Health Devolution Commission Submission to Spending Review (2 of 2)

Social Care Proposals

The Health Devolution Commission (the Commission) is an independent, cross party and cross-sector body working to champion and support the successful implementation of devolved and integrated health and social care services across England.

This submission to the Government's Spending Review 2025 focuses upon proposals to stabilise, strengthen and sustain the social care system in England as a high-quality service in its own right for people in need of social care support to live full and independent lives; and as the core partner to the NHS within an integrated care system in which the two services are highly interdependent for achieving their aims. The two systems rely upon each other to:

- deliver seamless, personalised care and the best health outcomes
- be efficient and productive in their respective use of public resources
- recruit and retain a well-trained and flexible workforce across both systems, and
- respond effectively to growing demographic demand for their services

To these ends, the Commission believes it is essential that the Spending Review 2025 includes action to deliver:

Proposal 1: An interim uplift in care workers' pay until the Fair Pay Agreement is implemented

Proposal 2: A substantial real-terms increase in ring-fenced funding for publicly-funded social care in each of the three years of the Spending Review period

Proposal 3: Low-cost capital loans to stimulate the development of residential and home care services in locations where the care market has failed

Proposal 4: Improved care commissioning to establish high-quality markets of care providers and explicitly rejecting a 'race-to-the-bottom' approach of specifying and awarding contracts on price and volume alone.

Proposal 5: Improvements to the care system national infrastructure

In addition to these specific proposals the Spending Review should include funding and investment in a national social care workforce strategy by adopting and amending the existing social care workforce strategy already developed by Skills for Care.

[The detailed analysis of the rationale, cost, benefits, feasibility and contribution of these proposals to the Government's missions are described in the attached document.]

Proposal 1: An interim uplift in care workers' pay until the Fair Pay Agreement is implemented

Rationale: The rationale is that low pay in the social care system is the primary cause of the high turnover of care staff that leads to poor productivity, gross inefficiency and poor value for money among care providers who have unnecessary costs from the need to use expensive agency staff to make up for unfilled posts and continually invest in recruitment and training of new staff as retention is impacted by low pay. This in turn leads to poor productivity in the NHS as hospitals do not have sufficient care places available to discharge patients who are clinically fit to leave.

Cost: The gross cost to the government of awarding a 50p per hour increase above the April 2025 NLW to all frontline care workers is estimated to be in the order of £1billion gross per year, (£692m net once the clawback of tax and national insurance has taken place). However, as some benefits of better pay would accrue to the providers of social care through reduced need to spend money on recruitment, reduced expenditure on agency staff and reduced training costs this £1billion cost could thus be "shared" with providers following full and proper consultation.

Evidence from one social care provider demonstrates that a modest 50p increase above the national minimum wage increased retention of staff from 71% to 80% and eradicated vacany rates, which were at 12.5%.

Savings/benefits: The net cost to the government is even more than the 30% of the gross pay that will be returned through income tax and NI. There will be fewer working age adults needing to leave the workforce to act as unpaid carers; NHS productivity will improve as the delays in discharges from hospital will reduce; and there will be economic growth in low-income areas from the increased expenditure by care staff on local goods and services. Detailed analysis of this 'careonomics' will be needed but we believe the net cost to the government will be well within manageable limits.

Contribution to government missions: Raising care workers pay until the FPA is implemented will contribute directly to the government's missions to kickstart economic growth and build an NHS fit for the future.

Feasibility: An interim uplift in care workers pay could be introduced under existing legislation for the National Living Wage; local government commissioners will have to include this uplift in pay as a mandatory minimum requirement in all care contracts that they commission; and government resources to fund this interim uplift can be delivered through the annual ring-fenced grant to local councils in the financial settlement of the spending review.

Proposal 2: A substantial real-terms increase in ring-fenced funding for publicly-funded social care in each of the three years of the Spending Review period

Rationale: The current system is hugely underfunded after a decade of severe reductions in government support for local authorities and this needs to be reversed if social care is to move out of crisis and recover. The Government is committed to building a National Care Service, and reforms that will emerge from phase one of the Casey Commission will require additional funding (examples of which are included in this submission). The Spending Review should ensure sufficient funding is available not only to ensure the system is properly funded to meet the growing demands upon it and lay the foundations of a National Care Service but also to enable delivery of the reforms that will be proposed by the Casey Commission.

Cost: Publicly funded social care is paid for by contributions from council tax levies and the social care premium raised by local government, and by central government contributions to local authorities through the social care grant. In 2025/26 the ring-fenced government grant to local authorities was set at £880m but the gap in funding required to 'stand still' given the impact of the NI increase and NLW increase in the Autumn 2024 budget was some £2.8bn. To close this gap and pay for improvements to the system arising from the Casey Commission requires an increase in the 2026/27 grant to at least £3bn and this should be increased further to invest in system improvements in each of the subsequent two years 2027/28 and 2028/2029.

Savings/Benefits: The government's Supplementary Green Book Guidance 'Wellbeing Guidance for Appraisal', 2021 uses a "WELLBY' – a one-point change in life satisfaction - as an economic measure for the standard value of improving a person's wellbeing by one point. In 2019 this was estimated to be £13,000. Government should be pro-active in recognising the wider impact of improving social care services on the productivity of the NHS and to the delivery of the Government's cross departmental mission to grow the economy.

A strong and sustainable social care system will bring significant benefits including: efficiency gains within the social care sector as staff turnover reduces ; fewer working age adults needing to leave the workforce to act as unpaid carers; improved NHS productivity as fewer people will seek to access or occupy health facilities; and there will be economic growth in low-income areas from the increased expenditure by care staff on local goods and services. Social care contributes over £60 billion to the economy and investing in social care is a major driver of economic growth – particularly in low-income locations.

Contribution to the government missions: A substantial real-terms increase in ring-fenced funding for publicly-funded social care in each of the three years of the Spending Review period will lay the foundations for building a national care service and contribute directly to the government's missions to kickstart economic growth and build an NHS fit for the future.

Feasibility: The increase in funding for social care can be delivered through increasing the government's ring-fenced social care grant funding for local authorities; and this could include measures to ensure that more resources are made available to areas with the highest demand for publicly-funded social care services and the lowest levels of real income from the council tax social care premium.

Proposal 3: Low-cost capital loans to stimulate the development of residential and home care services in locations where the care market has failed

Rationale: The nature and quality of social care provision is a broadly two-tier social care market based on two main variables - land values and council fee levels. The availability of care beds or places to meet people's needs varies hugely between different parts of the country because there are few incentives to invest in the care market in regions where both local authority fee levels and property/land values are relatively low. Analysis by the Competition and Markets Authority, the National Audit Office, and the King's Fund all highlight different aspects of this market failure and its consequences. There is little evidence of substantial Government investment in social care capital since the late 1980s.

The decline in the standard of the care infrastructure was one of the reasons that many Local Authorities (LAs) externalised care of older people in the 90s (alongside other policy drivers such as community care reforms and best value regimes). Analysis by the Nuffield Trust There has been some annual growth in care home beds in recent years but this has been offset by the loss of care home beds so that growth has in effect stalled, particularly in the state-funded segment of the market in low land-value areas.

The independent care provider market for high-income self-funding clients in high-value land areas appears to be functioning well, but the care provider market for state funded clients in low-value areas is not as there are much fewer incentives for private finance to invest in or grow that part of the market.

In the years to come, the demand for adult social care is projected to increase significantly, largely due to the UK's ageing population. The Department of Health & Social Care (DHSC) predicts that 57 per cent more adults aged 65 and over in England will require care in 2038 compared to 2018. The percentage increase projected for adults aged between 18 to 64 over the same period is 29 per cent, according to a report published by the National Audit Office (NAO).

The CMA report concluded that the sector is not able to attract the investment required to meet the future increase in demand to serve LA-funded residents. It said that the current funding situation combined with uncertainty about future funding means that investors are reluctant to come forward to build the additional capacity needed.

Action to address the dysfunctional parts of the care market is needed, and a national fund to which local authorities and/or care providers could apply to secure low-interest loans to invest in new services to meet growing unmet needs would provide an affordable and available alternative source of resources to the cost and variation in appetite in the private equity market.

This approach reflects the experience in the social housing market that has benefited greatly from the availability of affordable capital for investment through Homes England and the Affordable Homes Programme. In effect it would be an affordable care homes programme.

Cost: A new Fund would need to offer financial loans at rates (say 2%) that are well below the private equity market (15/20%) or cost of debt (8/10%) in order to incentivise councils and medium-size care providers (for profit or not-for-profit), to take on the associated financial risk. It would maintain a plural market but would obviate the need for commissioners, providers and owners to feel they have no option but to access private equity.

The Fund would have to be big enough to have a measurable impact on the functioning of the care market. If for example the aim was to create an additional 10,000 care home beds/places per year the Fund would need to be in the order of £350m. An initial fund of £2billion for three years 2026-2029 would stimulate significant growth in care provision in those areas of most need.

Saving/Benefits: The Fund would offer loans not grants that the provider or local authority would repay over time and this will sustain the ability of the Fund to continue to support the care market over time with, perhaps, top-ups as the financial position requires.

It would promote the development of high-quality care home beds and home care services as it would fund new-build projects that meet the latest care quality standards, and high-quality home care services through digital systems to provide efficient services and the best client experience of care.

Low-cost loans from the Fund would need to be conditional upon their use for expanding care home beds for state-funded clients with, for example, a minimum number of beds to be created e.g., 50-bed minimum capital projects in low land-value areas; or for use to fund capital investment in digital systems (software, hardware, training etc) for home care services.

The Fund could be designed to have most impact in terms of rapid growth in bed numbers among medium-sized care providers and local authorities who could reasonably readily open new care facilities. These commissioners and providers (who are often regionally based) know their areas/localities well. The Fund could also provide affordable loans for home care providers to adopt digital ways of working in their services e.g., electronic care records, planning cost-efficient travel arrangements, communication systems, rostering and so on.

The transaction costs and due diligence involved for small care providers could be too high for the level of impact (measured in additional bed numbers/care places) that the Fund would help to generate. And some very large care providers with a relatively high proportion of self-funding clients may not need the Fund to expand their services as they are more able to access capital because of their size, and the level and nature of their income stream.

The Fund would bring greatest benefit to geographical areas with low land-values where the capital gain from the investment is lower than geographical areas with high land-values. It would be a direct contribution to regeneration and economic growth strategies in areas in greatest economic need.

Conditions could also be included to reduce the potential deadweight of funding care schemes/services that would have been developed anyway, without the financial support of the Fund.

The Fund could also be designed to attract investment from other sources such as pension funds who see a virtue in supporting the care of older people and have a balanced portfolio of high and low returns based on levels of risk; and social finance providers who are keen to gain a blend of impacts – a small financial return and large social benefit.

A national social care capital investment loan fund would therefore help to address the regional inequalities in care beds and places, be good value for money, promote economic growth and contribute to the government's mission to re-build the NHS.

Contribution to the government missions: A social care capital investment loan fund would make a major contribution to meeting demands for care places in low-income areas of the country, building a national care service, and contributing to the government's missions to kickstart economic growth in areas needing regeneration and to re-build the NHS.

Feasibility: The Fund would be a major new initiative and would need to be developed in consultation with local government and care providers. The Affordable Housing Programme Fund could provide a valuable model on which to build.

Proposal 4: Improved care commissioning to establish high-quality markets of care providers and explicitly rejecting a 'race-to-the-bottom' approach of specifying and awarding contracts on price and volume alone.

Rationale: Social care commissioning is dominated by concerns about single metrics related to cost and price, rather than improving quality of life outcomes, reducing health inequalities or ensuring services are tailored to meet individual needs. Commissioning frameworks are often inflexible and provide little incentive for innovation. This focus on price alone can create a 'race to the bottom' in the quality of care as contracts are awarded only to the cheapest providers, and leaves little scope for improvements in productivity and effectiveness.

The current approach to the commissioning of social care should be replaced with a process that begins with social care commissioners adopting the goal of creating a local market of high-quality care providers. This requires the government, as well as local government, to take a market-shaping role if it wants to see social care providers deliver services that give better outcomes for service users, better experiences and outcomes of care and support for service users, more sustainable and innovative care provider organisations and better integration with the NHS (joint ways of working, joint commissioning, digitally enabled care, shared care records and shared care outcomes).

Given the current challenge of social commissioning capability and capacity in local government (similar to the challenge of lack of planners in the housing system), government should invest in developing and recruiting the knowledge, skills and experience of social care commissioners to re-shaping the capacity and quality of social care commissioning.

The government should create a national care commissioning advisory body to support the recruitment, training and support of a new cohort of social care commissioners working in local government; and provide best practice guidelines and standards for commissioning including transparency of care provider income and costs to help prevent excessive profit-taking. It should implement the lessons learnt from the culture adopted during the Covid pandemic in which the emphasise was on getting things done, and in which commissioners asked providers 'how can we help you to make this happen?'. Arguably, this approach led to one of the biggest ever periods of innovation in the NHS.

This approach would move away from commissioning based on 'payment by activity' towards commissioning care services using price, volume and quality criteria in a market place of high-quality providers that have demonstrated they can respond to people with varying complexities of level and type of need.

For people with complex needs, care commissioning should develop joint health and social care pathways for adults with learning disabilities who have complex physical health, mental health and social care needs. This would include creating genuinely pooled budgets to support shared goals between the NHS and social care service, payment structures with shared incentives based on outcomes not outputs, and funding for joint care pathways between health and social care for specific groups in the population.

Looking to the future this approach could be built upon to develop an integrated cross-service commissioning policy between the NHS and local government as a whole, and embrace commissioning of wider services for people that seeks to improve the quality of people's homes, their access to transport, local air quality and the availability of community facilities.

Cost: The cost of the government's plans to recruit 300 planning officers to help deliver its goals for building new homes is estimated to be around £30m. It seems reasonable to use this as a ballpark estimate for the cost of this proposal. This proposal would also accelerate the shift from use of higher cost residential (semi-secure) settings for adults with complex need, to lower-cost and more effective community care settings.

Savings/benefits: Improved commissioning of social care will help to deliver higher quality care, support the market-shaping role of local authorities and the development of high-quality care markets, and reduce the potential for excessive-profit taking by private care providers. Integrated commissioning between the NHS and local government will contribute directly to improving the efficiency and productivity of the NHS and council services for people with complex needs.

Contribution to the government missions: Reform and investment in social care commissioning would contribute to the government's missions on economic growth and the NHS; and be a central element in the development of a national care service.

Feasibility: The costs involved are relatively low and the impact on the social care system and the dysfunctional care market would be very significant.

Proposal 5: Improvements to the care system national infrastructure

Rational: The Commission believes that to ensure change in social care is 'hardwired-in' there needs to be a significant enhancement in the national infrastructure that supports the social care system. The Commission welcomes the new Adult Social Care Negotiating Body being formed through the Employment Rights Bill as an important new part of that infrastructure. Specific proposals for strengthening to infrastructure of the social care system that the Commission believes should be considered are:

1. Converting Skills for Care into a national statutory Arms-Length Body (ALB) – with strategic outposts - accountable for developing, monitoring and supporting delivery of a new national care workforce strategy

2. Ensuring social care has full representation on key bodies including the Board of Skills England, integrated care boards, place-based partnerships and Neighbourhood National Health Service structures as they develop.

3. Investing in and reforming the Care Quality Commission to better monitor and report on the standards of care and support delivered by care providers; and the effective working of the social care system as a whole

Cost: Proposals for improving the representation of social care (providers and/or commissioners) on key bodies will incur effectively no cost, whilst converting Skills for Care to a statutory body and reforming the care Quality Commission will incur some transaction and costs of change that will be well within manageable limits.

Benefits/savings: These measures to strengthen the infrastructure of the social care system will have a huge impact on the planning and development of the social care workforce, a significant impact on the quality of care services, reduce the risks of excessive profit taking by private care providers, and ensure more effective strategic planning and decision making by integrated care systems at every level.

Contribution to government missions: Strengthening the infrastructure of the social care system will contribute directly to the government's missions to improve the NHS and deliver economic growth.

Feasibility: These measures can be readily implemented by the government with the exception of converting Skills for Care to a statutory which may require secondary legislation.

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