statutory constraints without an unwanted adverse effect on services. The scope to substitute technology appears limited, and statutory requirements (for example, in relation to staff:child ratios in childcare) limit freedom to alter delivery models.”^[8]

This is not to say that there aren't opportunities to raise the productivity of the sector in the longer term. One of the routes might be a more ambitious look at the role of technology in providing or supporting care services. Some providers are making use of things like smart monitoring systems and these may create scope for productivity gains. A more radical approach would mirror recent developments in Japan, where billions of pounds of government investment and subsidy have spurred the development of robotic caregivers, and public support for the concept has grown in turn as the needs of a rapidly ageing population becoming apparent.^[9]

Smarter commissioning practices might also create the space for productivity improvements. For example, moving away from time-and-task commissioning towards an outcomes-based approach would allow greater flexibility in terms of when and how care is provided. This would incentivise rehabilitation and user independence, rather than the current focus on the contact hours of the worker. Proponents argue that an outcomes-based approach has the potential to dramatically improve service results without increasing costs, implying a more productive organisational model.^[10] But this won't happen overnight: getting outcomes-based commissioning right will take careful planning and require a wholesale rethink of the relationship between local authorities and providers.

Finally, better integration of health and social care services might spur more productive ways of working if services performing overlapping functions are aligned and outcomes are pursued in common. The recent Barker Commission on the future of health and social care concluded that for this to be achieved joint commissioning would be essential, alongside a significant increase in resources to meet the rising care needs of an ageing population.^[11]

In sum, the short-term potential for productivity improvements in the adult social care sector appears relatively limited. As such, it would be foolish to expect such improvements to meet the costs associated with a policy as imminent as the NLW. However, this shouldn't detract from the longer-term goal of a more productive social care system, the avenues to which would seem to require either substantial government investment or a major rethink of the way public services are organised and commissioned.

There appears little scope for significant 'trimming' of other costs or profits

If productivity gains are unlikely to provide the answer in terms of meeting the costs of a rapidly rising wage floor in this parliament, perhaps there is some fat that can be cut within provider business models?

One approach would be for providers to reduce profit margins. Information on provider profits in social care is difficult to come by, but evidence suggests that margins for independent providers tend to be quite tight already when it comes to providing local authority-commissioned services.^[12] Of course, that won't be true for all providers, but on average there is unlikely to be substantial headroom in profits. Moreover, only just over half (57 per cent) of the workforce is employed by a profit-making organisation in the first place, with the rest working for voluntary sector

[8] Low Pay Commission, *National Minimum Wage: Low Pay Commission Report 2014*, March 2014

[9] M Hay, 'Why robots are the future of elder care', *Good Magazine*, 24 June 2015

[10] L Lucas & J Carr-West, *Outcomes Matter: Effective Commissioning in Domiciliary Care*, LGiU, October 2012

[11] The Kings Fund, *A new settlement for health and social care: Final report*, September 2014

[12] C Angel, 'Providers cannot increase pay for home care workers at time of council cuts', *CommunityCare*, 22 March 2013

organisations, local authorities, the NHS, or directly employed by direct-payment recipients.^[13] It therefore seems that raiding company profits cannot do much to absorb the blow of the NLW without driving independent providers and investors away from the provision of publicly-funded services altogether.

In terms of costs, by far the biggest ticket item is wages. Evidence suggests that some social care firms have coped with previous minimum wage increases by compressing their wage distributions – giving smaller pay rises to those paid above the new minimum.^[14] However, with care workers increasingly standardised at one grade and the pay distribution becoming more concentrated at the minimum wage each year (see Box 3), the scope for further wage compression appears both limited and undesirable if workers are to have any opportunity to progress within organisations.

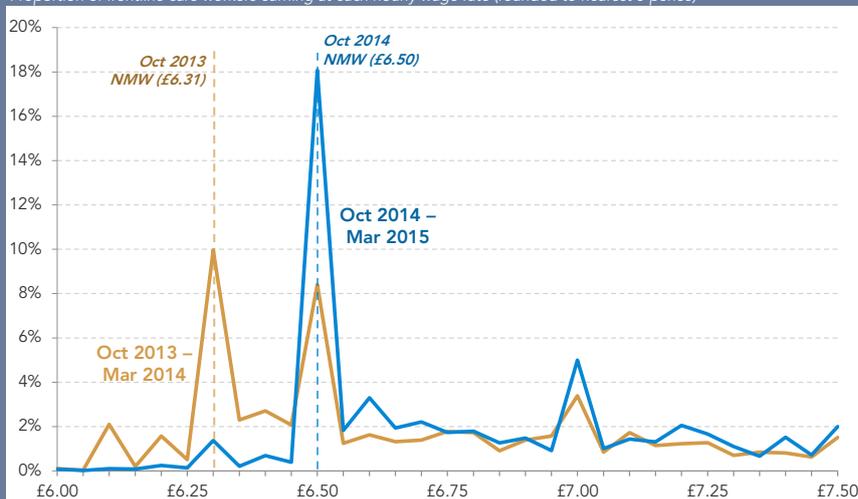
i Box 3: Compression in the wage structure of frontline care workers

Adult social care experiences an increasingly ‘flat’ workforce hierarchy in which financial pressures and standardisation of services have led to little differentiation of frontline care roles or opportunity for specialisation. A reflection of this is the decline between 2008 and 2012 in the ratio (in domiciliary care) of ‘senior care workers’ (who tend to have higher qualifications or more specialised skills) to ‘care workers’ from 7 per cent to 4 per cent.^[1]

A result of these trends is increasing compression in the wage distribution of frontline care workers, with growing concentrations ‘at’ the minimum wage. This compression appears to be amplifying year on year, for example Figure 2 shows the increased ‘spike’ at the minimum wage between 2014 and 2015.

Figure 2: The compressing care worker wage distribution

Proportion of frontline care workers earning at each hourly wage rate (rounded to nearest 5 pence)



Source: RF analysis of Skills for Care, NMDS-SC

[1] I Bessa et al, *The National Minimum Wage, earnings and hours in the domiciliary care sector*, University of Leeds, February 2013

[13] Skills for Care, *The size and structure of the adult social care sector and workforce in England*, 2015, September 2015

[14] C D’Arcy & A Corlett, *Taking up the floor: Exploring the impact of the National Living Wage on employers*, Resolution Foundation, September 2015

Of course, the other outcome that would hold down wage costs would be an increase in illegal underpayment of the wage floor. This is a practice that is already all too common in social care, affecting around one-in-ten workers and resulting in £130 million of missed earnings each year.^[15] Clearly, this is a deeply undesirable non-solution, and minimum wage enforcement efforts, powers and funding should reflect the challenges created by the NLW in certain sectors in order that it doesn't become one.

Multiple years of falling unit costs means that social care providers have already made many tough choices in terms of cutting pay, compressing wage distributions, reducing margins and streamlining other costs. In this light, it seems improbable that further 'trimming' of costs or profits can be expected to provide the funds to support a rapidly rising wage floor.

'Rationing' of services is already apparent and shouldn't be allowed to get worse

If providers are not able to find the money to support the NLW at current service levels and cash is not injected from elsewhere, the likely outcome is that publicly-funded services (which make up the majority of all care and support provided) will be reduced. This could come in the form of further shortening of visits in domiciliary care by commissioners. This is a practice that has already risen substantially and has reportedly led to unfavourable outcomes for both care recipients *and* workers (for example, by increasing the proportion of working time that is spent travelling and therefore the likelihood of minimum wage non-compliance when pay only covers 'contact' hours).^[16]

Or it could be achieved via a tightening of eligibility criteria, again something that we have seen happening in recent years: just between 2011 and 2012 the proportion of councils providing care to those with 'low' or 'moderate' needs (as opposed to 'substantial' or 'critical') fell from 25 per cent to 18 per cent.^[17] Although the Care Act 2014 requires standardisation across councils against a set of national eligibility criteria, these have been defined at a relatively high level of need and may create further space for reducing eligibility in their interpretation and implementation.

Whatever the vehicle, further 'rationing' of the availability of publicly-funded social care would result in more people having to fund their care out of their own pockets (with clear distributional implications), more reliance on informal support from family and friends, or more care needs going unmet. And note that in the latter two cases at least, as well as adverse effects on care recipients and their informal carers, there would be an implied reduction in the number of care workers (or slower workforce growth) – the much-discussed negative employment effects that may occur when the wage floor is substantially increased. Clearly, these are outcomes we should seek to avoid.

Additional government funding appears essential to the success of the National Living Wage in the social care sector

The other way that firms have coped with past increases in the NMW has been to raise prices. In an industry predominantly reliant on public commissioning, in practice this would mean an increase in the public funding settlement for social care (as well as increasing fees for self-funders).

How much would funding need to increase to support the NLW? Based on the estimated split between public and self-funded expenditure, we calculate that **of the £2.3 billion total payroll costs across the UK in 2020 associated with the NLW, £1.4 billion relates to**

[15] L Gardiner, *The scale of minimum wage underpayment in social care*, Resolution Foundation, February 2015

[16] '15 minute home care visits in England on the rise', *Unison*, 23 December 2014

[17] Age UK, *Social Care eligibility thresholds briefing*

publicly-funded services. In terms of service areas, the majority (£0.8 billion) would be required in domiciliary care, which is the largest service type and is more reliant on public funds. The rest would fall to residential care (£0.5 billion) where base pay tends to be lowest – and a small residual to day and community activities.

Note, as discussed in the previous section, that these figures are in addition to a funding requirement from expected increases in the NMW that existed even before the NLW was announced. **The £8.25 NMW projected by the OBR in 2020 entails a £1.0 billion public funding requirement** relative to a situation in which funding rises just in line with inflation and rising demand (the likely starting point for many negotiations between providers and commissioners).^[18]

Although these figures are substantial, there is the possibility for savings to the public purse as a result of higher minimum pay levels which might offset some of the costs in the long run, for example due to higher tax receipts and lower in-work benefit spending. While we quantified these in our original report on the costs of raising pay across the frontline care workforce to the voluntary Living Wage, they are much more difficult to judge in a situation in which the wage

floor is raised across sectors (with other fiscal costs relating to things like inflation potentially offsetting welfare and tax savings), so we do not attempt to put a figure on these here. Nonetheless, it is notable that the OBR's broader modelling of the costs of the National Living Wage across the economy returns (modest) fiscal gains.^[19]

The fiscal constraints facing central and local government are substantial, and it is a difficult time to be making the case for significant new resources

Finally, and as stated in the previous section, to ensure the long-term sustainability of the

sector it is important not to set our ambition only at ensuring legal minimum pay requirements can be met. For example, our original report called for **the voluntary Living Wage to be paid across the frontline care workforce, which our new estimates suggest would cost an additional £2.4 billion to the public purse by 2020** – that is, on top of the £1.0 billion required to pay the NMW and £1.4 billion for the National Living Wage (see the annex for a detailed breakdown). While a substantial price tag, it is likely that this kind of move beyond the legal minimum in one sector in particular would give greater scope for knock-on fiscal savings, reducing the net cost in the long run.

Increasing the national funding settlement for care would be only the first step in ensuring that National Living Wage – and further wage improvements beyond this legal minimum – are properly financed. In turn, it will be essential that these funds make it into local authorities' care commissioning budgets in the form of higher unit prices (social care is a non-ring fenced area of local government spending). Equally essential will be ensuring that providers pass these higher unit prices on into the pay packets of frontline workers. This is by no means a given: recent research has shown that while higher unit fees in social care commissioning do lead to better pay, the impact is marginal, with only 18p of every additional £1 flowing through to the basic pay of frontline care workers, on average (the pay of managers appeared more responsive).^[20]

In this light, establishing the feedthrough mechanisms that ensure that national government, local authority commissioners and care providers take responsibility for ensuring that new public

[18] See the annex for further details of each element of our cost calculation

[19] Office for Budget Responsibility, *Economic and Fiscal Outlook*, July 2015

[20] D Grimshaw, J Rubery & S Ugarte, 'Does better quality contracting improve pay and HR practices? Evidence from for-profit and voluntary sector providers of adult care services in England', *Journal of Industrial Relations* 57:4, September 2015

resources are used for their stated purpose of supporting a higher wage floor (and potentially increased pay beyond that) will be key.

Of course, the fiscal constraints facing central and local government are substantial, and it is a difficult time to be making the case for significant new resources. The Spending Review due on 25 November is set to deliver around £20 billion of cuts across public services in the four years to 2019-20, concluding an overall reduction of £80 billion since 2009-10.^[21] However, with limited scope for productivity improvements in the short-term, little headroom for trimming profits or other costs, and the undesirability of ‘rationing’ publicly-funded care services or raiding already squeezed pay packets, there appear few alternatives for financing the National Living Wage in social care.

Finding the money will be difficult and we make no attempt to determine exactly where it should come from here. But in deciding how additional funds might be allocated to care, it will be fruitful to take a broader view of how government targets support for different groups. For example, the ‘triple lock’ protection for the state pension is estimated to have cost £6 billion more than would have been the case had it been indexed to earnings in the last parliament, with these gains being shared across all pensioner households.^[22] Better funding for social care might represent a more targeted approach to supporting this group.

[21] M Whittaker, A Corlett & D Finch, *Shape shifting: The changing role of the state during fiscal consolidation*, Resolution Foundation, November 2015

[22] D Finch, *The tax credit crunch: How to limit the losses for low-income families*, Resolution Foundation, November 2015

Conclusion: The way forward at the Spending Review and beyond

The announcement of the National Living Wage is extremely welcome news for care workers, spelling a pay rise for up to 1 million of them by 2020 and having a significant impact on household budgets. Other recent developments have the potential to spur further improvements for a workforce that is poorly paid and faces casualised and unfavourable working conditions, despite providing a vital service that we or our loved ones will likely depend upon at some point.

But these developments come at a cost. The purpose of this briefing has been to quantify the costs associated with the introduction of the NLW over the next five years in particular, and assess where the money might come from. Our view is that productivity improvements – while showing promise in the long term if supported by significant investment or reorganisation of how services are commissioned – offer limited potential over the NLW phase-in period. Likewise, the potential to ‘trim’ profits or costs appears limited, particularly as the sector has already been ‘cutting the fat’ for years as funding has fallen. Further compression of already-flat wage distributions or increasing non-compliance with the wage floor are obviously very undesirable, as is further ‘rationing’ of the availability of publicly-funded care and support.

The only remaining option is to increase public funding for adult social care to finance the NLW. In the wake of the July 2015 Budget, some criticised the Chancellor’s approach – significantly raising legal minimum pay levels while reducing support available through the tax credit system – as shifting the burden of helping people on low incomes from the state to the private sector. Notwithstanding the merits of such a criticism, in the case of social care at least, it’s clear that much of the bill remains his to pay.

It is therefore imperative that the Spending Review later this month sets out how these funding commitments will be met. As well as appropriate funding, this should signal the start of a process that ensures that increased funds flow through to the pockets of frontline care workers via local government budget allocations, smart local authority commissioning practices, good provider workforce policies, and underpinned by effected enforcement of the NLW by HMRC. Further details on other relevant policies that are expected to be announced at the Spending Review – particularly the apprenticeship levy – should also be factored into the national funding settlement for social care and the financial plans of local authorities and providers.

Beyond this upcoming fiscal event, this briefing has highlighted the need to focus on a broader set of improvements in social care – including a more outcomes-based commissioning approach, integration with health services, investment in innovative technologies, and the necessity of raising pay beyond legal minimum levels and providing opportunities for training and progression – if the sector and workforce are to be put on a sustainable footing to meet the needs of our ageing population in the longer term.

Annex: Data tables

Here we provide a full breakdown of the cost estimates discussed in this briefing, including data sources and notes.

Table 1: The costs of higher pay for frontline care workers in 2020 (2015 prices)

	Gross total costs	Gross public costs
Costs of meeting National Minimum Wage commitments (against a baseline of funding rising in line with inflation and the expanding workforce)	£1.7 billion	£1.0 billion
Additional costs of the National Living Wage for those aged 25 and over	£2.3 billion	£1.4 billion
Additional costs of paying the voluntary Living Wage across the direct care workforce	£3.9 billion	£2.4 billion

Notes: These scenarios assume that jobs are paid at least the applicable minimum wage rate for all working hours (i.e. minimum wage non-compliance in social care has been eradicated). Costs are calculated in real terms using the GDP deflator and include wages, costs associated with statutory holiday, sickness and parental leave policies, conservative estimates of training time, employer NICs and modest pension contributions. Gross public costs are estimated at 60.7 per cent of gross total costs. See our original report for further details of the methods and assumptions used.

Sources: RF analysis of: Skills for Care, NMDS-SC; King's College London, *Longitudinal Care Work Study*; Skills for Care workforce estimates in *The size and structure of the adult social care sector and workforce in England, 2015*, September 2015; ONS, *Labour Force Survey*; Office for Budget Responsibility, *Economic and Fiscal Outlook*, July 2015

Table 2: The additional costs of the National Living Wage for frontline care workers in 2020 (2015 prices), by service area

	Gross total costs	Gross public costs
Domiciliary	£1.1 billion	£0.8 billion
Residential	£1.1 billion	£0.5 billion
Other	£0.1 billion	£0.1 billion

Notes: See Table 1. Here gross public costs are estimated at 73 per cent of gross total costs in domiciliary care, 51 per cent of gross total costs in residential care, and 70 per cent in 'other' service areas.

Sources: RF analysis of: Skills for Care, NMDS-SC; King's College London, *Longitudinal Care Work Study*; Skills for Care workforce estimates in *The size and structure of the adult social care sector and workforce in England, 2015*, September 2015; ONS, *Labour Force Survey*; Office for Budget Responsibility, *Economic and Fiscal Outlook*, July 2015

Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- » *undertaking research and economic analysis to understand the challenges facing people on a low to middle income;*
- » *developing practical and effective policy proposals; and*
- » *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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