



Florence

Social Care Workforce Software for Scheduling,
HR, Payroll, Training and more...

Need-to-Know Guide On The Impact Of Umbrella Changes To Care Providers

HMRC Reforms | 2026 | What You Need To Do Now

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1. Executive Summary

Temporary staffing is essential to the care sector, but the way workers are engaged and paid is coming under increasing scrutiny. The upcoming HMRC reforms are not a standalone “umbrella act” — they are part of a wider package of labour market and enforcement measures designed to tighten supply chain accountability for PAYE and National Insurance Contributions (NIC).

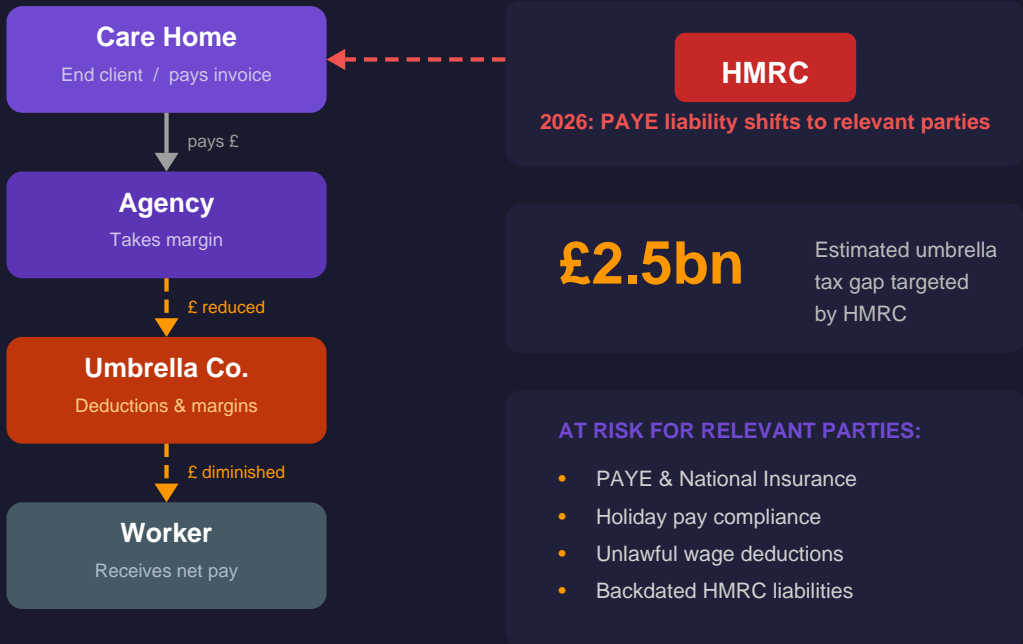
The direction of travel is clear: where there is non-compliance in a staffing supply chain, HMRC will be able to pursue unpaid PAYE and NIC from “**relevant parties**” — meaning any entity participating in the chain, not just the employer. This can include agencies, intermediaries, master vendors, and depending on the structure and facts, potentially the end client.

These reforms are expected to go live in **April 2026**, with further tightening likely over time as enforcement develops. Historically, many providers have been several steps removed from the payroll structures used by agencies and third parties. **That distance is narrowing.**

This guide sets out what is changing, why it matters, and what practical steps care providers should take now to protect themselves.

Key Message: Care providers can no longer assume that payroll risk sits elsewhere. The 2026 reforms mean that PAYE and NIC liability can move up the supply chain to relevant parties depending on the facts and contracts. Providers should assume they may be a relevant party and ensure they can evidence who employs each worker, who operates payroll, and that PAYE and NIC are being correctly accounted for.

HOW SUPPLY CHAIN STRUCTURES CREATE PAYE & NIC RISK



Simpler, transparent PAYE structures are easier to defend, easier to manage, and far less likely to create problems.

2. What Is Changing In April 2026?

From April 2026, HMRC is introducing reforms that tighten accountability for PAYE and NIC across labour supply chains. While umbrella companies are a common trigger, the underlying change is broader: the direction of travel is that someone solvent and visible in the UK supply chain can be held accountable where there is non-compliance.

The key concept is “**relevant parties.**” HMRC will be able to pursue unpaid PAYE and NIC from relevant parties in the supply chain if the entity operating payroll fails or is non-compliant. Being a relevant party is about **participation in the supply chain**, not about employing the worker. This can include agencies, intermediaries, master vendors, and depending on the structure and facts, potentially the end client.

These are not standalone “umbrella regulations.” They sit within a wider package of labour market and enforcement reforms and should be understood in the context of HMRC progressively tightening supply chain accountability. Further tightening is likely over time as enforcement develops.

Key Definitions

Umbrella company: A third-party company that employs temporary workers on behalf of a recruitment agency. The umbrella operates payroll, deducts PAYE and NIC, and invoices the agency. Workers are employed by the umbrella, not the agency or end client.

Intermediary payroll: Any arrangement where a third party sits between the agency and the worker for payroll purposes. This may be an umbrella company, a managed service company, or another entity that processes pay on behalf of others.

Employing entity: The legal employer of the worker — the party named on the employment contract, responsible for operating PAYE, paying employer NIC, and providing statutory employment rights.

Supplying entity: The party in the chain that provides the worker to the end client. This is often the agency, but may differ from the employing entity where intermediaries are involved.

Relevant party: Under the 2026 reforms, any entity participating in the labour supply chain that HMRC can pursue for unpaid PAYE and NIC where the entity operating payroll is non-compliant. This is determined by the facts and contracts, not solely by who employs the worker.

Before April 2026	After April 2026
PAYE responsibility typically sits with the umbrella company or intermediary at the bottom of the chain.	PAYE and NIC liability can move up the chain to relevant parties. Depending on the facts and contracts, this may include agencies, intermediaries, or the end client.

3. Why This Matters For Care Providers

Many staffing models used across the care sector include structures that reduce transparency and make it harder to evidence who is responsible for what. Multi-step chains are the core problem: the more layers between the end client and the worker, the harder it is to demonstrate that PAYE and NIC are being correctly accounted for. This applies to umbrella arrangements, but also to any layered intermediary structure.

Common features of higher-risk supply chains include:

- Umbrella-style payroll arrangements
- Joint employment structures
- Multiple intermediaries or sub-contracting layers
- Intermediary margins and unexplained deductions
- Rolled-up or opaque holiday pay practices
- Unclear VAT treatment

These structures can create exposure for relevant parties across:

Exposure Area	Risk
PAYE and National Insurance	Tax liabilities can be pursued from relevant parties in the chain.
Holiday pay compliance	Non-compliant treatment is a common audit trigger.
Unlawful wage deductions	Worker-paid fees and unexplained deductions are prohibited.
VAT assessments	Mismatched VAT positioning can trigger HMRC investigations.
Worker grievances and disputes	Workers may pursue claims against parties in the supply chain.
HMRC audits and backdated liabilities	Enforcement action can be retrospective.

Important: Even where indemnities exist in your agency contracts, operational disruption and reputational risk almost always land first with the care provider.

4. Common Risk Areas In Staffing Supply Chains

Based on our experience working with hundreds of agencies and facilitating millions of hours of agency bookings, these are the most common risk areas we see across care supply chains:

4.1 Umbrella-Style Payroll

Umbrella-style reconciliations often involve margins and multiple deductions that obscure the true cost of employing a worker. These arrangements split PAYE responsibility across multiple entities and reduce transparency.

4.2 Joint Employment Structures

"Joint employment" models blur who the actual employer is and who operates PAYE. They typically introduce intermediary-style payroll mechanics with limited transparency, make it harder for clients to evidence a clean, auditable supply chain, and increase the risk of holiday pay, deductions and employment status disputes.

4.3 Holiday Pay

Holiday pay is a frequent area of non-compliance across intermediary structures. In practice, what matters is that payslips clearly show how holiday pay is being handled, that it is correctly accrued and accounted for in line with UK employment law, and that there are no hidden or unlawful deductions. Arrangements that obscure holiday pay treatment are high risk.

4.4 Worker Fees and Unexplained Deductions

Any recruitment, onboarding, processing or administration fees linked to assignments charged to workers are not permitted. Weekly fees or unexplained deductions on payslips are a clear red flag.

4.5 VAT Positioning

VAT positions that do not match the reality of the staffing supply create additional exposure. Where intermediaries are involved, VAT treatment can become opaque and difficult to defend under audit.

Note — VAT Nursing Concession: The supply of nursing staff through agencies can benefit from a VAT concession in certain circumstances. However, introducing intermediaries into the chain can complicate the evidential basis for this concession and therefore VAT positioning, even where the stated intent is "risk reduction." Care providers should be aware that layered supply structures may undermine the transparency needed to support a defensible VAT position.

4.6 Multi-Step Supply Chains

The core risk with umbrella and intermediary structures is that they add layers, and layers reduce transparency. Multi-step chains make it harder to evidence who employs the worker, who operates payroll, and whether PAYE and NIC are being correctly accounted for. This is not limited to umbrellas —

any layered intermediary structure that sits between the agency and the worker introduces the same fundamental problem. The more steps in the chain, the higher the compliance risk and the harder it is to defend your position under scrutiny.

5. What A Strong Supply Chain Looks Like

Best practice staffing models are built on simplicity, transparency and direct accountability. The difference between a clean PAYE supply chain and an opaque one is significant when issues arise.

Simpler structures are safer, easier to manage, and easier to defend.

✓ Clear direct PAYE employment

The worker has a contract of service with the agency, and the agency operates PAYE, employer National Insurance, pension contributions and statutory employment rights directly.

✓ Transparent payroll processes

Payslips should be simple and clear: gross pay, tax, NI, pension, net pay. No unexplained margins or deductions.

✓ Compliant holiday pay treatment

Payslips clearly show how holiday pay is handled. Holiday pay is correctly accrued and accounted for, with no hidden or unlawful deductions.

✓ No worker-paid fees

No recruitment, processing or admin fees are charged to workers.

✓ Clean VAT positioning

VAT treatment reflects the true nature of the supply and is defensible under scrutiny.

✓ Audit visibility and evidence

PAYE payroll records, HMRC RTI submissions, employment contracts and example payslips are available on request.

6. Practical Steps: What To Do Now

Care providers that review their arrangements now will be far better protected than those who wait for enforcement or disputes to drive change. Here are the specific actions worth taking:

- 1 Map your current agency supply chain**
 Identify which agencies use umbrellas or intermediaries (or "joint employment" style structures) and where you have limited visibility of how workers are actually paid.
- 2 Ask for evidence, not assurances**
 For higher-risk suppliers, request sample payslips, confirmation of who the legal employer is, PAYE operation evidence (including RTI confirmation), and a clear explanation of holiday pay treatment. "We're fully compliant" means nothing without proof.
- 3 Look for common red flags**
 Umbrella-style reconciliations with margins and multiple deductions, "joint models" that blur responsibility, opaque holiday pay arrangements, worker fees or unexplained deductions, and VAT positions that don't match the reality of staffing supply.
- 4 Update contracts where needed**
 Make sure your agency agreements clearly set out what engagement models are permitted (for example PAYE-only where appropriate), ban worker-paid fees, require evidence rights and audit access, and push accountability back onto the supplier for any non-compliance.
- 5 Confirm your standard is clear**
 Decide what you will accept and make sure agencies understand the requirements and consequences.
- 6 Make it routine**
 Don't wait for a complaint or an HMRC query. A light-touch recurring review of higher-risk agencies is usually enough to catch issues early.

7. The Audit Approach: A Step-By-Step Framework

Below is a practical framework for conducting a supply chain compliance audit on your agencies. This is the approach we recommend:

Step 1: Notify the agency

Inform the agency that you will be conducting a routine supply chain compliance audit as part of your responsibility to ensure good governance, worker protection and regulatory compliance.

Step 2: Select workers at random

Select **5 agency workers at random** who have worked at your home or service in the last 3 months. **You choose the names.** The agency must not select or substitute workers. Send the selected names within the next 48 hours.

Step 3: Request documentation

The agency will then have **24 hours** from receipt to provide the requested information. For each worker, require:

- A copy of the employment contract (likely zero hours, which is fine)
- A recent payslip

Key Indicator: If an agency is well run and compliant, this should be straightforward. Delays, resistance, excuses, attempts to steer the selection, or any attempt to substitute different workers are an **immediate red flag**.

8. Supply Chain Audit Checklist

Use this checklist when reviewing agency documentation and payslips:

Area	Question	Good Looks Like	Red Flags
Employment structure	Who is the legal employer?	Agency clearly named on contract and payslip	Umbrella, multiple entities, "joint employment" wording
PAYE status	Are workers directly employed under PAYE?	Employment contract with agency; standard PAYE payroll	Third-party payroll, intermediary wording
Umbrella intermediary	Are any used in the chain?	Simple agency-to-worker PAYE model	Split responsibility or opaque structures
PAYE evidence	Can agency evidence PAYE operation?	Clear PAYE deductions; RTI evidence available	Vague answers, no evidence
Payslip clarity	Are payslips simple and transparent?	Gross pay, tax, NI, pension, net pay	Margins, many deductions, "provisions"
Employer costs	Are employer NIC and pension paid by the agency?	Not visible on the payslip (not passed to worker)	Employer costs shown or unusually high amounts hiding fees
Holiday pay	Is holiday pay clearly shown and properly handled?	Clearly shown on payslip, correctly accrued and accounted for	Opaque, rolled-up, deducted/added back, or unclear
Worker fees	Any admin or processing fees?	None	Weekly fees or unexplained deductions
Contract controls	Do contracts set clear standards?	PAYE-only where required, audit rights, liability	Vague language, no audit rights

Note: This is a high-level audit framework. We recommend carrying out fuller audits from time to time covering right to work, professional qualifications, training, and more.

9. Red Flags To Watch For

Based on our market experience, these are the most common warning signs that indicate problems in your agency supply chain:

- ✘ Umbrella-style reconciliations with margins and multiple deductions
- ✘ "Joint employment" models that blur who the true employer is
- ✘ Multi-step supply chains where it is unclear who employs the worker or operates payroll
- ✘ Holiday pay that is not clearly shown on payslips, or is opaque in how it is accrued and accounted for
- ✘ Worker fees or unexplained deductions on payslips
- ✘ VAT positions that don't match the reality of the staffing supply
- ✘ Agencies that resist or delay audit requests
- ✘ Attempts to steer the selection of workers for audit, or to substitute different workers
- ✘ Payslips that show employer costs being passed to the worker
- ✘ Vague contractual language with no audit rights
- ✘ Assurances of compliance without supporting evidence

10. Frequently Asked Questions

Q: Why are supply chains being reviewed now?

HMRC reforms expected in April 2026 are part of a wider package of labour market and enforcement measures tightening supply chain accountability for PAYE and NIC. Where payroll is non-compliant, HMRC will be able to pursue unpaid tax from relevant parties in the chain. This makes transparency and clean employment structures increasingly important.

Q: Does Florence allow umbrella companies or intermediary payroll models?

No. Where clients require PAYE-only supply, umbrella companies and intermediary payroll arrangements are not permitted.

Q: What about "joint employment" models?

In most cases, joint employment structures are not permitted for supply via Florence. These models typically split responsibility across multiple entities and are often used to blur who the true employer is. In practice they frequently introduce intermediary-style payroll mechanics, reduce transparency, and increase risk.

Q: What does direct PAYE employment mean?

The worker has a contract of service with the agency, and the agency operates PAYE, employer National Insurance, pension contributions and statutory employment rights directly.

Q: Are worker fees allowed?

No. Recruitment, onboarding, processing or administration fees linked to assignments are not permitted.

Q: How should holiday pay be handled?

In practice, what matters is that payslips clearly show how holiday pay is being handled, that it is correctly accrued and accounted for in line with UK employment law, and that there are no hidden or unlawful deductions.

Q: Could my organisation be treated as a "relevant party"?

Potentially, yes. Being a relevant party is about participation in the supply chain, not about employing the worker. Care providers should assume they may be a relevant party and ensure they can evidence who employs each worker, who operates payroll, and that PAYE and NIC are correctly accounted for.

Q: Will Florence audit agencies?

Yes. Florence retains audit rights to verify payroll compliance, worker records and ethical recruitment practices.

Q: What evidence may be requested during audits?

PAYE payroll records, HMRC RTI submissions, employment contracts, example payslips, holiday pay calculations and VAT treatment explanations.

Q: What if our current model needs adjusting?

Agencies will be expected to move to compliant, transparent PAYE employment structures for any supply via Florence where required by the client.

11. How Florence Supports Providers

Florence operates as a neutral vendor platform, giving providers the tools and visibility they need to manage agency supply chains with confidence.

As a Neutral Vendor Platform

- ✓ Full visibility of agency supply chains
- ✓ Consistent compliance standards across all agencies
- ✓ PAYE-only controls where required by the client
- ✓ Audit rights and evidence trails
- ✓ Transparent booking and invoicing

Standalone Supply Chain Audits

For providers not ready to move to a neutral vendor model, Florence also offers standalone supply chain audits reviewing:

- ✓ Worker contracts and payroll models
- ✓ Umbrella or intermediary exposure
- ✓ Holiday pay treatment
- ✓ VAT positioning
- ✓ 2026 legislative risk

These audits help providers understand where risk sits and how to remediate before the 2026 reforms take effect.

Take Action Now

The 2026 reforms are approaching fast. Providers that review their arrangements now will be far better protected than those who wait for enforcement or disputes to drive change.

Book a consultation with Florence to discuss your supply chain.

12. Next Steps & Contact

If you use agency staff in your care home or service, now is the time to review how workers are actually engaged and paid — not just what you are told.

Recommended immediate actions:

- Map your agency supply chain and identify higher-risk suppliers
- Request payslip and contract evidence from key agencies
- Review your agency contracts for compliance gaps
- Conduct a light-touch audit using the framework in this guide
- Contact Florence for a consultation or standalone supply chain audit

Florence offers a range of Software Tools.

We can help Health & Care Providers with:

✓ Scheduling & Rostering with ease

- Automate your scheduling and fill those rota gaps in seconds.
- Power your perm, bank or agency workforce with intuitive tools built specifically for health and care.

✓ HR & Payroll that understands Social Care

- Get a Payroll solution that understands the specific challenges of Social Care.
- With HR, centralise your employee records, compliance documents, employment terms and development conversations in one seamlessly integrated, secure platform.

✓ Agency Manager that reduces workforce costs

- Simplify the management of multiple agencies, reduce costs of contingent staffing, and free up resources.
- Use the most user-friendly neutral vendor tool on the market.

✓ Staff Training via Florence Academy

- Train health and care staff or keep them compliant.
- 100s of accredited health and care courses are available on our online training platform: Academy.

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Florence works with 2,000+ health and social care organisations across the UK.

This guide is provided for informational purposes only and does not constitute legal, tax or financial advice. Care providers should seek independent professional advice where appropriate. Information is accurate as of February 2026.