From:	Dan Watkins, Cabinet Member for Adult Social Care and Public Health Richard Smith, Corporate Director Adult Social Care and Health
To:	Adult Social Care Cabinet Committee – 15 January 2025
Subject:	**Fee Uplifts for Adult Social Care Providers for 2025/2026**
Key Decision :	It affects more than 2 Electoral Divisions It involves expenditure or savings of maximum £1m – including if over several phases
Decision no:	24/00112
Classification:	Unrestricted
Past Pathway of report:	N/A
Future Pathway of report:	Cabinet Member Decision
Electoral Division:	**All**

Is the decision eligible for call-in? *Yes*

Summary: This report sets out the proposed approach for fee uplifts for Adult Social Providers for 2025/2026.

Recommendation(s): The Adult Social Care Cabinet Committee is asked to **CONSIDER** and **ENDORSE** or make **RECOMMENDATIONS** to the Cabinet Member for Adult Social Care and Public Health on the proposed decision (attached as Appendix A) to:
a) **APPROVE** the fee uplifts for Adult Social Care Providers for 2025/2026; and
b) DELEGATE authority to the Corporate Director Adult Social Care and Health, in consultation with the Cabinet Member for Adult Social Care and Public Health to take relevant actions within the overall budget allocation, including any changes to the percentage rates, as necessary to implement the decision.
The Committee is also asked to **NOTE** that the Cabinet Member for Adult Social Care and Public Health will continue to lobby government to exempt social care providers from the employer national insurance changes and fully fund the increase in the National Living Wage.

1. Introduction

1.1 This report sets out the planned approach to uplifting fees paid to care providers delivering adult social care services, for 2025/2026.

1.2 The County Council recognises the impact of changes to the National Living and National Minimum wages and Employer's National Insurance Contributions as set out in the Government's Budget report of 30 October 2024. We welcome the increase in the National Living/Minimum Wage, but are very concerned at the lack of funding from Government to meet that additional cost and the cost of the increases in employers' national insurance for the sector.

1.3 The Provisional Local Government Finance Settlement (PLGFS) was published on 18 December 2024. The settlement comprises of assumed council tax increases up to the referendum thresholds set by central government, and grants from Ministry of Housing, Communities and Local Government (MHCLG). The council tax referendum thresholds for 2025/2026 are the same as 2024/2025 and for Kent County Council (KCC) allow an increase up to but not equal to or exceeding 5%, comprising of 2% specifically for adult social care and 3% for all services.

1.4 In the provisional settlement the government has increased the amount provided to local authorities through the Social Care Grant from £680m, as set out in the policy statement published in November 2024, to £880m, KCC's share of this additional £880m is £20.1m, which is equivalent to circa 3% of spend on commissioned care services. The draft budget proposals include passporting in full the additional funding from Adult Social Care council levy and Social Care Grant, together with a pro rata share of other general funding. The Social Care Grant is un-ringfenced and councils have complete discretion how the funding is spent, the grant is notionally for both adults and children's social care, although due to the particular challenges in adult social care the budget is proposing to use all of the increase available for 2025/2026 on adult social care spending.

1.5 The overall increase in core spending power is £88.3m (6.2%) increase on 2024/2025. The core spending power needs to fund spending pressures across the whole range of council services. In adult social care these pressures are not just fee uplifts to contribute to increased employment costs but also include increased activity from demand/complexity and additional cost of placements for new people in receipt of care and support. In balancing the budget there will continue to be difficult choices to be made.

1.6 Even with the additional £880m made available for social care in the settlement, the sector as a whole is worse off than before the Autumn Budget because the additional funding councils are receiving is more than outweighed by additional costs imposed from increases in National Living Wage (NLW)/National Minimum Wage (NMW) and employer National Insurance contributions.

1.7 It is therefore proposed, based on a balance of the impact of the Autumn Budget changes on providers and the funding provided by Government to KCC, to make provision in the budget of £26.3 m for adult social care commissioned services and direct payments, this is £7.6m more than the £18.7m identified for price uplifts in the draft budget presented to this Committee on 13 November 2024. This excludes the uplift provision for 18-25 Strengthening Independence Services which are subject to a separate decision at this meeting to move responsibility to Adult Social Care and Health. If that proposal is agreed then the proposed uplift budget allocation will be £28.4m.

1.8 This equates to 4% on average, but we will continue to work with provider representatives to determine the optimal distribution of this sum across different care provisions, as the impact of the Autumn Budget changes will not be even across the sector.

1.9 We recognise that this will not cover the increased costs of employment imposed by the Autumn Budget, and share the sector's concerns about the impact on the sustainability of some providers. The Cabinet Member for Adult Social Care and Public Health will continue to work with provider representatives in lobbying the Government to address these risks by exempting social care providers from the changes to employer national insurance (or fully funding the cost) and fully funding the increase in the NLW and NMW.

1.10 The failure of the Government to fully fund the increases in employment costs is not only a threat to adult social care providers, but will impact on those who draw on the care and support they provide. If providers exit the market, there may be disruption to people's lives and care, and less choice in the future. It is likely that providers will seem to offset some of their increased costs by reducing spend on non-mandatory training, which may impact on the quality of care received.

1.11 The fee uplifts need to be finalised by 1 March 2025 to enable them to be applied to the Council's Adult Social Care case management system in time for providers to submit invoices for the revised rates from April 2025. The proposals set out in this report are subject to approval of the budget by the County Council on 13 February 2025.

2. Background

2.1 In 2024/2025, we paid a flat rate 4% uplift for framework providers at a cost of £19.4m and set aside £9.4m for negotiated uplifts.

2.2 Adult social care contracts include an uplift clause linked to the December Consumer Price Index (CPI) subject to the affordability to the County Council. CPI was 1.7% in September 2024 rising to 2.3% in October and 2.6% in November. The Office for Budget Responsibility (OBR) forecast CPI inflation to average 2.4% in quarter 4 of 2024. The proposed £26.3m provision for the fee uplift in the draft 2025/2026 adult social care budget includes £15.9m in line with this 2.4% forecast, plus an additional £10.4m to raise this to the proposed 4% average uplift for 2025/2026.

2.3 In the Budget of 30 October, the Government announced a 6.7% increase in the NLW for those over 21, and 16.3% for those aged 18 to 20 on NMW. Whilst we welcome this increase for low paid workers, the failure to provide for it in the provisional Local Government Settlement is a major concern. Adult social care providers will struggle to fund the increase and local authorities are not able to increase their fees to reflect it.

2.4 The Autumn Budget also increased the Employer's National Insurance Contribution (NIC) rate from 13.8% to 15%, and lowered the threshold at which contributions are payable, from £9,100 to £5,000 per annum. There was some additional relief through the Employment Allowance, which previously allowed small employers with NIC costs of £100k up to £5k reduction on their overall NIC bill. The changes to the Employment Allowance will now allow a discount of £10.5k on all Employer NICs. The Government stated this change would remove the need for any NIC contributions for 865,000 businesses and offset the increases for a much larger number of smaller businesses. Nonetheless, it is predicted that these changes in employment costs will disproportionality impact on the adult social care sector with a high proportion of part-time and lower paid roles.

2.5 The impact of these changes on social care providers will vary, with estimates of between a 9 to 11% increase in the costs of employment. The Home Care Association (December 2024) for example calculates the impact at 9.9% excluding other cost increases and a requirement for a £1.8bn cash injection into the sector nationally to cover the increased costs and previous year's funding deficits.

2.6 A recent letter from the National Care Association (NCA) requested an uplift of at least 11%. Other requests received to date are in the same ballpark. Whilst we understand the basis of their requests and are very concerned about the impact of the increases in employment costs on the sector, the Provisional Local Government Settlement does not give KCC the financial headroom to be able to afford uplifts of this magnitude. We must also recognise that the fee covers all of the costs of providing care and not just the employment element, although we currently do not undertake a segmented calculation to determine the overall increase proposed in the draft budget.

2.7 It is difficult to assess the impact of the Autumn Budget changes on the sector as the sector is made up a significantly varied business types with different cost bases and resilience to cost increases. Industry analysts Laing & Buisson (October 2024) estimate that 10% of the sector is owned by private equity and that Small Medium Enterprises (SME) make up 80-85% of the sector. Approximately half of the sector is local authority funded, with 17% NHS funded and 31% private fee payers, although in older persons care homes it is up to 47% privately funded. The top ten national providers make up 18% of care home provision and 16% of home care and supported living.

2.8 There are social care providers who will be able to absorb these cost increases, albeit reluctantly and there will be others where the NIC element will be mitigated to a greater or lesser extent by the changes in the Employment Allowance. But there will be others who will not be able to sustain their businesses. We therefore expect an increase in provider failures in the coming year. There have been very few in the year just gone.

2.9 However, the risk is more than just about providers being unable to sustain their business. Some who still have a viable business may still choose to exit the market altogether because profitability levels are no longer attractive. Although some may seek to sell their businesses as going concerns, other may choose to cash in their land assets through sale for general needs housing development.

2.10 Equally, some care businesses may choose to retrench and focus mostly or entirely on the private market, and stop accepting placements from local authorities and potentially the NHS. In most cases, we would expect then to stop accepting new referrals rather than seeking to hand back existing care packages.

2.11 A combination of these actions will result in a reduction in capacity and more limited choice of care providers. If the level of exits, in all its forms, is significant, it may result in delays in accessing care.

2.12 Providers reducing spend on training and reducing the differential between what they pay, and the NLW will impact on the recruitment and retention of care workers. This is difficult enough as it is and having sufficient well motivated and well trained care workers is essential for good quality care.

2.13 The impact of this as well as providers exiting from care (either completely or from local authority funded care) will be detrimental to those people who draw on care and support. Choice will be reduced and the inequity between those people who can fund their own care and those who depend on local authority funding will grow. We know that this detriment will particularly affect those with protected characteristics as they are over-represented in adult social care. Older people make up a large proportion of those we support and as do people with disabilities of all ages. The failure to appropriately fund Adult Social Care nationally will therefore disproportionately affect older and disabled people. Women also make up a high proportion of those who draw on care and support, and also of family carers. Disruption to commissioned care places additional burdens on family carers, as new care workers have to learn the needs and wishes of the person they are supporting.

2.14 In the event of a provider withdrawing from providing care, adult social care has an established approach to supporting those who draw on the provider's support to access alternative care. However, this is disruptive to the lives of people who draw on care and support, and can result in poorer outcomes for them. Established patterns of support and relationships with care workers can be disrupted, meaning that the person's needs and wishes have to be relearned to be appropriately reflected in the care and support package. In the case of those in a residential care setting it will entail a move of home which can be distressing and may disrupt access by family members.

2.15 Managing provider failure, provider exits from the market and the hand back of packages of care is also very time consuming for both operational and commissioning teams as we ensure that needs of those that draw on that care and support continue to be met. Short notice transfers of care are often at greater cost, as we have to prioritise continuity of care. This then becomes a further pressure on adult social care budgets.

3. Other Options Considered and Discarded

3.1 **Apply no uplifts across all services:** this was discarded, because although we cannot meet providers' expectations, we have to do what we can within our constrained resources to support providers with their increased costs.

3.2 **Fully fund the increase in employment costs**: There is insufficient headroom in the provisional settlement for KCC to meet providers uplift aspirations and meet its duty to set a balanced budget. There is also a policy consideration as to whether it is the Council's role within its statutory obligations to fully fund employment costs imposed on independent businesses by government policy. An uplift of 11% would cost in the region of £66m.

3.3 **Allocate the sum available and work with provider representatives to determine the optimal allocation**: Unless the Government responds to the concerns of the sector and provides a more realistic settlement, then the sector will be challenged in the coming year. It is important that we work together to face these challenges and therefore working with providers to determine the best use of limited resources is part of that.

4. Financial Implications

4.1 Table 1 below shows how the proposed uplift budget allocation is made up

Table 1 – Price Uplift – Budget Impact 2025/2026

	Off-Framework		**Framework**		**Total**
£000's	**Vulnerable Adults**	**Older People**	**Vulnerable Adults**	**Older People**	
Homecare	258.9	955.4	277.9	1,269.3	**2,761.5**
Older Persons Residential	0.0	1,645.5	0.0	3,930.4	**5,575.9**
Older Persons Nursing	0.0	1,244.0	0.0	1,605.3	**2,849.3**
Learning Disability/Physical Disability/Mental Health Residential	1,516.8	0.0	4,211.0	0.0	**5,727.9**
Supporting Independence Service/Supported Living	1,386.4	16.8	4,574.7	26.8	**6,004.7**
Supported Accommodation	0.0	0.0	170.9	2.6	**173.5**
Direct Payments	0.0	0.0	1,592.4	488.9	**2,081.3**
Carers/Respite	0.0	0.0	85.9	83.4	**169.3**
Meals	0.0	0.0	0.0	0.1	**0.1**
Other	0.0	0.0	35.2	0.0	**35.2**
Daycare	0.0	0.0	507.6	28.5	**536.1**
Equipment	0.0	0.0	52.0	155.9	**207.9**
PFI	0.0	0.0	0.0	205.5	**205.5**
Total	**3,162.1**	**3,861.7**	**11,507.6**	**7,796.7**	**26,328.1**
18-25 Strengthening Independence Service					**2,067.5**

4.2 As at the end of quarter 2, the adult social care budget was showing an overspend of £32.5m. Although a large part of the net pressure is due to undelivered savings, there are also significant underlying pressures on demand and price. Price pressures are particularly acute in older persons residential and nursing care, where the average cost of new placements continues to rise.

5. Legal implications

5.1 There have been no legal implications identified as it is for local authorities to set their own prices in the light of current market activity and status. Local authorities have a range of statutory duties including through the Care Act 2014 but also has a duty to set a balanced budget within the resources made available through the national funding settlement.

6. Equalities implications

6.1 An Equalities Impact Assessment (EQIA) has been completed and is attached as Appendix 1. This is a live document and will continue to be updated as required, but the EQIA outlines how certain client groups will be impacted by the decision, where the full cost of the care is paid, or where the assessed contribution is greater than the full cost. It also sets out the mitigating factors in these instances.

7. Data Protection Implications

7.1 A Data Protection Impact Assessment is not required as there are no material changes to the way in which personal data is handled, nor the way in which it is used. Similarly, this work does not involve data profiling or changes to the way in which special category data is handled.

8. Other corporate implications

8.1 Some of the services referred to within this report are also provided to transition age clients – those aged between 18-25 – which are overseen by the Children Young People and Education (CYPE) Directorate. The proposed price uplifts will apply to all adults over the age of 18.

9. Conclusions

9.1 The funding settlement did not address the dual pressures of demand and cost. The Council has a statutory duty to set a balanced budget and has made available significant additional resources to adult social care. However, given the scale of spending increases for 2025/2026 arising from a combination of realignment for the forecast overspend in 2024/2025, the provisions for annual fee uplift for all contracted providers, increased demand/activity from client numbers/complexity, and increased costs for placing new people drawing on care and support means that there are competing demands on the limited pot available to fund provider uplifts.

9.2 In assessing these competing demands it is also essential to factor in the scale of savings needed from policy, efficiencies and service transformation as well as the income generation necessary to balance the overall net adult social care budget with the resources available from specific funding sources (grant and Adult Social Care council tax) and pro rata share of general funding. The scale of these savings is increased by any undelivered savings in the current year which will be rolled forward into 2025/2026.

10. Recommendations

10.1 Recommendations: The Adult Social Care Cabinet Committee is asked to **CONSIDER** and **ENDORSE** or make **RECOMMENDATIONS** to the Cabinet Member for Adult Social Care and Public Health on the proposed decision (attached as Appendix A) to:
a) **APPROVE** the fee uplifts for Adult Social Care Providers for 2025/2026; and
b) **DELEGATE** authority to the Corporate Director Adult Social Care and Health, in consultation with the Cabinet Member for Adult Social Care and Public Health to take relevant actions within the overall budget allocation, including any changes to the percentage rates, as necessary to implement the decision.
The Committee is also asked to **NOTE** that the Cabinet Member for Adult Social Care and Public Health will continue to lobby government to exempt social care providers from the employer national insurance changes and fully fund the increase in the National Living Wage.

11. Background Documents

None

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