It Doesn’t Add Up: The Financial Crisis Crippling The Social Care Sector

Research by Cebr for Hft
FOREWORD

After Philip Hammond’s disappointing lack of additional financial support for social care in his first Autumn Statement as Chancellor, the adult learning disability care sector has been left in a precarious financial position.

We commissioned Cebr, a consultancy known for the robustness of its economic analysis, to conduct this research for us because we believe, when it comes to the government’s policy on adult social care funding, quite frankly, *It Doesn’t Add Up*.

Around 150,000 adults in England are in receipt of social care services for people with learning disabilities. Hft supports over 2,500 people. However, due to the often complex needs, and the lifelong nature of their disabilities, the sector accounts for over one-third of the total adult social care spend. The purpose of the report was to highlight the unique financial pressures currently facing the adult social care sector, and provide solutions for policymakers.

On the face of it, the report makes for rather grim reading. Without proper funding, our sector could see 10% of our workforce disappear by the end of this government. Over half of all care providers – many of whom have already started, or are planning to, curb in vital future investment – are reporting that they will be running at a deficit by 2020. This will inevitably impact upon the range and quality of care we as a sector are able to provide, which will ultimately leave thousands of vulnerable adults without the vital support they need.

All of this runs contrary to the spirit and the word of the Care Act, which sought to create vibrant and sustainable social care markets, and committed to the increased personalisation of social care delivery.

However, it is not too late. All of this is preventable. With a commitment to increase funding by at least 5% per annum, a properly funded social care sector will be able to absorb the costs associated with otherwise welcome developments such as the National Living Wage, Sleep-In shifts and pensions auto-enrolments, while maintaining the high standards of care Hft expects and demands from all our services*.

Hft is delighted to contribute to a growing body of work from a wide range of stakeholders such as ADASS, LD Voices, VODG, the Local Government Association, the UN Committee on the Rights of Persons with Disabilities and the Care Quality Commission, all of whom have highlighted the increasing economic pressures facing the social care sector.

We hope that you will find this report to be both useful and informative and we look forward to debating our results with you in greater detail.

Robert Longley-Cook  
Chief Executive, Hft

*In 2016, 95% of our services that had been CQC inspected were rated “Good”, compared to a national average of 71%
Disclaimer

Whilst every effort has been made to ensure the accuracy of the material in this document, neither Centre for Economics and Business Research Ltd nor the report’s authors will be liable for any loss or damages incurred through the use of the report.

Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The views expressed herein are those of the authors only and are based upon independent research by them. The report does not necessarily reflect the views of Hft.

London, November 2016
Contents

Executive Summary 4

Introduction 6

1 Surplus to invest and maintain service provision 7

2 Pay in the care sector 10
   2.1 Gains at the lower end of the pay scale, restraint at the higher end following NLW 11
   2.2 Age breakdowns by sector: health & social care workforce older than most low-paid sectors, increasing exposure to the NLW 12
   2.3 Future increases in wage bills due to the NLW 13
   2.4 Additional pay pressures 15

3 On the ground experiences – how the care industry is responding 17

4 Conclusions 23
Executive Summary

- The learning disability and mental health sector has among the lowest financial surplus margins of UK sectors, reflecting funding constraints and rising costs.

- By 2020, rises in the National Living Wage will add an extra £460 million to wage bills in the learning disability sector, compared to a situation without the Living Wage.

- Based on projections of wage and input costs, the sector risks facing a financial deficit over the next four years.

- With an increase in funding and turnover of between 4% and 6% per annum, the sector could still break even.

- The social care sector has a high proportion of low-paid workers. Of the 35 professions in the breakdown of the workforce by occupation, it ranks in the lowest 10 by pay.

- This makes companies and charities in the social care sector, many of whose finances are precarious already, vulnerable to the new National Living Wage (NLW).

- Workers over 25 have seen an increase from £6.70 to £7.20 in minimum pay per hour thanks to the new NLW as of April 2016. The NLW is targeted to increase to around £9 per hour by 2020.

- It appears that care providers are being forced to squeeze the wages of higher-paid members of their occupation in order to meet their legal obligations on wage floors. Median wages of health and social care associate professionals fell by 0.3% between 2015 and 2016.

- The care sector has a relatively old workforce as well as low pay. Many of the low-paid sectors, such as retail, have younger workforces and so many workers will remain on the National Minimum Wage rather than moving on to the National Living Wage. 91% of workers in the health and social care sector are over 25, compared to 70% in retail and 79% in accommodation and food services.

- The age structure and low pay together mean that the sector is particularly exposed. Its £460 million increase will come from a 10.2% rise in wage bills, greater than almost any other UK industry sector.

- If there is no funding increase for the sector, as many as 10% of the jobs in the sector could be at risk purely from the NLW increase. Sectoral employment data show this is around 30,000 jobs. There may be more due to underlying wage inflation and rises in other costs.

- Care providers face an additional source of funding pressure from changes in the law regarding sleeping at work. It is likely that many will have to pay minimum/living wage to employees while asleep, which, for just one night shift, would raise the total hours per week by 25.6% for the average worker in this sector, and the total wage bill by a similar amount.

- A survey of care providers was undertaken as part of this research, of which 81% of respondents were in the learning disability sector. When asked about the main cost pressures survey respondents’ organisations were facing, 96% cited rising wage bills – the largest share by far. Just under a third (32%) cited rising utility bills.
• According to respondents, the National Living Wage (which is due to increase to £7.50 in April 2017) has had the largest impact upon wage bills. Paying for sleep-ins and recruitment/agency fees also scored highly.

• Looking at the surplus funding organisations are left with after costs, most respondents state that their surplus has decreased over the past year. 71% of organisations claim their surplus has decreased, 11% report making a loss, 4% claim their surplus has stayed the same, and only 7% claim to have increased their surplus over the last year.

• Of those who claimed their surplus had declined, many expect to be running a deficit at some point in the future. The majority (55%) expect to be running a deficit in under three years.

• In response to mounting cost pressures, respondents have mainly used internal efficiency strategies (such as restructuring departments) to deal with mounting costs. As well as this, at least a third have had to cut staff (33%), reduce investment (48%), and decrease the scope of their services (44%) in response to cost pressures.

• Despite increased demand meaning learning disability care is a growing sector, 75% of respondents have claimed they will be stemming investment in the future as a way of managing costs.
Introduction

Cebr was commissioned by Hft, the national charity that supports adults with learning disabilities and autism, to examine the impact of rising costs on the viability of the care sector and, more specifically, the learning disability sector in the UK. In particular, the research examines the implications of the National Living Wage (NLW) on the ability of organisations in the sector to continue to provide and expand the quality and quantity of their service provision.

The learning disability sector, and the care sector more broadly, face a number of significant challenges over the coming years. Margins are low compared with most other sectors of the economy, meaning that cost increases are more likely to cause organisations to close down or provide a reduced service offer. At the same time, government funding constraints limit the ability of organisations to deal with higher costs.

As we demonstrate in this research, rising costs over the years to 2020 could potentially put thousands of jobs at risk in the learning disability sector, leading to reduced service provision at a time when demand for services is likely to increase.

The structure of this report is as follows:

- **Section 1** examines the financial surplus of the care and learning disability sectors, and the potential shortfall that could arise over the coming years as costs increase.
- **Section 2** examines trends in pay in the care sector and the impact of the National Living Wage on wage costs.
- **Section 3** draws conclusions from the preceding analysis.
1 Surplus to invest and maintain service provision

The care sector, including the learning disability sector, is an industry in which viability is precarious. Funding constraints mean that surpluses – the sum of money remaining after expenses – are relatively low. This is shown in Figure 1 which illustrates the surplus margin of different industries. For private profit-making enterprises this is simply the profit margin of the industry. For not-for-profit organisations, this surplus margin captures the amount of funding remaining to potentially expand or improve quality of service provision.

It is clear from the chart that margins in the residential learning disability care sector are relatively low, at an estimated 6% of turnover/funding in 2015, the latest year for which we have data on organisational incomes and costs. This was about half the average for the UK as a whole and was marginally lower than the retail & wholesale sector, where the prevalence of low profit margins is widely known.

Surplus margins for learning disability provided at home (homecare) are likely to be even lower, though this sector is not captured well in Office for National Statistics (ONS) data. The surplus margin for non-residential care of the elderly and disabled stood at about 5% in 2015, and it is likely that a similar margin was seen in learning disability homecare.

Since 2015, the care sector as a whole, including learning disability care, has faced a number of additional cost increases, including:

- Rising rents for property.
- The introduction of the National Living Wage.
- Having to pay sleeping shift workers the minimum wage.¹

Wage bills are set to rise further over the coming years, reflecting continued increases in the National living Wage, which will have a significant impact on surpluses. In the learning disability sector, we estimate that staff costs accounted for 63% of organisational costs in 2015 (about three times the 19% seen across all UK businesses).

Depending on what happens to funding/turnover levels in the sector, there is a significant chance of surpluses turning negative or dipping further into negative territory for organisations in the care industry. Figure 2 shows that, unless funding rises at a significant rate, providers of residential learning disability care are set to face, in aggregate, a situation where costs of care provision exceed funding levels. These figures are based on projections for increases in wages and other costs, and account for increased service demand.

With costs rising above funding levels, organisations in the learning disability care sector face the prospect of having to decrease service provision and shed jobs. The 10.2% increase in wage bills expected from the 2020 rate of the NLW (see section 2.3) could mean that this many jobs in the sector, that is, around 30,000, would have to be lost. At present, our scenario analysis in Figure 2 shows the sector would need an immediate funding increase of 4% to 6% per annum just to cover current deficits.

¹ [http://www.hempsons.co.uk/sleeping-shift-workers-now-entitled-minimum-wage/](http://www.hempsons.co.uk/sleeping-shift-workers-now-entitled-minimum-wage/)
Figure 1 Surplus margins (surplus as a % of turnover/funding) by sector, 2015

Source: ONS Annual Business Survey, Cebr analysis
Figure 2 Projected financial surplus (£m) of residential care activities for learning disabilities, mental health and substance abuse. Different funding scenarios for 2017 onwards.

Source: ONS Annual Business Survey, Cebr analysis
2 Pay in the care sector

The previous section of the report demonstrates the financial challenges facing the care sector, and the learning disability sector more specifically, in the event of rising costs and demand without corresponding increases in funding.

As mentioned, the labour-intensive nature of care means that pay regulation can have a host of negative consequences for care providers. Increases in minimum wages can rapidly erode industry surpluses and push organisations into loss-making territory, unless additional funding arrangements are put in place. Therefore, while there are compelling economic and social reasons for improving the living standards of lower earners, there are negative outcomes for certain sectors such as learning disability care.

The National Living Wage (NLW) is one such regulatory change that is having a negative impact on the learning disability sector. Introduced in April 2016, it is one of the most important changes to low-income work since the introduction of the National Minimum Wage (NMW) in 1999. The NLW applies only to those under 25. It is expected to rise significantly faster than inflation between 2016 – when it was initially introduced – and 2020, starting with the 7.5% increase on the old NMW from £6.70 to £7.20. It also follows a sharp rise in the Minimum Wage which took place six months before its introduction. In October 2015 the NMW rose from £6.50 to £6.70 per hour, a 3% increase.

This changes the landscape for low-income work, including for many employees in the care sector. Employers will have to respond, either letting profits/surpluses fall, finding savings elsewhere, or passing on higher costs to the consumers of goods and services.

The care sector is to a large extent funded by local governments, so unable to pass on costs in the way a private-sector business can. The previous section also shows how surpluses are wafer thin. Care providers will have to find savings elsewhere or they will be forced to serve fewer of those who require care, if costs start to exceed incomes. After almost one year of the NLW, we will be able to gauge how care providers have responded so far and, learning from this, how they are likely to in future.
2.1 Gains at the lower end of the pay scale, restraint at the higher end following NLW

Figure 3 shows the 10 lowest paying of the 35 occupational ("SOC") groups that the workforce can be divided into. Caring personal service occupations, a group for which the median wage is £8.88 per hour in 2016, features in this list and includes care workers, home carers and care escorts. (Note: this is much broader than the learning disability sector, which we look at in 2.3.)

*Figure 3 Median hourly wages in low-paid occupations (SOC 2-digit/broad breakdown)*

The median hourly wage across all occupations is £12.18. This has risen by 3.4% in the past year, a rise from which members of the lowest paid occupations benefited disproportionately. Sales occupations and sales & customer service occupations saw the greatest rises of all categories of 6.1% and 6.3% respectively. For caring personal service occupations, median hourly wages rose by 4.5%.

---

2 The 35 broad occupational categories used by the Office for National Statistics (2-digit SOC codes)
Many professional occupations saw gains of less than 1% in median hourly wages in 2016. For example, business & public service associate professionals and science, engineering & technology associate professionals only saw their wages rise by 0.1% and 0.0%. Employees in the main category for professionals working in social care – health and social care associate professionals – earn a median hourly wage of £12.56. Their median wages actually fell by 0.3% between 2015 and 2016. This suggests that some care providers may be exercising pay restraint higher up the income scale to cope with rising costs at the lower end of the scale.

2.2 Age breakdowns by sector: health & social care workforce older than most low-paid sectors, increasing exposure to the NLW

The impact of the NLW on industries depends on the age breakdown, as the living wage will apply only to workers over 25. As younger workers are currently much more likely to be earning the minimum wage, this has diluted the impact of the policy as many low-paying occupations have been able to continue paying the existing Minimum Wage.

The care sector is different from many other low-wage sectors. It has a much greater proportion of over-25 workers. Figure 4 shows the health and social work sector (including learning disability care) is towards the upper end of the age distribution, with 91% of its employees in the over-25 age bracket compared to just 87% on average and 79% and 70% in two other low-paid sectors, retail and food & accommodation.

*Figure 4 Proportion of industry sector workforce eligible for living wage (i.e. share over 25)*

*Source: Census 2011, Cebr analysis*
This point is underlined by the following graph which compares the age distribution of the care and accommodation & food service sectors.

*Figure 5 Proportions of different age groups working in two Broad Industry Groups I (Accommodation) and Q (Health and Social Care)*

![Proportions of different age groups working in two Broad Industry Groups I (Accommodation) and Q (Health and Social Care)](image)

2.3 Future increases in wage bills due to the NLW

The ONS Annual Survey on Hours and Earnings enables a closer look at low-paid industries to understand the impact between now and 2020. It groups the employees of the industry into deciles (where the first decile represents the lowest-earning 10% of households/earners, etc.). This allows analysis of how a whole industry’s pay structure could change after the introduction or change in value of the wage floor.

Figure 6 shows the additional increase, on top of normal wage inflation, that will be necessary to bring some of these sectors in line with the new minimum/living wage requirements. Our modelling takes into account the age distributions of the relevant industries in order to uprate the average pay by the appropriate amount.
The sectors identified by the Low Pay Commission\(^3\) all face a greater impact from the 2016–2020 increases in the National Living Wage compared to the economy as a whole. At the broad level, social care appears at first sight not to be much more affected than average. However, on closer inspection this turns out to be due to the higher wages in the hospital activities within the care sector. The other care sectors outside hospital face a rise in their total wage bill of 5.8%.

For the learning disability sector, the increase is higher still at 10.2%. The most comprehensive data on earnings and employment comes from the SkillsForCare national minimum data set for social care (NMDS-SC). We examine here just those companies which look after adults with learning disabilities, though this includes many which look after other types of patients.

The NMDS-SC lists around 10,500 companies providing care for adults with learning disabilities, with 304,000 employees. The median wage in care of adults with learning disabilities is £7.60 per hour, and a very low £6.98 per hour for direct care workers. (Averages can fall below the NLW because of apprentices and under-25 workers.) Wages in the sector will have to rise rapidly as the NLW goes up over the next four years. The 10.2% increase is also higher than most of the narrower sectors in the UK economy, surpassed only by sectors such as “food and beverage service activities” and some others with relatively few employees.

\(^3\) Low Pay Commission Report 2015
The composition of workers in the sector is shown in Figure 7. The vast majority are direct care workers, the lowest-earning group in the sector.

**Figure 7 Employees and pay in social care for adults with learning disabilities**

The average pay increase we have modelled allows us to identify the total wage bill increase for the sector, by combining data on the average hours worked with the size of the pay increase. For the sector’s 304,000 employees listed on the NMDS-SC this works out as £460 million per year.

The most concerning aspect is the fact that this comes on top of an already financially stressed sector. In the absence of a rise in funding, this makes the increase in wage bills impossible to fund any other way than by reducing service provision, hence the estimate of job losses to the tune of 30,000.

**Table 1 Wage bill increase for learning disability care**

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Number of employees</th>
<th>Wage bill (per year), NLW = £7.20</th>
<th>Wage bill (per year), NLW = £9</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Care of adults with learning disabilities</td>
<td>304,000</td>
<td>£4.52bn</td>
<td>£4.98bn</td>
<td>£460m</td>
</tr>
</tbody>
</table>

### 2.4 Additional pay pressures

In addition to the increase in wages for many workers in the care sector, other factors have changed the landscape over recent years as the sector has faced a challenging environment in terms of its own funding.

“Sleep-in” shifts refer to where a carer spends the night at the place of work. The legal position on whether care workers have to be paid during sleep-ins is gradually resolving in favour of the affirmative, owing to various judgements on the implementation of the minimum wage over time.

Generally where the worker is not at their own home, and when they are needed on site for safety reasons and not free to come and go as they please, care providers would be obliged to
pay the Minimum or Living Wage, depending on the age of staff. In practice, this applies to most workers who do sleep-in shifts, and is contrary to many providers’ and funders’ past practices and thus the cost model they have learnt to work within.

Weekly hours are shown in Figure 8. They suggest a large proportion of part-time workers compared to other industries, since the median figure is 31.3 hours per week. The average weekly hours of 31.3 shown would increase by 25.6% if they included just one night shift of eight hours. Clearly this represents a significant threat to finances of care providers beyond that related to the NLW. A lack of figures on the proportion of workers who do these night shifts prevents detailed analysis. Since they are not yet counted as work in many cases, they will not appear in sources of labour market data.

*Figure 8 Weekly hours for all care workers*

Prior to the 2015 increase in the minimum wage, minimum holiday pay has been a greater pressure on care providers’ budgets than minimum pay rates. This derived from a rise in entitlements from 20 days per year to 24 in 2007, and a further rise to 28 days from 2009.

The mandatory contributions by employers towards pension schemes, introduced over the past few years have had a further impact (‘auto-enrolment’) have created further wage pressures for those in the care sector.

---

4 Personnel Today, *National minimum wage: sleeping on the job?* February 2016; Gov.uk, *Minimum wage for different types of work*

5 LaingBuisson *Care of Older People, 26th edition*
As part of the research, a survey of organisations in the care sector was conducted in November 2016 to gain an understanding of how the sector is responding to rising cost pressures. In total, 36 individuals responded to the survey. 81% of respondents were in the learning disability sector in particular, and respondents provided a range of care services.

*Figure 9 Which of the following care services do you provide (tick all that apply)?*

*Figure 10 Which of the following types of care do you provide (tick all that apply)?*
When asked about the main cost pressures respondents’ organisations were facing (they could tick all that apply), 96% cited rising wage bills – the largest share by far. Just under a third (32%) cited rising utility bills.

*Figure 11 What would you say are the main cost pressures facing your organisation at present (tick all that apply)?*

According to respondents, the **National Living Wage** (which is due to increase to £7.50 in April 2017) **has had the largest impact upon wage bills**. Paying for sleep-ins and recruitment/agency fees also scored highly.

*Figure 12 Thinking about your organisation’s wage bill, how would you rate the following cost pressures? (1 = No impact on costs, 5 = very significant impact on costs)*
Looking at the surplus of funding organisation are left with after cost, most respondents state that their surplus has decreased over the past year. **71% of organisations claim their surplus has decreased** (slightly or significantly), 11% of organisations claim to be making a loss, 4% claim their surplus has stayed the same, and **only 7% claim to have increased their surplus** over the last year, highlighting the pressures on care providers.

*Figure 13 Thinking about the “surplus” funding your organisation has left after costs (e.g. to invest in improved services), how has this changed over the past year?*

Of those who claimed their surplus had declined, many expect they will be running a deficit at some point in the future. The **majority (55%) expect to be running a deficit in under three years.** 20% think they will be running a deficit in the long-term (over five years) but not before then.

**Only a fifth thought that they would not be running a deficit,** and 15% said they did not know.

---

*The chart sums to 93% as it excludes 7% of respondents who said ‘Don’t know’*

---

6 The chart sums to 93% as it excludes 7% of respondents who said ‘Don’t know’
In response to mounting cost pressures, respondents have mainly used internal efficiency strategies (such as restructuring departments) to deal with mounting costs. As well as this, at least a third have had to cut staff (33%), reduce investment (48%), and decrease the scope of their services (44%) in response to cost pressures.

Figure 15 Has your organisation taken any of the following measures in the past year in order to deal with cost pressures? (Tick all that apply)
When asked to rank cost-cutting measures, internal efficiency savings was the most common answer – 85% put this in their top three measures to cut costs. 75% put curbing investment in the top three.

*Figure 16 Does your organisation envisage having to take any of the following actions in the near future?*

When asked whether respondents have had to make staff redundant in order to deal with mounting costs, most stated they had not. Still, some responded that a significant number of staff had been made redundant due to rising costs. Some stated as many as 200 redundancies had been made, with another respondent claiming ‘I don't have accurate numbers but it's in the 100s'.

Overall, **30% of respondents claimed they had had to make at least 10 members of staff redundant** to deal with rising costs. 19% of respondents claimed they have had to reduce the amount of people they offer care to by 10 or more due to cost reasons over the past year.

In terms of retaining/recruiting staff, 95% of respondents said they had experienced difficulties with this over the past two years. **Almost half (45%) claimed they are becoming more reliant on agency staff for cover.**
Figure 17 Do you find that you are increasingly relying on agency staff to cover frontline services?

Source: Cebr survey
4 Conclusions

The social care sector faces pressure on several fronts at present. Funding continues to increase at a level insufficient to keep up with demand: the Local Government Association found that winter funding last year was “in no way proportionate to the scale of the task or the level of support needed for vulnerable people”. But as long as local governments face shrinking or constrained budgets, they are unlikely to increase funding by enough to tackle this.

Yet the costs it faces are increasing. The National Living Wage, while it should prove beneficial in many other ways, will have unintended adverse effects on the social care sector unless policymakers address them specifically. At present, employers within the sector seem to be exercising some pay restraint for those in professional occupations within the sector while increasing wages for those in non-professional occupations. But this cannot go on indefinitely, as the NLW is envisioned to keep increasing until 2020. The impact so far has been only the first step up, of a planned total of five, in the wage floor.

At the same time, providers may soon have to pay some employees significantly more due to the law on “sleep-in” shifts. The impact will be hard to avoid, as past rulings suggest that shifts would probably be classed as work when employees are unable to leave for safety reasons: these are the very shifts that must be worked, for the same reasons. Just one shift per week raises the hours of the average employee in the sector by 25.6%, which would increase the total wage bill by a similar amount. The NLW will come on top of that. In addition, rising rents and other costs will push up the price of care provision.

The impact of these cost pressures for the learning disability sector in particular will be a large deficit over the years to 2020. In order to break even, providers will need a funding increase of somewhere between 4% and 6% per year. This is on top of a shortfall of around £1 billion, reported by the Association of Directors of Adult Sector Care (Adass), in the care sector more broadly. For this vital sector, set to see even greater pressure as the population continues to age, this is a concerning state of affairs.

---

7 Adult social care, health and wellbeing: A Shared Commitment
Who are Hft?

Hft is a charity that helps adults with learning disabilities to live the best life possible. Our person-centred services support over 2,500 people across England to live with more choice, more independence and with greater access to the local community.

We deliver person-centred services through our unique Fusion Model of support. This can range from residential care to supported living at home – from a few hours a week to 24 hours a day.

We also help people with learning disabilities to find meaningful employment, to lead active social lives and to make their voices heard, so they can live with greater levels of independence and personal fulfilment.