THE FINANCIAL TOLL: NATIONAL INSURANCE INCREASES AND SOCIAL CARE PROVIDERS IN SCOTLAND

Executive Summary

The 2024 UK Autumn Budget introduced a 1.2% increase in employer National Insurance contributions, raising the rate to 15%. The threshold for National Insurance payments was also reduced from £9,100 to £5,000 per employee. This change is expected to significantly increase costs for all businesses, particularly social care providers in Scotland, where staffing costs typically account for 80-90% of overall expenses.

A survey conducted by Scottish Care between 5-14 November 2024 found that the average wage cost increase due to these changes was 4.67%, with the average increase to employer National Insurance contributions rising by 39.54%. The financial impact on social care employers ranged from £19,800 to £15.5 million, depending on the size of the organization. Nearly 98% of respondents indicated that these changes would make their organizations less sustainable, with 48% reporting the very real possibility of service closures.

Survey respondents expressed grave concerns, with many indicating that these cost increases could lead to the closure of care homes and services.

Scottish Care's analysis emphasizes that the National Insurance changes, alongside the increase in the National Minimum Wage, will further strain social care services already facing tight margins. The exclusion of social care providers from exemptions set for NHS services is seen as inequitable. Scottish Care calls for urgent intervention, either through exemption from National Insurance increases or additional funding to support the sector.

With the Scottish Government set to announce its budget on 4 December 2024, Scottish Care urges that the impacts of these changes be addressed to prevent the collapse of vital social care services.

About Scottish Care

Scottish Care is a membership body and thinktank focused on shaping Scotland's social care future. Our goal is to ensure social care in Scotland is sustainable, exemplary, and rooted in social values.

Representing over 350 independent (private, not for profit and charitable) provider organizations, Scottish Care's members deliver nearly 900 services, including residential, nursing, day care, care at home, and housing support for adults and older people with diverse needs, such as long-term conditions, dementia, disabilities, and mental health challenges.

The independent sector delivers most of Scotland's social care, supporting 53% of home care recipients and 90% of care home residents—around 102,000 people. In 2023, it employed 77% of Scotland's adult care workforce, totalling over 101,600 individuals.

With its diversity and ability to innovate, the independent sector offers choice, value, and high-quality, person-led care. Its economic impact is significant, contributing £3.3bn directly and an additional £2.2bn in gross value added, surpassing sectors like agriculture and arts.

Despite its essential role, the sector faces sustainability challenges due to insufficient funding, affecting workforce retention and the delivery of rights-based, person-led care.

In summary:

- The independent sector provides most of Scotland's social care and makes a major economic contribution;
- It faces significant underfunding and sustainability challenges;
- These challenges hinder the delivery of high-quality, person-led care.

Context

Scottish Care has raised significant concerns about the sustainability of the social care sector, highlighting the severe financial pressures faced by independent providers. The sector has long been undervalued, leading to a crisis marked by rising operational costs, workforce shortages, and increasing demand for services. Between 2021 and 2023, the independent sector accounted for 47% of care service closures, including 83.9% of care home closures, many of which involved small, family-run businesses, particularly in rural areas.

Operating with limited resource flexibility due to strict contractual, regulatory, and legal constraints, the independent sector’s profit margin in residential and nursing care is just 2%, far below what is needed for financial sustainability. Despite the sector's vital role in supporting individual well-being and the broader healthcare system, funding remains insufficient, and long-term investment and policy support are lacking.

In response, Scottish Care has consistently called for better workforce support, fair wages, improved working conditions, and more equitable, sustainable funding from both the UK and Scottish governments. These concerns are amplified by recent changes in the 2024 UK Budget, which include:

- A 6.7% rise in the National Living Wage (NMW) for those aged 21 and over, to £12.21 per hour from April 2025
- A 1.2% increase in National Insurance Contributions (NIC) for employers, bringing the rate to 15%
- A reduction in the NIC threshold from £9,100 to £5,000 per employee
- An increase in the Employment Allowance from £5,000 to £10,500
- A 3.2% real-terms increase in local authority funding for social care in England, including £600 million in new funding
- A £1.5 billion increase in Scotland’s Barnett Consequentials for 2024-25, rising to £3.4 billion in 2025-26, with discretionary allocation by the Scottish Government.

While the Budget offers some positive measures, the increase in NIC rates is a major concern for social care employers already struggling with tight margins.

The burden of these changes is likely to exacerbate the financial pressures faced by the sector, further threatening its sustainability.

With one of the key takeaways from the UK Budget being that employers will shoulder the majority of tax increases, the ways in which this affects a sector already facing sustainability threats and extremely tight margins risks a disproportionate and damaging impact which has not been fully considered.

Approach

Scottish Care therefore sought to better understand the perceived and predicted impacts of the UK Budget announcements on social care employers in Scotland, building on anecdotal feedback received.

We did this through the development of a short survey, which was then shared with Scottish Care members through existing communication channels. The survey was intended to provide an indicative insight rather than a comprehensive picture, not least because most of the planned changes will not be implemented until April 2025 and the Scottish Government are due to announce the Scottish Budget in early December 2024. Further detail, engagement and analysis will be crucial over the coming weeks and months.

The survey was sent by email to all Scottish Care members, across care home and homecare organisations, and remained open between 5-14 November 2024.

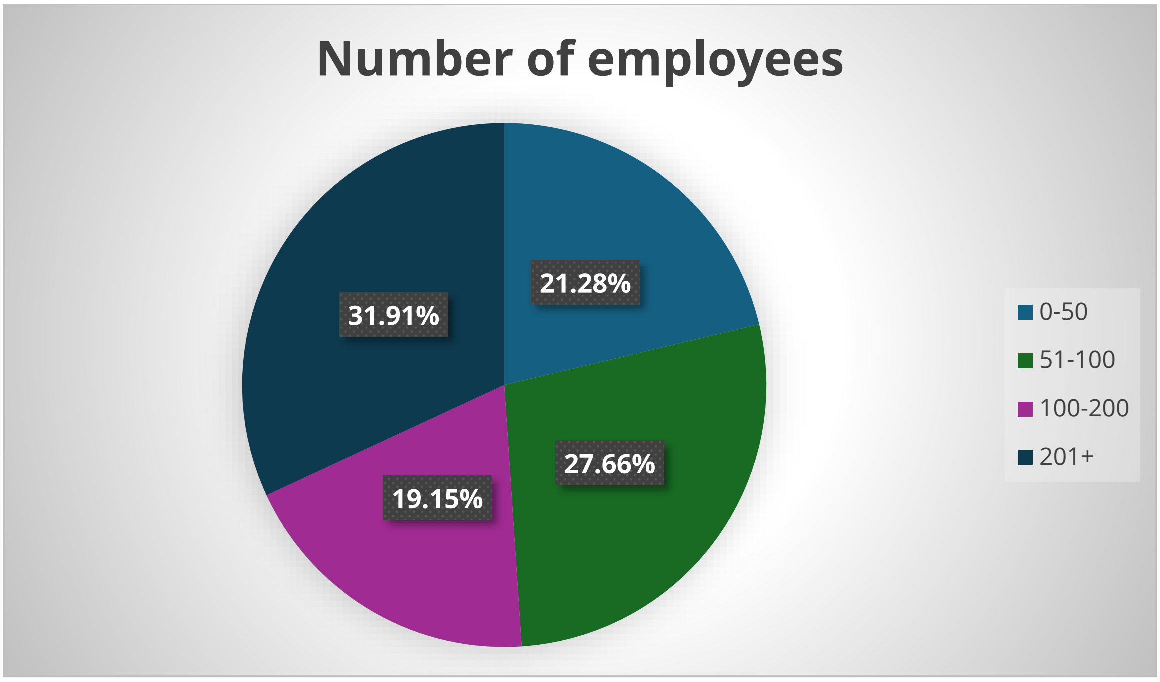
Survey Respondents

47 completed survey responses were received, representing % of Scottish Care's member organisations.

Of those responses, 64% were from care home employers. This could be broken down further to 43% residential care homes and 57% care homes with nursing. Of the remaining responses, 32% were received from employers in the care at home sector and a further 4% from housing support services.

Respondents were not asked to provide identifying organisation information. However, detail on the number of staff employed was sought to assess any particular impacts on employers of different sizes.

The breakdown of respondents in this regard was as follows:



Respondents therefore represented a range of employer sizes within the independent social care sector, which is reflective of the service diversity that exists in Scotland. Of those with over 200 employees, responses ranged from 250 to 1500 showing significant size variation even within those categorised as larger employers. Some of these responses came from those who employ staff across several service locations but under one employer. Within this category, the average number employees totalled 546 but the most common response was 250 employees.

For the purposes of this report, employers are described as very small for those with under 50 employees, through small (51-100), medium (100-200) and large (covering those with upwards of 200 employees).

Key Findings

1. Cost Impact of National Insurance Changes

The changes in National Insurance rates and thresholds will lead to significant cost increases for social care organisations. The anticipated financial implications are starkly dependent on the size of the business and related staff numbers, between **£19,800** and **£15.5 million.** Very small and small organisations (those employing up to 100 staff) facing an average increase of **£42,671** in National Insurance costs. For larger organisations with over 200 employees, the costs could be as high as **£15.5 million**. The most common response across all employer sizes, however, was an average increase of **£120,000**.

- **Average increase to employer NI contributions**: **39.54%**
- **Average increase in wage costs**: **4.67%**

Very small care home with nursing employer:
"Just taking the 6.7% increase in the Minimum Wage and assuming this has to be applied to all staff as we have to maintain the differentials would increase last year's wages by £52,000 (not including the NI increases)."

2. Extrapolated Financial Impact

The total cost implications reported by survey respondents amounted to **£32,969,510**. However, when outliers—such as responses reporting £5.5m and £17m—are excluded, this reduces to **£8,976,510**. Extrapolating this figure across all Scottish Care members suggests a potential sector-wide cost of **over £56 million** for independent social care employers in Scotland. It should be noted that this is likely a very conservative estimate, and more detailed work to understand this financial impact would be beneficial.

These cost increases are primarily attributed to the combined effects of the National Insurance hike, the lower threshold for contributions, uplifts to the Minimum/Living Wage and the need for corresponding maintenance of staff differentials resulting from this. Some respondents also mentioned predicted wider operational rises due to inflation and NI increases being passed on to consumers that will further impact business running costs, for example food, energy and fuel.

Medium care at home employer:
"Please note we have not factored in additional costs that will be imposed on

businesses due to government policies, which is likely to lead to increased inflation. This will put increased costs on indirect costs such as fuel, rents, heating etc."

Large care home with nursing employer: *"We fully expect our suppliers to pass on the additional cost of their employees to the services that we buy from them. Media reports have already detailed that super markets and large retail stores plan to pass the increase in National Insurance on to the consumer."*

3. Operational Impact

The operational impacts of the rising costs in the social care sector are increasingly apparent, with many providers facing the difficult choice of reducing service provision or increasing fees. A third of care providers reported that they might have to **increase fees** or **cut services** for publicly funded residents due to escalating costs.

Smaller providers are particularly vulnerable. To survive, care providers are increasingly turning to privately funded care, which may lead to a reduction in services for council-funded clients. This shift reflects broader flaws in the current cost models, including the National Care Home Contract and local commissioning and procurement arrangements, where care homes and home care services are often financially unsustainable under publicly funded care rates.

Very small care home employer: *"If our home was full but with only Local Authority residents, we would quickly go out of business."*

Small care at home employer: "*We will be forced to take on more privately funded care and potentially reduce our service to the council."*

The full impact of these changes, especially in light of the NI adjustments, has not been fully accounted for or costed, leaving many providers grappling with a cost and commissioning models that do not reflect the true cost of delivering quality, person-centred care.

4. Workforce Cost Structure

The **average workforce costs** across all responding organisations were **72.15%** of total operational costs, with some organisations reporting as high as **95%**. Given that staffing costs form the majority of outgoings for care providers, the National Insurance increase compounds existing financial pressures.

- **Average workforce cost**: **72.15%** of overall costs
- **Most common workforce cost percentage**: **80%**

Large care at home employer: *"It is highly likely that councils will not pay anything towards the threshold changes, this will have to absorbed by the company . Our costs are 95% staffing and this is going to escalate this and it will have an additional devastating effect on social care on top of all the other issues in the sector."*

This high reliance on staff-related costs underscores the sector's vulnerability to changes in wage policy and national insurance rates, as these costs directly impact their financial viability.

5. Operational Sustainability

Survey respondents reported a significant strain on the sustainability of their organisations, with **97.83%** stating that the National Insurance changes make their organisation **less sustainable**. Several providers highlighted that the rising costs could lead to:

Nearly **48%** of respondents identified **service closure** as a very real possibility if additional funding or exemptions are not provided.

Small care at home employer: *"The company (and all services) will face immediate closure as soon as NIC and NMW take place without significant additional support."*

Small care at home employer: "*I am considering closing my business across 5 councils."*

What's more, fear and uncertainty around the future implications of these rises may force more providers to consider early exiting of the sector.

Very small care home employer: *"If this increase in costs are not funded not only will homes have to close the facilities will be unsaleable as they are specialised. The organisations will suffer a massive loss on their asset. Employees will be forced to leave the sector."*

These findings reflect the serious risks to care provision across Scotland, with some providers fearing they may be forced to close or reduce services, potentially leaving vulnerable individuals without care options. There could also be the risk of imminent further destabilisation of the social care market unless assurances of support are forthcoming

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Case Studies

Case Study 1: Small Not-for-Profit Care Home

A small, not-for-profit residential care home with 40 beds highlights that the existing **Cost of Care Calculator** used as part of the National Care Home Contract negotiations with Scottish Government and COSLA does not adequately reflect the true cost of care or staff costs. This then provides an inadequate base to apply the National Insurance budgetary adjustments to. The current financial model leaves the home with **400 staff hours per week unfunded**, resulting in significant shortfalls in the home's staffing costs to cover carers, kitchen, domestic teams, and administrative functions.

- *"The sector is rightly highly regulated and held to a high standard. We as a sector cannot retain staff whilst paying minimum wage and expecting the levels of care compassion and dedication that we do. We fund this shortfall with higher rates to privately funded residents, charitable donations and from reserves. This is not sustainable."*

This case study highlights the challenge of maintaining quality care when the funding model fails to cover all operational costs, especially as staffing costs rise with the National Insurance increase.

Case Study 2: Large Care at Home Provider

A large care at home provider faces an uphill battle to remain viable whilst maintaining high quality care. This organisation has expressed concerns that the increased National Insurance costs will have a negative impact on support available to the care workforce and have a knock-on effect on staff recruitment and retention. This could lead to a reduction in services, ultimately jeopardising the care of local people.

- *"In order to remain sustainable, care providers will be forced to reduce support roles, which will be of detriment to levels of additional, person-specific training and support provided, resulting in lower retention rates, slower implementation timelines, less experienced colleagues and less capacity available within social care. Smaller providers and organisations with a small presence in certain communities will have to make difficult decisions about being able to remain in the locality, putting the continuation of people's care at risk."*

This case study exemplifies how smaller and rural providers are at even greater risk of staffing pressures, service disruption or closure, particularly if the National Insurance increases are not adequately funded.

Case Study 3: Large Care Home Employer

A large care home employer has pointed out that the National Insurance increase and the lowering of the contribution threshold will significantly raise operational costs. Given that staffing levels in care homes are strictly regulated, this employer has indicated that further reductions in staffing levels are not a viable option.

- *"Care homes are very badly affected by the NI increase as they have a lot of staff. We can't reduce staff because staffing levels are essentially set by the Care Inspectorate… It is unbelievable that the NHS will be funded to pay for their NI increase. Once again the social care sector is not seen as part of the system yet we are the ones who keep the overcrowding of the hospitals under control. The NI increase in my opinion must be funded by the UK government or the Scottish government as it will directly affect the care of some of the most vulnerable people in the country."*

This case study illustrates the challenges faced by care homes, which are correctly bound by regulatory staffing requirements in order to deliver safe care, in balancing the books when additional costs are introduced unexpectedly. It also highlights the disparity felt by the sector in terms of how social care is supported compared to health services within an integrated landscape.

Conclusion And Recommendations

The 2024 National Insurance changes pose a significant financial and operational challenge to social care providers across Scotland. With workforce costs already comprising the bulk of care organisations' expenditure, the increase in NI contributions is unsustainable for many, especially small providers and those with high staffing needs.

The failure to recognise and account for the impacts of these changes on social care organisations raises further concerns about the lack of value placed on social care and awareness of the perilous sustainability of the sector.

The changes to National Insurance rates and thresholds announced in the UK Budget will create additional financial burdens on independent care providers and further strain already tight operating margins.

Alongside the changes in the National Minimum Wage, these increases are going to have a huge impact on the ability of social care services to remain sustainable and to survive.

NHS services are to be exempt but care homes, hospices and GPs are going to fall foul of this increase, which is wholly inequitable.

The affordability of National Insurance increases in the social care sector must be recognised and the sector exempted, or significant increased funding ringfenced to support its implementation.

The Scottish Government will announce its own Budget setting out its tax and spend plans on 4 December 2024. It must address these impacts in its plans in order to support social care employers, employees and those who rely on support.

To mitigate the impact, Scottish Care urges:

- **Increased funding** from both national and local government to ensure that care providers can absorb the rising costs without compromising service delivery.
- **Exemption or targeted support** for the social care sector, particularly in recognition of the sector's essential role in supporting vulnerable populations.
- **A review of Cost of Care and commissioning models** to ensure they accurately reflect the true cost of care, including the impact of increased NI contributions and wages.

Without these interventions, there is a high risk that care providers will have to drastically reduce services, face further workforce losses, or close, undermining the sustainability and quality of care in Scotland.

Get in Contact

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