Will the Autumn Budget push the social care sector beyond breaking point?

As the dust settles on the new government's first budget since taking office, the enormity of its potential impact on social care is coming into focus. While the budget introduced measures to raise much-needed money for hard-pressed public services – in particular the NHS – social care was not so much left out in the cold as pushed right to the edge of a cliff.

Already fragile after Covid, runaway inflation and a decade of deep cuts to funding, the near 18,000 organisations that provide care in England now fear they will be pushed over the edge of financial viability when the changes to the Employer National Insurance Contributions (ENICs) regime announced in the budget kick in. We estimate that the ENICs changes will cost independent sector social care employers in the region of an additional £940 million in 2025/26, on top of around £1.85 billion more that will be needed to meet new minimum wage rates from April 2025 also announced in the budget.

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What measures did the government introduce?

The budget ushered in a number of employment changes that will have a profound impact on this vital sector. Employing almost 1.6 million people, it is made up of a mix of non-profit and for-profit organisations, 98% of which are small and medium sized. The vast majority of these organisations are in the independent sector (which includes both for- and non-profit), so will not qualify for the financial support put aside to cover ENIC increases in the public sector.

A more generous Employment Allowance, also set out in the budget, will help to soften the blow slightly. Under the new regime, from April 2025, employers (regardless of size) will not pay the first £10,500 of their bill, up from £5,000 and with wider eligibility. Even so, we estimate that the combination of the 1.2 percentage point rise to the ENIC rate, and the lowering of the earnings threshold at which employers have to start paying from £9,100 to £5,000, will add around £940 million more to the ENIC bill for independent sector social care organisations in 2025/26 compared to under the current regime (see the methods section at the end of the blog for more detail).

An uplift of 6.7% to the National Living Wage (the minimum wage for people 21 and over) also formed part of October's budget and will benefit a large proportion of this low paid workforce. Over half the workforce (59%) employed by independent sector social care providers in March this year were paid less that the current minimum wage that took effect in April.

While a further uplift to pay will be welcomed by staff, and was likely anticipated by employers, we estimate it will add around £1.85 billion more to the total wage bill

compared to the current year, assuming that all wages above the National Living Wage also rise at a roughly similar rate to maintain differentials in earnings as has been the case in previous years (see methods section for more detail on our assumptions).

When the impact of National Living Wage and the ENIC changes are added together, the 17,732 independent sector providers of social care face additional costs of almost £2.8bn in 2025/26. To plug that gap and remain financially viable, providers broadly have three options: a) they absorb the costs b) they pass the costs onto people who pay for, or top up, care themselves or c) they ask local authorities to pay higher fees for those eligible for publicly funded care (or a combination of the three).

With most organisations running on low margins, absorbing additional costs on a grand scale will only be feasible for the very largest providers, which make up only 2% of the market. Because local authorities already often pay fees for care that are below sustainable levels, to remain financially viable many providers cross-subsidise by charging higher fees to people who pay for their own care. Their ability to pass further costs on to people who pay for some or all of their own care will significantly vary by region and individual organisation. Providers will be turning to local authorities to raise the fees they pay to represent the true cost of care.

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Will extra funding shore things up?

The budget earmarked 'at least' £600m more in 2025/26 for local authorities for social care (councils have discretion over how they allocate it between children's and adults' services). The exact amount won't be confirmed until the Local Government Financial Settlement (the final version of which is usually published in February), but the government was keen to point out that, assuming council tax receipts will increase by a maximum of 5%, overall council spending power is set to rise by around 3.2% in 2025/26. That represents an increase of just over £2bn in additional funding for all services. When set against the rising costs of care, it's clear that things do not add up.

We estimate that local authorities currently purchase just over 70% of all care delivered by the independent sector in England, so their financial health is critical to determining the sustainability of providers. If local authorities were to raise the fees they pay to providers in 2025/26 to recognise the increased cost of care, they would need to spend around an additional £2bn on the adult social care they commission in 2025/26 (approximately £665m for ENICs and around £1.3bn for the National Living Wage uplift), quickly swallowing up almost all the extra funding flowing to councils. Councils will clearly face some extremely tough decisions.

Recent ADASS surveys have underlined how precarious council finances are. Local authorities are set to overspend on social care by around £564m in this current financial

year, and 37% say they are planning to draw on non-recurrent sources (e.g. reserves) to prop up budgets. The Health Foundation estimates that an additional £1 billion would be needed next year just to keep pace with demand for adult social care, let alone make any improvements.

In this context, it is difficult to see how councils will be able to increase the rates they pay for care sufficiently to enable providers to make financial ends meet. Providers will face their own tough decisions. If they can't increase fees sufficiently, they may look to cost-cutting measures, such as cutting more experienced highly paid staff, reducing staff hours, or freezing pay for those above the legal minimum wages. Some may opt to leave the council-funded market or choose (or be forced) to close down altogether.

The human cost of market failure

The government, so far, has stood firm in its stance that no non-public organisations are exempt from the new ENIC regime. But as work starts to 'save the NHS', they cannot remain unaware of the likely consequences of the budget for social care.

Indeed, the government was seemingly aware of the consequences of the ENIC change, as a table originally published by the OBR in its Economic and Fiscal Outlook document included a line for "compensation [for ENICs] for public sector employers and adult social care" along with a provision of £5.5bn. The table was later corrected, taking out the reference to adult social care and replacing the £5.5bn with £4.7bn.

Government officials have not offered an explanation for that £800m difference but, based on our own calculations, it seems likely that it could have been an official estimate of the likely impact of ENIC changes on adult social care. This suggests that the government is fully sighted on the potentially catastrophic consequences of the budget for social care and how much support would be needed to shore it up.

It is notable that "major adult care provider failure" appears on the National Risk Register, which states that "if unmitigated, it could harm continuity of care for people with care and support needs". Without additional funding from central government, the combined financial impact of the ENIC rise and the new minimum wage level might see not just single providers going out of business but large swathes of the market collapsing.

And, while "market" suggests institutions, the real and devastating consequences will be felt most acutely by people already drawing on care, whose lives would be disrupted, and by those struggling to access or afford the care and support they desperately need. As the government repeats its line that it is committed to long-term reform, it should be mindful that if it fails to take urgent action to stabilise the sector now, there may be little left of it to reform.

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Data notes & method

Our methodological approach to arriving at these estimates was as follows. Due to data limitations in social care, it relies on several stated assumptions. We have used publicly available data only. Data is from England only, except where otherwise stated.

Independent sector wage bill

Exact pay data in the sector is not in the public domain, therefore we have calculated an estimate of mean hourly pay for 2025/26. Average pay data is not yet available for the current year (2024/25), so we took known mean hourly pay for the sector in 2023/24 and 2022/23 and calculated how it related to the National Living Wage at the time. We then uplifted mean hourly pay using the same assumptions for 2024/25 and 2025/26. We have used this mean pay as the basis for calculating the total independent sector wage bill. We have not taken account of the larger pay rises for those under 21 years of age as they make up a very small proportion of the workforce.

	NLW	Mean ind sec pay	NLW as %
2022/23	£9.50	£11.09	86%
2023/24	£10.42	£12.01	87%
2024/25	£11.44	*£13.15*	*87%*
2025/26	£12.21	*£14.03*	*87%*

We produced working hours assumptions for full- and part-time employees. Full-time hours are based on Skills for Care's definition of one full-time equivalent, which is 37 hours per week. Our part-time hours assumption is based on the ONS ASHE data regarding the mean hours of a part-time care worker in the UK as a whole, which is 19.6 hours per week.

We used Skills for Care data (2023/24) on the number of part-time employees (567,000) and full-time employees (783,000) in the independent sector. This was combined with our pay and hours assumptions to generate an estimate of the total annual wage bill for the independent sector. In line with Skills for Care's hourly to annual pay conversion, we multiplied hourly pay by weekly working hours, and by 52.143 weeks, to arrive at our annual pay estimates.

Total independent sector annual wage bill = (mean pay x PT hours x 52.143 x n PT employees) + (mean pay x FT hours x 52.143 x n FT employees)

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Employers' national insurance contributions

Employers' national insurance was then calculated on these wage bill estimates.

Pre-2025/26, the ENI rate has been 13.8%, with the first £9,100 of an employee's wages exempt.

Commencing in 2025/26, the ENI rate will be 15%, with the first £5,000 of an employee's wages exempt.

The old and new ENI rates were applied to our estimate for the independent sector wage bill for 2025/26 to determine how much, specifically, this change is likely to cost in that year. So our counterfactual is what the ENIC bill would be in 2025/26 with the new National Living Wage for 2025/26 but under the current ENI regime of 13.8% with the £9,100 threshold.

We also calculated how much the employment allowance (EA) regime, which is also changing, would save from this total ENI bill. We have assumed that, under the new regime, all 17,732 registered providers will now be eligible for EA, saving £10,500 each. For the counterfactual, we assumed that, under the current 2024/25 Employment Allowance regime, 98% of 17,732 organisations are eligible for the £5,000 allowance, although in reality the number eligible may be lower (only organisations with a total ENIC bill of under £100,000 are eligible under the current regime).

ENI changes cost = (new ENI – new EA) – (old ENI – old EA)

Combined cost

We calculated the combined additional wage bill arising from the National Living Wage change (from 2024/25-2025/26) with the additional cost of ENI under the new ENIC regime.

Cost to local authorities

Finally, we estimated the proportion of these costs that would fall within local authority commissioned care (as opposed to the self-funded or NHS-funded commissioned care), assuming the amount of care commissioned by local authorities as a proportion of all care purchased remained the same. In the absence of data about the split of care purchased by local authorities versus self-funders, we derived an approximate split based on 2023/24 adult social care finance data on non-capital total expenditure.

We assumed that 70% of total local authority expenditure on care is spent on staff costs. In reality, this will vary between organisation, care type and setting. We then arrived at the proportion of the total independent sector wage bill that is accounted for

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by local authority spending – this came to 71%. Therefore, we calculated that 71% of the full impact of the ENIC and National Living Wage increases will fall within local authority-funded care.

Paid by LA = ((LA expenditure on independent sector x % spent on staff costs) /total independent sec wage bill) x combined cost of wage and ENI increases

Limitations

We assumed the differential between National Living Wage and mean pay would remain the same after 2023/24. In reality, this has the potential to fluctuate, especially if financial pressures on providers become even greater due to the cost increases discussed.

Our part-time hours assumption is based on data for care workers across the UK, but is applied to the whole independent sector ASC workforce in England.

We assume the number of part-time and full-time employees will remain static after 2023/24. This may change to some degree.

Our calculations assume that all part-time workers work the mean of 19.6 hours per week. In reality, there will be a distribution of working patterns among this group. For instance, if a lot of people work low hours, and currently fall under the existing ENIC threshold, the total ENI bill for part-time workers will be lower than our calculation. This means there is a risk that the cost increase resulting from the new ENIC threshold is understated in our calculation. A lack of reliable, granular data on working hours means it is difficult to map this distribution more exactly.

Our calculations are based on employees working 52.143 weeks per year. This reflects the relationship between Skills for Care's figures for hourly pay and annual pay. The ONS ASHE data from which we have derived part-time working hours, however, is based on working hours during a snapshot of time. This means that we cannot be sure that employees captured worked the given hours consistently across every week of the year. Mean weekly hours for part-time workers across the whole year may therefore be lower than the stated 19.6 hours.

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Summary estimates

	Wage bill increase 2025/26 compared to 2024/25 (impact of NLW uplift)	**ENI increase (old regime v new regime applied to new NLW)**	**Combined NLW and ENI impact**

Impact on Independent Sector providers	£1.85bn	£940m	**£2.8bn**
Potential increased cost of care falling on Local Authorities (on assumption they purchase c 71% of all care provided by Independent sector providers)	£1.3bn	£665m	**£2bn**

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