Homecare Association

Public Accounts Committee: Local Government Financial Sustainability

Submitted 18 March 2025

Six questions for the Public Accounts Committee to ask the Ministry of Housing, Communities and Local Government and H.M. Treasury

The Public Accounts Committee (PAC) has launched an inquiry into Local Government Financial Sustainability. PAC intends to hear from senior officials at the Ministry of Housing, Communities and Local Government (MHCLG) and H.M. Treasury. Topics for consideration include "Drivers of financial distress for local authorities, including adult and children's social care". We suggest the PAC may wish to consider exploring the following six areas with officials.

1. What did the Government consider in its impact assessment of the Autumn Budget measures in relation to social care?

The National Minimum Wage increase to £12.21 per hour and changes to employer National Insurance Contributions in April 2025 will add £2.04 per hour to costs. This is **a 9.9% increase in delivery costs for homecare providers.** This leaves the entire adult social care sector needing around £2.8 billion[1] in additional funding.

The Government has allocated £880 million of new funding to social care (the £3.7 billion figure quoted by Ministers appears not to be new funding available to commission adult social care[2]). The Local Government Association estimates about 60% of the £880 million might go to adult social care, c. £528 million. Added to this is a social care precept of up to £650 million and a portion of other tax and grant revenue to local authorities[3]. Less than **£1.2 billion** is not enough to meet cost increases of **£2.8 billion**.

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[1] Will the Autumn Budget push the social care sector beyond breaking point? | Nuffield Trust
[2] Employer National Insurance Contributions: Social Car - Hansard - UK Parliament
[3] Consultation: provisional local government finance settlement 2025 to 2026 - GOV.UK

Calculations seem to both under-estimate the cost to employers implicit in the Autumn Budget; to ignore existing deficits and unmet need (more on this later); and rely on Councils increasing Council Tax to a maximum. The plausible result is that local authorities will not increase the fee rates that they pay providers by the amount that costs are increasing by.

Without immediate action to address this deficit, findings of our survey with the Care Provider Alliance[4] suggest:

- 73% of providers having to refuse new care packages from local authorities/NHS.
- 57% of providers handing back existing contracts.
- 22% planning to close their businesses entirely.

When services reduce or close, the impact is significant. It risks harm to those who need care and support and increases unmet need; adds burdens for unpaid carers and loved ones; increases hospital admissions; and delays discharges. This risks lengthening waiting lists for NHS treatment.

The employer National Insurance Contributions threshold change also substantially affects the homecare sector because of the number of part-time workers (46% in the domiciliary care sector according to Skills for Care[5], but substantially higher for many businesses). The following examples illustrate that the change in employer's National Insurance for part-time workers is significant:

Example 1:

- Care worker works 16 hours per week
- Currently employer's NI: £61.23 per year
- From April: will increase to £777.73
- This represents over 1000% increase in NI costs for this worker

Example 2:

- Working 25 hours per week (typical in homecare)
- Current employer's NI: £802.06 per year
- From April: will increase to £1,637.09
- This represents an increase of more than double in NI costs

There is a risk that, across the economy, part-time work will become less financially attractive than it has been; incentivising structuring the workforce through full-time roles, where possible. This would have significant equality implications for workers with health conditions and care responsibilities and could make it more costly for

[4] Care Provider Alliance call to address the devastating impact of the budget
[5] Summary of domicliary care services_2024

providers to support phased return to work for those receiving long-term sickness benefits.

2. What evidence is there that the deficit identified in the Fair Cost of Care exercises has been addressed? Is this evidence convincing? What are the plans to address this?

Despite the Market Improvement and Sustainability Fund, our research suggests **only 1% of homecare contracts with public bodies are at or above a minimum sustainable price**[6]. For 2025/26, this minimum price for homecare in England is £32.14 at National Minimum Wage. Direct employment costs alone amount to £22.71 per hour and a further £9.44 per hour is required to cover other running costs. These include wages for the registered manager and office staff; recruitment; training; digital systems; telephony; insurance; regulatory fees; PPE and consumables; office rent, rates and utilities; finance, legal and professional fees; general business overheads; and a small surplus for investment.

The Autumn Budget announcement included a 3.5% real terms spending increase for local authorities[7]. Local authorities say they have less than £1.2 billion to cover adult social care cost pressures of over £2.5 billion. They warn they must reduce or cut the amount of care they buy and can offer only modest fee uplifts.

In some parts of England in 2024/25, fee rate uplifts were 0% to 5%. This was despite cost increases for that year being closer to 10%. In some places, the fee rates being offered for homecare packages were as low as £18.44 per hour[8]. This is less than direct employment costs (which for 2024/25 are £19.90 at National Minimum Wage)[9].

Staffordshire Care Association has successfully challenged Stoke-on-Trent Council in court over its care home fee setting following an increase of 1.4% that did not take costs into account[10]. It is highly likely other cases could be successful, though the costs of pursuing judicial review are substantial. Dunn vs Lancashire County Council also found against the Council trying to reclaim funds from a Direct Payment recipient and requiring minimum wage pay rates[11].

Data from LaingBuisson[12] show that councils and the NHS purchase 79% of homecare and 96% of supported living services. 85% of all care providers have fewer than 50

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[6] Fee rates for state-funded homecare 2024-25
[7] £69 billion to support councils and help deliver Plan for Change - GOV.UK
[8] Fee rates for state-funded homecare 2024-25
[9] Homecare Association publishes Minimum Price for Homecare 2024-25
[10] Care home fees row as court rules council acted unlawfully - Stoke-on-Trent Live
[11] (21) Post | LinkedIn and A consent order in judicial review proceedings to record a settlement of an application - Centre for Adults' Social Care - Analysis, Information and Dispute Resolution
[12] LaingBuisson

employees and margins are wafer thin[13]. Average margin is 7.6% but this masks substantial variation, with many state-funded providers close to or below breakeven. Providers cannot absorb a cost increase of 10% with a 0% to 6% increase in income, when their margins are 1% to 2%. They also cannot recoup costs from people purchasing care privately given the extent to which the public sector dominates the market.

The Homecare Association is calling for a National Contract for Care Services that specifies a legal minimum rate for care services. This would mean commissioners could not purchase care for less than that rate. The government would need to fund local authorities and NHS bodies to meet the terms of a national contract.

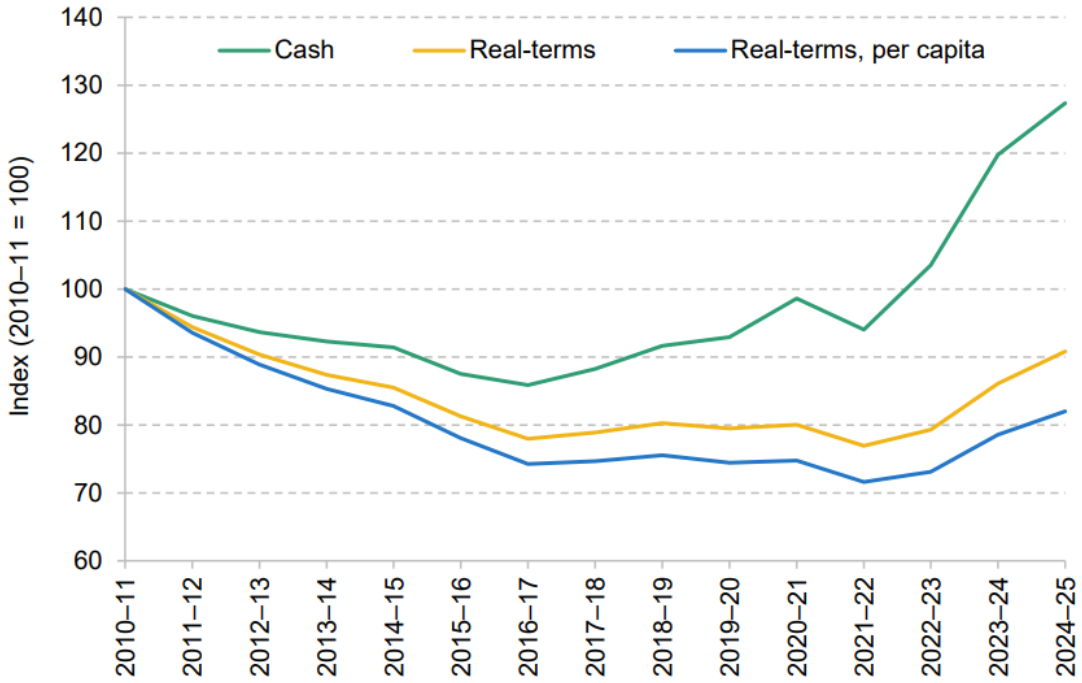
Ongoing deficits in care funding drive unsafe, poor quality care and poor employment conditions in the sector. The Government must pay sufficient fee rates to cover adequate wages for care workers. There is a lot of talk of fair pay, but 99% of public sector purchasers of care are not paying enough to cover the statutory minimum wage at the moment[14]. Local authorities and the NHS are trying to stretch limited budgets to cover rising demand.

3. How does the Government plan to account for predictable increasing need for social care services?

Need for social care has increased, and the population is ageing[15]. The Kings' Fund reported that fewer people received care in 2022/23 than in 2015/16, despite more people requesting care[16]. Age UK says 2 million older people have unmet care needs[17], and Healthwatch report unmet needs for a further 1.5 million working-age adults[18]. However, real terms, per capita funding for Councils in England has not yet recovered to 2010 levels, let alone increased to account for increased need levels (Figure 1).

[13] Care and Support Sector is at a Tipping Point
[14] Fee rates for state-funded homecare 2024-25
[15] Overview of the UK population - Office for National Statistics
[16] Social Care 360 | The King's Fund
[17] 2 million older people now have some unmet need for social care
[18] Missing millions: Exploring unmet social care need for disabled adults | Healthwatch

Figure 1: Institute of Fiscal Studies analysis of cash and real terms core council funding per person (2010/11 = 100)



Source: Institute of Fiscal Studies[19]

The Association of Directors of Adult Social Services (ADASS) report that 81% of Councils in England expect to overspend on their adult social care budget this year and 35% are being asked to find savings[20].

The need to reduce cost, therefore, often influences commissioning and procurement approaches. Examples of cost-cutting actions include:

- Increasing eligibility criteria to reduce the care that councils must pay for.
- Delaying assessments until people deteriorate and end up in hospital, so that the NHS pays rather than councils.
- Placing people in care homes rather than supporting them at home. They do this because people must sell their houses to pay for care in care homes, reducing costs for councils.
- Zero-hour commissioning and purchasing of homecare for contact time only. If a person goes into hospital, for example, the councils and NHS stop paying providers immediately, which means there is no money to pay careworkers whilst the person they usually care for is in hospital. There is also no guarantee of work for the provider, which makes staffing decisions difficult to manage and hiring international workers complex (as they require a guaranteed salary).

[19] How have English councils' funding and spending changed? 2010 to 2024 | Institute for Fiscal Studies
[20] ADASS Autumn Survey 2024 - ADASS

- Offering fee rates which are too low to cover the costs of delivery (as discussed above).
- Exhorting providers to bid at lower fee rates to win work, favouring low cost regardless of quality, trust and previous working relationship.
- Terminating lead provider contracts with agreed fee rates before the agreed contract term has ended and shifting to framework contracts where the lowest bidder wins. This means providers who won contracts with secure hours and income for several years must bid for every hour at the lowest price.
- Encouraging people who need care and support to take direct payments at low rates in unregulated forms of care. This is cheaper to deliver because there is no regulatory oversight such as training, record-keeping, etc. This means there is no oversight of quality and safety.
- Encouraging individual care workers to claim they are "self-employed" which reduces administrative burden and costs for all parties. This means that individual care workers have no employment rights. They do not receive pension contribution, holiday pay, sick pay or travel time. If they want training, they must source and pay for this themselves. It is unlikely many individual care workers would meet HMRC's tests for self-employment because of requirements of the Care Act 2014 and the Health and Social Care Act 2008 (Regulated Activities) Regulations 2014. This puts older and disabled people at risk of historic tax liabilities if an employment tribunal later considered the worker to be an employee. Anecdotally, we hear "cash in hand" payments are common in the unregulated market, creating potential risks of tax avoidance and benefit fraud.

The rates being paid by councils suggest it is convenient to turn a blind eye to regulatory issues because of their inability to meet statutory duties otherwise.

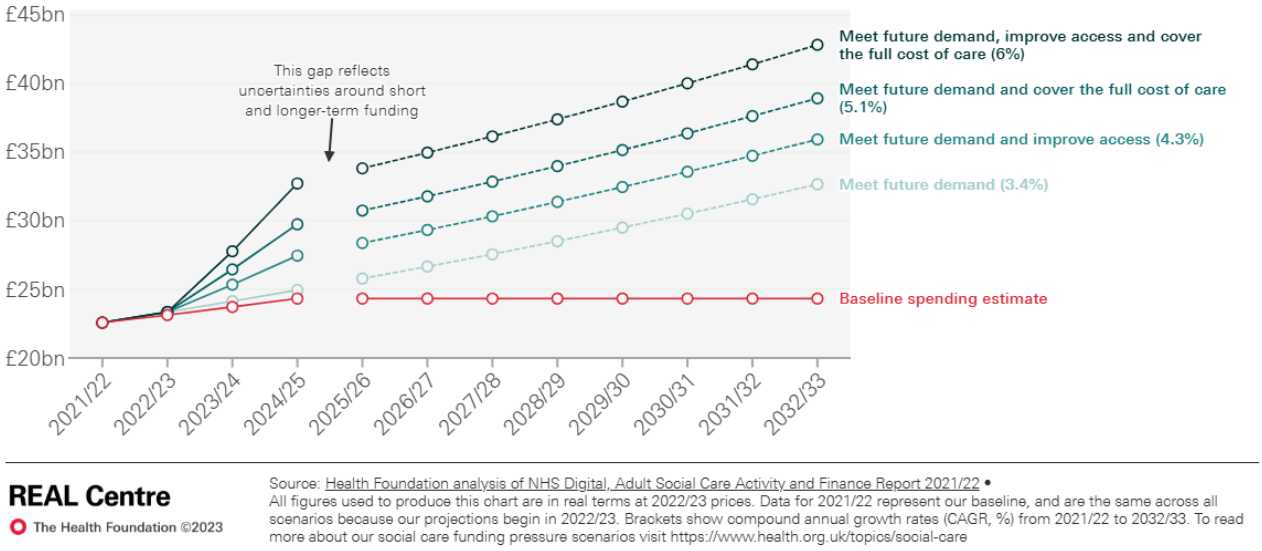
We know delays in inspections by the Care Quality Commission (CQC) mean many authorities are now contracting with providers that the CQC has not inspected. As of June 2024, 60% of community social care providers had either never been rated by CQC (23%) or had a rating of 4 to 8 years old (37%). Where inspections have taken place, concerns are more common - in community social care, the locations "Requiring Improvement" have increased from 0.5% in 2017 to 26.3% in 2024[21].

To curb this behaviour, the government should fully fund councils to meet their statutory duties. In 2023, the Health Foundation[22] estimated that covering the full cost of care (including a sustainable price for homecare), meeting demand and improving access would require £8.4bn in 2024/25, followed by an annual real-terms increase of 6% each year after that. A 6% real-terms increase of £8.4bn is likely to exceed £9 billion in 2025/26. Costs would continue to rise year on year thereafter (see Figure 2).

[21] Homecare Association report exposes serious deficiencies in homecare regulation

[22] Adult social care funding pressures - The Health Foundation

Figure 2: Health Foundation: short and long-term funding estimates in social care expenditure



Is there evidence that the Government is fully aware of current unintended consequences and future costs and has an appropriate plan?

4. How well does the Government understand the human and financial risks associated with provider failure in the social care sector?

A survey from the Care Provider Alliance suggests that one in five care providers are considering closing their business due to increased financial pressures because of the Autumn Budget. There are plans in place to identify large providers that might close in advance, in order to ensure that local authorities manage the risk of market failure correctly. However, are there sufficient plans in place to manage situations where many smaller providers close? Are the risks associated with this recognised?

If providers leave the market and capacity shrinks, then we would see multiple social and economic impacts, including:

- Increases in wait times for people in the community seeking care or support (as we saw in 2021/22).
- Escalation of healthcare needs as people become more unwell because their basic needs are not being met.
- Reductions in care and support packages for people already in receipt of care; reducing their ability to take part in society.
- Increased pressure for people to take Direct Payments for personal assistants, even if this isn't their first choice.
- Pressure on families to support their loved ones until they can get a care package – potentially disrupting their work and other family responsibilities.

- More requirement for families to support their loved one's long-term – potentially seeing more unpaid carers dropping out of work.
- Increased pressure on GPs from people being discharged from hospital without the appropriate care.
- Longer waiting times in hospitals as it becomes harder to arrange support for people being discharged.
- Higher workload for social workers needing to find alternative placements for people where the care provider is handing back the package or closing.
- Loss of employment (and potentially, visa sponsorship) and/or going through TUPE transfer for employees.
- Risk that the providers leaving the market are conscientious providers who are good employers and have high standards, where others are prepared to make compromises to compete for a lower rate – weakening the integrity of the market as a whole.

5. How does the Government plan to estimate and meet social care costs arising from provisions in the Employment Rights Bill?

The Government's October 2024 Economic Analysis of the Employment Rights Bill[23] highlights significant uncertainties about the economic impact of key provisions.

The report highlights the Fair Pay Agreement impact as 'uncertain' and says "We expect the cost of the Fair Pay Agreement in [Adult Social Care] ASC will likely come through into higher costs for local authorities' commissioning services and for self-funders. Increased costs to the local authorities could in turn create increased costs to the Exchequer. The extent of this, and how the costs are shared, depends on policy design…" [24]

We have estimated that a £15 per hour fair pay wage rate proposed by TUC (even without improved terms and conditions) would increase the minimum viable hourly rate for homecare delivery that Councils would need to pay from £32.14 to £37.37 per hour. Given the public sector purchases 79% of homecare, this would cost the Exchequer billions of pounds. Does the Government have credible plans in place to find funding for fair pay (whether at £15 per hour or a lower level)?

The report also highlights that the net impact on society of the provisions on right to guaranteed hours and right to reasonable notice of shifts is 'uncertain'. The report notes that "Since healthcare and education are large employers of zero hours contract and agency workers, some of this impact will fall on the Exchequer"[25]. The same is true, of course, for social care. As stated above, data from LaingBuisson[26]

[23] Employment Rights Bill economic analysis
[24] Employment Rights Bill economic analysis, p. 38
[25] *Ibid.* p. 61
[26] LaingBuisson

show that councils and the NHS purchase 79% of homecare and 96% of supported living services. Does the Government have funding in the Exchequer available to pay for these policy changes? Has it attempted to quantify the cost?

Other provisions, such as those on Statutory Sick Pay (SSP) and unfair dismissal, will also affect social care operating costs. We estimate SSP changes will add 10-12p of cost to the minimum viable price for an hour of homecare delivered, without accounting for other elements of the Employment Rights Bill.

How does the Government plan to estimate and budget for these changes before the legislation comes into force? Without funding, these measures could have a devastating effect on the already stretched funding of both local authorities and providers. It would exacerbate existing rationing of care services, reduce access to care, result in provider failure and incentivise exploitation.

6. What assurance does the Government have that underfunding social care is not making the Government complicit in modern slavery, negligence and labour exploitation?

Provider exit and lower service capacity are only one potential outcome of severe underfunding. Providers may seek to offset the deficit in other ways. This is not because the care market is inherently exploitative, it is because of the conditions the Government is creating directly through their policy decisions.

Seeking to increase profit from other sources

- Providers may increase volume of private-pay clients and reduce or cease to support those funded by councils and the NHS. They may also increase private fee rates. This is already happening. Sometimes, this can mean people paying for their own care are subsidising those paid for by the local authority.

Reducing overheads

- Providers may reduce pay differentials between supervisory/management staff and careworkers. However, we know that this has already happened in large parts of the sector. A careworker with five years' experience earns on average only 10p per hour more than a careworker with one year's experience.
- Reducing office headcount. For example, cutting line management and increasing the number of people each supervisor manages. On average, there are at least 25 careworkers to one supervisor.
- Reducing the number of spot-checks and quality checks undertaken.

Cutting corners in relation to employment practices

Poor treatment of staff is unacceptable. This arises because of poor economic conditions and commissioning practices, coupled with weak regulation. We receive concerns from providers about being undercut by others who adopt practices such as:

- Not paying staff for travel time, training time or sick leave.
- Not paying for short gaps between calls.
- Not paying adequate mileage rates.
- Asking staff to pay for their own uniforms.
- Asking staff to cover work related costs incurred through using their own mobile phone for work.
- Employing sponsored workers on zero-hour contracts instead of the required full-time salaries.
- Giving sponsored workers part-time rather than full-time work. This creates severe hardship for workers and breaches sponsorship licence requirements.
- Staff being asked to work too many hours, not being given compensatory rest breaks or be constantly on standby.
- Other modern slavery concerns – including provision of poor housing; threats of deportation; demanding international recruits repay costs which should fall to the employer, etc.

Commissioners are not, on the whole, doing anything to reward providers who are good employers and are actively undermining them in many cases.

Cutting corners in relation to care quality

The most common practice here is 'call clipping' or 'call cramming', where a local authority or NHS commissioner contract a company to provide an hour of care to someone but only provide a 20-minute care call, or less. This enables them to fit more calls in per day, increasing profits by under-delivering. The company can intentionally pursue this or the company may turn a blind eye to careworkers who call clip by working for multiple care providers at once, in order to double their salary.

People may avoid raising concerns or making complaints if they fear finding new care will be difficult because of shortages.

Providers engaging in labour exploitation and call cramming give the sector a bad reputation, drive conscientious providers out of the market and lead to valued and skilled care staff leaving the sector.

Local Authority commissioning teams have a fundamental role to play in quality assurance and ensuring the providers that they engage are conscientious, trusted and not involved in negligent or exploitative activity. Current budgetary pressures, combined with their statutory responsibilities, encourage them to turn a blind eye and prioritise price over quality, without due regard to the serious consequences. The Government must account for this in its policy development.