

Budget impact on voluntary sector providers of social care for people with disabilities

December 2024

VODG (Voluntary Organisations Disability Group) is a membership body bringing together leading voluntary sector providers of social care services for people with disabilities. Its mission is to promote independent living and high-quality support. VODG members work collaboratively to influence policy, share best practices, and address challenges in the social care sector.

The organisation focuses on areas such as workforce development, service innovation, and advocating for sustainable funding models to ensure disabled people receive person-centred, rights-based support. VODG also plays a key role in engaging with government and other stakeholders to shape policy and improve outcomes for people with disabilities.

VODG have commissioned Cordis Bright to undertake an independent evaluation of the impact of the changes announced in the October 2024 budget on member organisations.

Executive summary

The organisations that make up the membership of VODG have welcomed the increase in National Living Wage (NLW) to £12.21 from April 2025 and understand the intention of the changes to Employers National Insurance Contributions (ENIC). However, we have found that VODG members are deeply concerned that central **government funding for local authorities to pay for social care does not in anyway reflect the true increase in costs for not-for-profit providers that will result from these changes.**

Our estimate of cost for VODG members alone is some **£266million** of additional expenditure which equates to around 6.7% of income. This needs to be seen in the context of an average margin for VODG members of less than 2%. In other words, even if all members were to sacrifice their current surpluses, they would still have insufficient monies to run their organisations in their current form.

'We will have to close services, make redundancies, reduce size of the organisation, stop delivering activity funded from reserves, significantly reduce capital expenditure, reduce investment in technology, eliminate business development, stop investing in buildings, sell assets to raise cash and spend the year downsizing the organisation instead of pushing ahead with positive organisational change.'

Provider of support including residential services for people with complex disabilities, including sensory

Unless local authorities are able to increase funding to a level which covers this additional cost then organisations will have very limited options for how they respond. In most cases they will need to hand back all contracts which fail to meet a minimum income threshold as to retain them would mean the organisation subsidising the state by using its own money to fund public services.

'We continually monitor the financial viability of services and there are a number that are borderline due to years of below inflation uplifts. The combination of the National Living Wage increase and NI changes will mean more services are unviable and we will need to hand these contracts back.'

Provider of residential, nursing and community support to people with a wide range of needs including drug & alcohol services, homeless hostels, women fleeing domestic violence, people with LD and/or Mental health needs

The result of these contract hand backs will move the problem of how to sustain services from the independent sector back into local authorities. Of course, it might be possible for local authorities to find other providers, but the challenges posed by the lack of sufficient government funding to cover the additional costs of NLW and ENIC is of course not just a problem of the not-for-profit sector alone. It will impact all independent sector providers of social care for people with disabilities. For-profit providers face precisely the same challenges and will not be in any better position to take on contracts which are not adequately funded.

We believe that there are three serious unintended consequences for social care as a result of the October budget.

- Firstly, it will force most employers to pay no more than the NLW rate as the additional costs of ENIC will prohibit their ability to pay above this increased rate from April 2025. Several respondents to the survey are considering moving from the higher rate London Living Wage to NLW as they see this as more sustainable
- Secondly providers will need to hand back any contract which is not funded to cover the increased costs of NLW and ENIC, neither of which are in the control of providers. Local authorities have not been funded to a level necessary to cover this increased cost of service provision, so regardless of the provider, it is unclear how they will proceed from this point.
- Finally, VODG members recognise that the government is seeking to stabilise the social care sector in advance of moving forward towards a National Care Service. Unfortunately, these unfunded and substantial increases in cost for voluntary organisations will have precisely the reverse effect. Given the fragile state of the social care sector, it is hard to see how this will not compound challenges already prevalent within the system and mean the governments stated goal of increased stability is not achieved.

1 Introduction

This report has been prepared independently on behalf of VODG and provides a clear and evidenced summary of the financial impact on not-for-profit providers supporting people with disabilities of the National Living Wage (NLW) uplift and the changes to Employers National Insurance Contribution (ENIC) announced by the Chancellor in the budget of October 30 2024.

2 The changes announced

In the budget the Chancellor announced two specific measures aimed at increasing government revenue coming into effect on 1st April 2025:

- ENIC would increase 1.2% from 13.8% to 15%
- The earnings threshold for employers to pay this new rate would reduce from £9,100 to £5,000 a reduction of 40%.

On the same day as the budget there was a formal announcement that NLW for people aged 21 and over, who make up the majority of the not-for-profit social care workforce would increase by 6.7% to £12.21 per hour from the current rate of £11.44.

Although the precise level of increase was not known in advance, it was expected to be relatively high given the Government's direction to the Low Pay Commission requiring them to take into account the cost of living.

The Chancellor also announced some mitigations aimed mainly at the public sector. The NHS for example received an additional £22.6 billion for its day to day budget and the Employment Allowance was increased from £5,000 to £10,500 and the cap of £100,000 on national insurance contributions removed as a qualifying requirement.

It should be noted that the £10,500 is the total allowable claim under the scheme.

3 VODG members and the survey

VODG wanted to more fully understand the impact of these three changes on the organisations that make up their membership.

VODG members support people with disabilities, many of these people have highly complex needs which require high staffing ratios to ensure people are supported in a way which promotes their independence and choice and protects and enhances their dignity.

These organisations do not have a choice about having to employ a large workforce, and they cannot simply charge more money for their services because in almost every case their main customer is either local government or the NHS.

VODG members are bound to the statutory sector in terms of what they deliver and how they are funded but are treated as if they were any other commercial business regardless of the fact they have no shareholders and pay no dividends.

VODG commissioned Cordis Bright to undertake a survey amongst its members of which 54 responded (40%). Cordis Bright used these responses to develop an estimate of the impact on all VODG members combined. Recognising that the membership of VODG is diverse in terms of organisational scale Cordis Bright analysed the data supplied on the basis of size of turnover.

Set out below is a breakdown of the VODG membership in turnover bands with the same for the survey respondents. As can be seen it is not a perfect alignment, but it is close enough to give real credibility to the analysis which follows.

Figure 1: Comparison of survey respondents with overall VODG membership

Turnover range	VODG membership	Survey respondents
£0-£24,999,999	68%	59%
£25,000,000 - £49,999,999	14%	11%
£50,000,000 - £74,999,999	6%	15%
£75,000,000 -£99,999,999	5%	6%
£100,000,000 plus	7%	9%

4 Understanding the impact

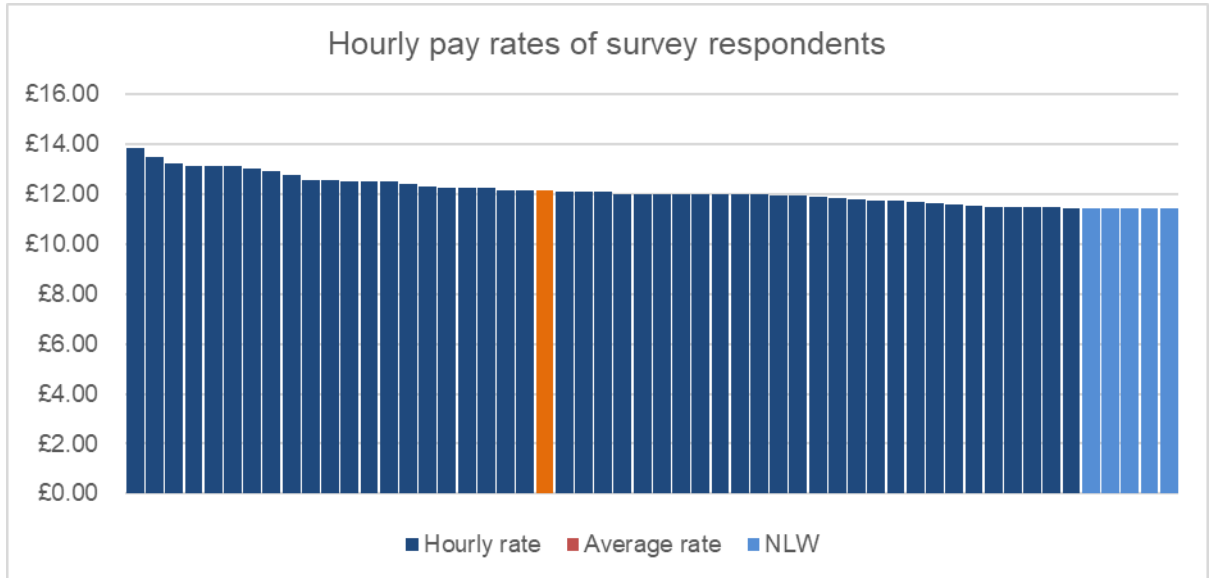
Each organisation is unique and the configuration of its workforce and levels of pay specific to them. This means that the impact varies from one provider to another, however we found there is a very clear pattern of increase in costs to all providers.

In Appendix 1 of this report, we have shown an example calculation for an organisation employing 200 care staff paid at the current rate of NLW. This calculation demonstrates how the combination of these changes significantly increases costs.

4.1 National Living Wage

It should be noted that over 90% of respondents to this survey are paying staff at a rate above the National Living Wage and others pay the Real Living Wage or London Living Wage. On average VODG members pay around 6.2% higher than the NLW. This can be seen as part of the not-for-profit sectors commitment to its workforce and a determination to pay as well as they can within the limits of affordability.

Figure 2: Hourly payrates reported by respondents



This means that in the first instance the impact of the uplift in NLW in April 2025 is partially mitigated as the average hourly pay rate is just 6p below the new rate. However, if VODG members wish to maintain the current approach of paying above NLW rate they would need on average to pay around £12.94 to maintain a similar differential (6%) as now.

'We will need to apply a pay freeze for all staff, other than the necessary uplifts in National Living Wage coupled with a reduction in staff numbers through redundancies'

Provider of specialist, complex nursing and residential care for men with mental health, challenges, memory loss and acquired brain injuries

4.2 Extrapolated cost

Based on the information submitted we are able to produce a sophisticated picture of the costs of these changes as they are likely to apply to all members of VODG. Respondents were asked to estimate the financial impact of the changes. The answers provided were then grouped by the turnover range and it is these figures which have been extrapolated on the basis of actual VODG membership.

Figure 3: Total estimated cost impact of changes

Turnover range	Total estimated cost to VODG members in this turnover range
£0-£24,999,999	£63,981,303
£25,000,000 - £49,999,999	£48,669,000
£50,000,000 - £74,999,999	£43,849,000
£75,000,000 -£99,999,999	£40,133,333
£100,000,000 plus	£69,480,000
Total	£266,112,637

Our base estimate of total cost to members of VODG is an additional £266million per year. However, **the final figure will be greater as the higher pay offered by over 90% of members means that the full impact of the NLW increase is partly mitigated.** If VODG providers want to maintain the level of pay differential currently applied, then this would add further costs.

Of the 54 organisations that responded to the survey over 60% are expecting to be in deficit or make a surplus of less than 1% by March 2025. Only four organisations would still be in surplus if the 2025 changes applied now. It is difficult to overstate the seriousness of the financial challenge and significance of its consequences.

The scale of the mismatch between the additional costs and the overall financial performance of these organisations means that most mitigations will only have a partial impact and will expose many voluntary organisations to the risk of deficit.

Based on an extrapolation of the responses to the survey, without additional funding and even with significant cuts to spending, VODG members could find themselves subsidising the state out of their own reserves by around £200,000,000.

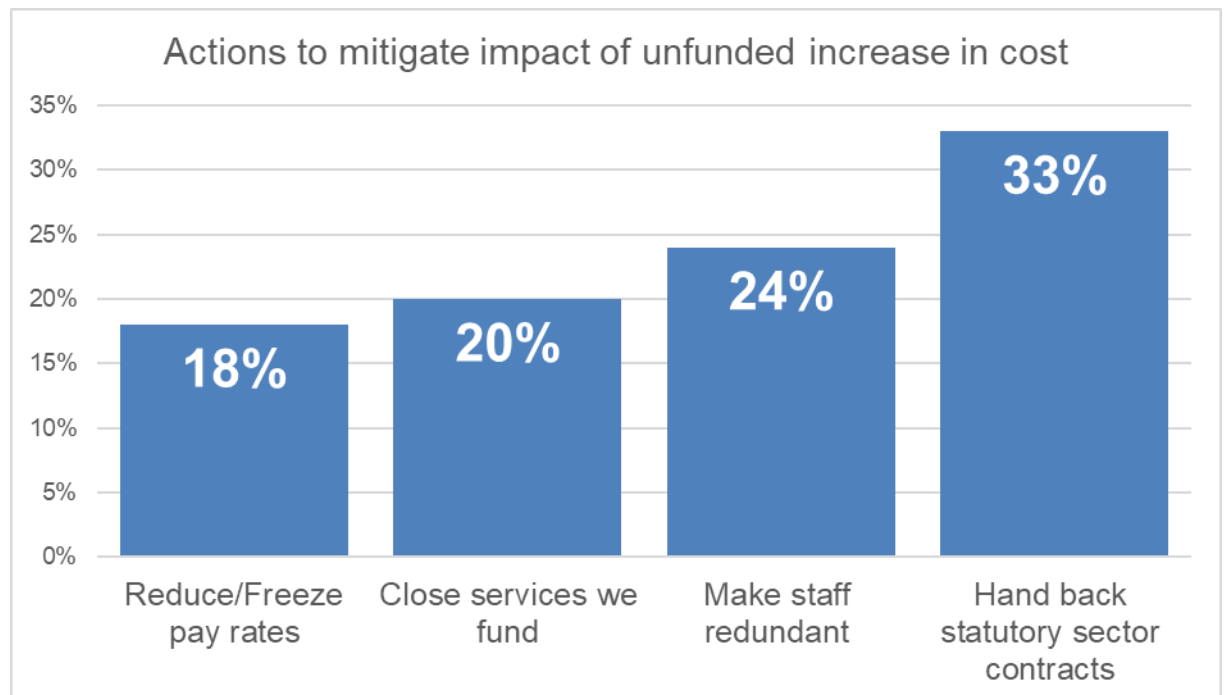
4.3 The unintended consequences

‘Investments in new projects to improve service delivery will be scaled back or outright cancelled, and many of the extras we currently fund will be removed. We are currently examining if the additional support we offer on inclusion and health are sustainable. A reduction here would place our outstanding status at risk as well. As a result, I fear we will focus only on maintaining existing services, with no room for growth or innovation. This will lead to a more selective approach in placing individuals into available services, with the added pressure of operating in an increasingly costly environment. We have also looked at regressing to the National Living Wage from our Real Living Wage position, a pay freeze and also reducing headcount in support services’

Provider of support to people with learning disability, autism and acquired brain injuries

Respondents were asked what specific actions they would take as a means of mitigating the impact of this unfunded increase in cost. The most frequently cited response, proposed by just over a third of respondents was to hand back statutory sector contracts. 24% of respondents saw that making staff redundant could reduce the costs of the changes. A number of respondents provided services which they effectively fund and again closure of these services was seen as a means to mitigate impact. Most surprisingly given that one of the drivers is the increase in NLW one of the responses suggested by 18% was either a pay freeze or a reduction in the hourly rate of pay.

Figure 4: Respondents reported actions to mitigate impact of additional cost



4.4 Reduce/Freeze rates of pay

'We will stop paying London Living Wage and drop to National Living Wage, decrease staff ratios and employ less experienced staff'.

Provider of support and education programmes for young people with a learning disability and autism

Many providers have sought to pay at a rate which is above NLW as a means of competing for workforce with commercial operators in areas such as hospitality and retail. In truth not-for-profit providers have struggled to do this and have sacrificed surplus in order to pay their staff as well as they can.

The survey confirms this point with over 90% of respondents paying above NLW. What organisations are facing now is the NLW rising to meet staff's current pay, and organisations no longer being able to pay above this even by a modest amount. This will reduce what competitiveness the sector did have when seeking to recruit, compared to hospitality, retail and other sectors.

More worryingly in some cases seeking to reduce pay down to the new NLW rate. In some instances, organisations are considering reducing or freezing the rates of pay of staff not working on the frontline such as those working in administration, finance or human resources.

4.5 Close services we fund

'We will serve notice on placements and close homes. Removal of transport fleet (subsidised by the charity). Reduction in therapeutic services (hydro pool subsidised by the charity)'

Provider of support services to young people and adults with complex learning and physical disabilities and sensory impairments.

Local authorities derive significant benefit from the willingness of not-for-profit organisations to contribute to the costs of what some might describe as 'extras' but others would see as integral to good quality provision.

'Reduce things that we do that we don't specifically get paid for, only provide EXACTLY what we are paid to do and ask everyone to do more'

Provider of supported living and residential services for adults with Learning Disabilities and Mental illness including people with Schizophrenia, Personality Disorder, people on the Autistic Spectrum and some individuals who provide challenges.

Another area where the not-for-profit sector directly contributes their own resources is in the development and innovation of services.

'We are currently in talks with the local authority to expand our respite service, this would take investment from the charity and we will not be able to do this.'

Provider of support services to people with a learning disability and autism

VODG members will not be able to continue to fund this type of additional input if the organisation is losing money.

4.6 Make staff redundant

Given the very direct link between size of workforce and the increase in NLW/ENIC costs, some providers see that an overall headcount reduction will be necessary to remain sustainable. Commonly the area being considered is those staff working not on the front line but working to support organisations and their workforces. Where support hours are reduced to fit the resources available, this may also necessitate redundancy of frontline care and support staff.

Providing support is complex and often requires one-to-one or even two-to-one ratios of staff to the person being supported. Saving money will have a direct impact on the quality and flexibility of provision and as a consequence the lives of people being supported.

4.7 Hand back statutory sector contracts

'We will hand back contracts if they are no longer financially viable, we will not cover the gaps in funding from reserves. We simply couldn't afford to'

Provider of services to deaf people.

VODG members do not want to hand contracts back to local authorities but equally they can not take on the financial consequences of services which are not adequately funded.

'Hand back some individual support packages and close of some homes/services that are loss makers'

Provider of services to adults and children with learning disabilities and autism

In the next few months many local authorities will be finalising their proposed funding settlements with providers. Increasingly it is looking as if the level of uplift in funding will fall well short of the resources that are needed to ensure that the organisations providing the services do not lose money.

'We will be needing to work with Commissioners to reduce the hours of support to a level that reflects the amount we are paid. We can not maintain current levels of support and incur a loss'

Provider of support services to people with a learning disability and autism

There is often a myth that not-for-profit organisations can somehow find 'other sources' of funding. In reality, the membership of VODG is providing a public service funded by the state. This is not a lucrative activity, and many years of below inflation increases in funding have pushed these organisations to the limit of sustainability.

'For too long this sector has been starved of sufficient funding and it has squeezed providers to a cliff edge and this latest move by the government may be the final push that sends a large part of this sector into oblivion'

Provider of supported living and residential services to young adults with a learning and/or physical/sensory disabilities & autism and their families

5 Conclusions

The changes to ENIC/NLW combined with the lack of funding from central government to enable local authorities to cover these costs for not-for-profit social care providers will have a series of significant and unintended consequences.

5.1 Moving front line care and support staff onto NLW

Firstly, it will force most employers to pay no more than the NLW rate as the additional costs of ENIC will prohibit their ability to pay above this increased rate from April 2025. Several respondents to the survey are considering moving down from the higher rate London Living Wage to NLW as they see this as more financially sustainable.

5.2 Shifting direct provision back into local authorities

Secondly, providers will need to hand back any contract which is not funded to cover the increased costs of NLW and ENIC neither of which are in the control of providers. Local authorities have not been funded to a level necessary to cover this increased cost and their own budgets are not based on the expectation they will be direct providers.

5.3 Destabilising the social care market and risking the successful development of a National Care Service

Finally, VODG members recognise that the government is seeking to stabilise the social care sector in advance of moving forward towards a National Care Service. Unfortunately, these unfunded and substantial increases in cost for voluntary organisations will have precisely the reverse effect. Given the fragile state of the social care sector, it is hard to see how this will not compound challenges already prevalent within the system and mean the governments stated goal of increased stability is not achieved.

Appendix 1: Example calculations of cost increase

Now

Hourly rate (NLW)	Hours per week	Annual pay	Earnings threshold	Salary element which is ENIC applicable	ENIC rate	ENIC cost	Cost per worker	Proportion of 200 person workforce	Total cost
£11.44	37.5	£22,308	£9,100	£13,208	13.80%	£1,823	£24,131	20%	£965,228
£11.44	30.0	£17,846	£9,100	£8,746	13.80%	£1,207	£19,053	20%	£762,136
£11.44	22.5	£13,385	£9,100	£4,285	13.80%	£591	£13,976	20%	£559,044
£11.44	15.0	£8,923	£9,100			£0	£8,923	20%	£356,928
£11.44	7.5	£4,462	£9,100				£4,462	20%	£178,464
								Current cost	£2,821,800

From April 2025

Hourly rate (NLW)	Hours per week	Annual pay	Earnings threshold	Salary element which is ENIC applicable	ENIC rate	ENIC cost	Cost per worker	Proportion of 200 person workforce	Total cost
£12.21	37.5	£23,810	£5,000	£18,810	15.00%	£2,821	£26,631	20%	£1,065,237
£12.21	30.0	£19,048	£5,000	£14,048	15.00%	£2,107	£21,155	20%	£846,190
£12.21	22.5	£14,286	£5,000	£9,286	15.00%	£1,393	£15,679	20%	£627,142
£12.21	15.0	£9,524	£5,000	£4,524	15.00%	£679	£10,202	20%	£408,095
£12.21	7.5	£4,762	£5,000				£4,762	20%	£190,476
								Cost from April 2025	£3,137,140

Variance

Hourly rate increase	Hours per week	Annual pay increase	Earnings threshold reduction	Salary element which is ENIC applicable increase	ENIC rate increase	ENIC cost increase	Increase in cost per worker	Proportion of 200 person workforce	Total cost
£0.77	No change	£1,502	-£4,100	£5,602	1.20%	£999	£2,500	20%	£100,009
£0.77	No change	£1,201	-£4,100	£5,301	1.20%	£900	£2,101	20%	£84,053
£0.77	No change	£901	-£4,100	£5,001	1.20%	£802	£1,702	20%	£68,098
£0.77	No change	£601	-£4,100	£4,524	15.00%	£679	£1,279	20%	£51,167
£0.77	No change	£300	-£4,100				£300	20%	£12,012
								Increase in cost from April 2025	£315,339