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Sector Pulse Check

The impact of the changes to the social care sector in 2018

December 2018

#SectorPulseCheck18

Analysis by Cebr for Hft

Foreword

Once again, Cebr has been commissioned by Hft to produce our annual Sector Pulse Check, which provides a yearly snapshot of the financial health of the social care sector. We were delighted that so many of our peers in the sector responded to our survey. Thank you to all of those who took the time to provide feedback for this important piece of research.

2018 got off to a promising start with the reinstatement of the Minister of State for Social Care (something Hft had campaigned for in the 2017 general election), and Caroline Dinenage became the fourth person in as many years to hold the social care portfolio.

However, as the year progressed we saw two delays to the social care green paper, meaning that the pressing issues facing the sector have once again been kicked into the long grass. This year's Sector Pulse Check lays bare the damage that continued government inaction has inflicted on the sector.

59% of providers have said that they have had to hand back contracts over the past year and 68% have said they will need to do so in the near future. Service closures are the last resort for any provider; it is culturally at odds with the way the majority of providers usually operate, particularly when we have supported individuals for the majority of their adult lives. It is the clearest indication yet that the underfunding of social care is having a deeply negative impact on providers and their ability to deliver critical support to vulnerable adults.

Recruitment also remains a challenge for many. 80% of providers have said the fact that social care is commissioned by local authorities on the assumption of low-pay is their biggest barrier to recruiting and retaining the best staff. As a result, it is not surprising that the number of providers who say agency fees is their biggest financial pressure has risen sharply from 13% to 63%, as providers struggle to fill their rotas. But by spending more on agency staff in the short term, providers are unable to invest in the long-term future of our services, despite providers seeing increased demand across the sector. We all know that our staff are the cornerstone of the high-quality person-centred support we deliver, and they deserve to be rewarded for the hard work they do, but this needs to be done in a way that is financially sustainable for providers.

Ultimately, it is the vulnerable adults supported by the sector that will bear the burden of any crisis within social care. For the first time, providers are telling us that they are concerned that future funding cuts will lead to a deterioration in the care and support that they provide. This is something that governments and local authorities must urgently listen to.

2018 was a year bookended by the delays to the government's long-overdue social care green paper. Let 2019 be the year that social care gets the attention that it deserves. There is a worry that Brexit will absorb all political bandwidth in the year ahead. We call on the Government not to be distracted and give the social care sector the sustainable funding solution it desperately needs. We hope the findings of our Sector Pulse Check will help to spur them in to action and inform their proposals.

Robert Longley-Cook
Chief Executive, Hft

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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, December 2018

Hft would like to thank **Learning Disability Voices**, **LDEngland**, **Care England** and the **Voluntary Organisations Disability Group (VODG)** for their support in sharing our survey with their members and ensuring the sample questioned was as representative of the sector as possible.

Executive summary

Hft and Cebr have produced their second annual Sector Pulse Check. This report offers an annual snapshot of the financial health of the social care sector, how the sector has reacted to the events of the past 12 months, and provides an insight into how providers anticipate the next 12 months will progress.

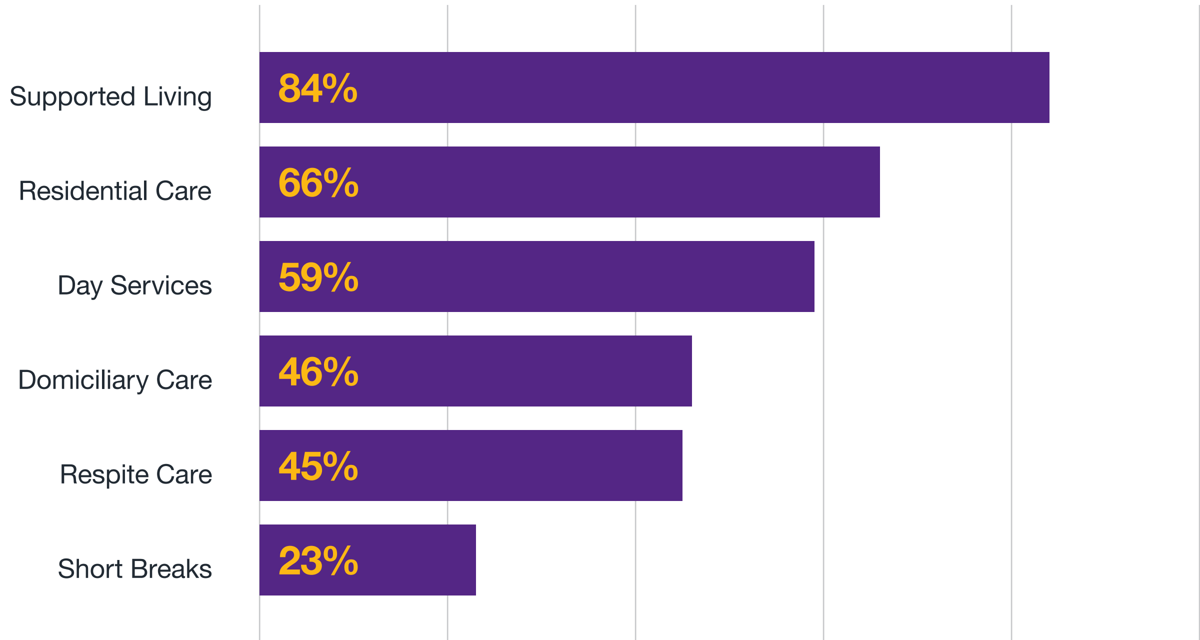
- While rising wage bills continues to be the biggest cost pressure faced by the sector, there has been a 50 percentage point increase in the number of organisations reporting agency fees as a major financial pressure.
- More than half (59%) of providers have begun to hand back contracts to local authorities as a way of responding to funding pressures, compared to 25% in 2017. Looking forward, 68% said that they envisage having to hand back contracts "in the near future" if their financial situation does not improve.
- Worryingly, this is the first time that providers have predicted that continued funding cuts could begin to directly have a negative impact on those vulnerable adults supported by the sector.
- Recruitment remains an ongoing challenge. 80% of providers cite low wages as the biggest barrier to recruiting and retaining staff.
- More than three-quarters (78%) of providers increased the amount of resource they allocated to their recruitment efforts over the past year, with two-thirds (67%) of these running dedicated recruitment campaigns to help reduce staff vacancies.
- Despite the Court of Appeal ruling in favour of Mencap in July 2018, the majority of the sector does not believe that 2019 will see a decisive end to the sleep-in crisis.
- With just 4% of the sector claiming they have completed all of their preparations, the social care sector remains particularly exposed to Brexit – particularly one that is highly disruptive.
- Many respondents are eagerly awaiting the publication of the social care green paper. They also raised concerns over decreasing central and local government funding for the sector, and the negative impact this is having on staff and those supported by the sector.

Introduction

Hft and Cebr have conducted a survey of CEOs and Senior Managers within the care sector looking at how their organisations have fared over the past year, and how cost pressures and recruitment challenges are impacting this sector. The survey received 56 responses across various types of care providers.

The most common type of care provided is Supported Living, which is offered by 84% of respondents in the survey. Meanwhile, nearly two-thirds (66%) provide Residential Care. Figure 1 shows the range of care service providers that were surveyed, split by type of support.

Figure 1: **Which of the following types of care do you provide?**

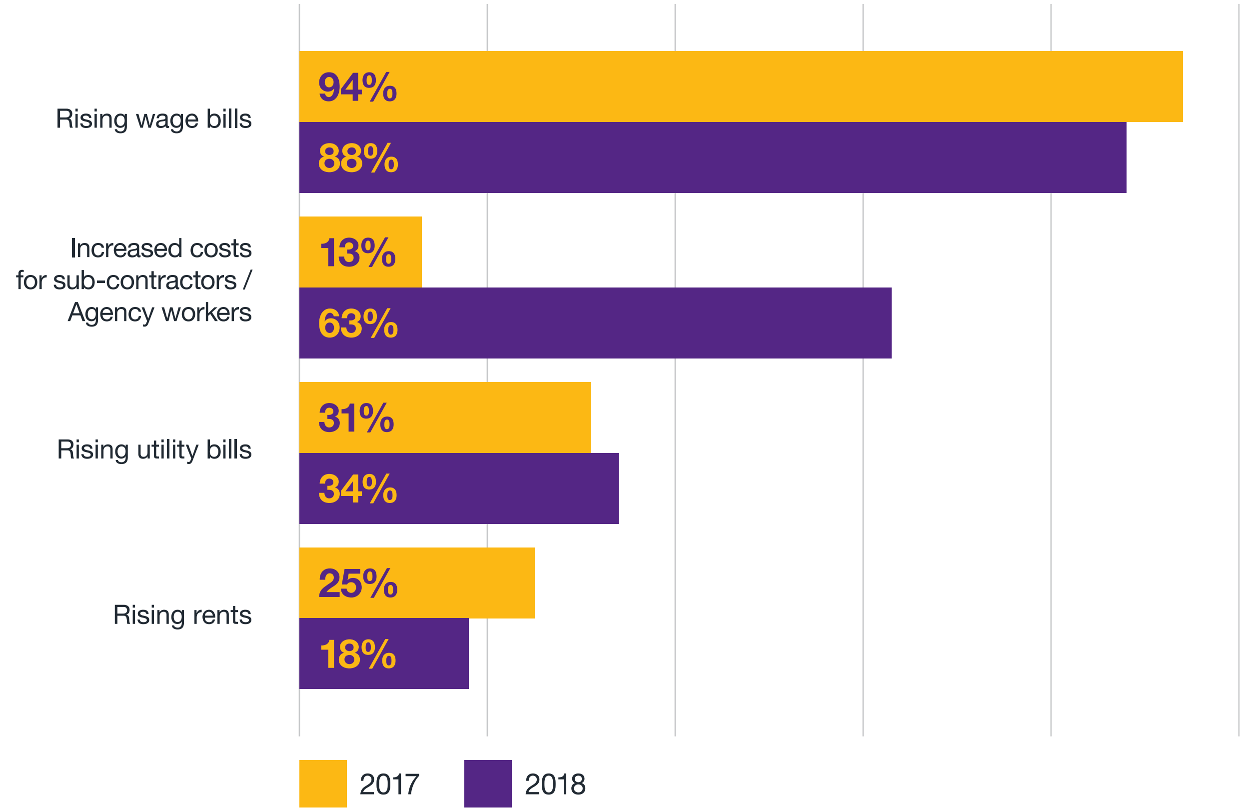


Source: Hft survey, Cebr analysis

Similar to last year's survey, the vast majority (96%) of care providers in the survey provide learning disability care. The share of providers offering physical disability care has risen significantly over the past year from 16% to 41%.

6 Cost pressures

Figure 2: **What would you say are the main cost pressures facing your organisation at present?**



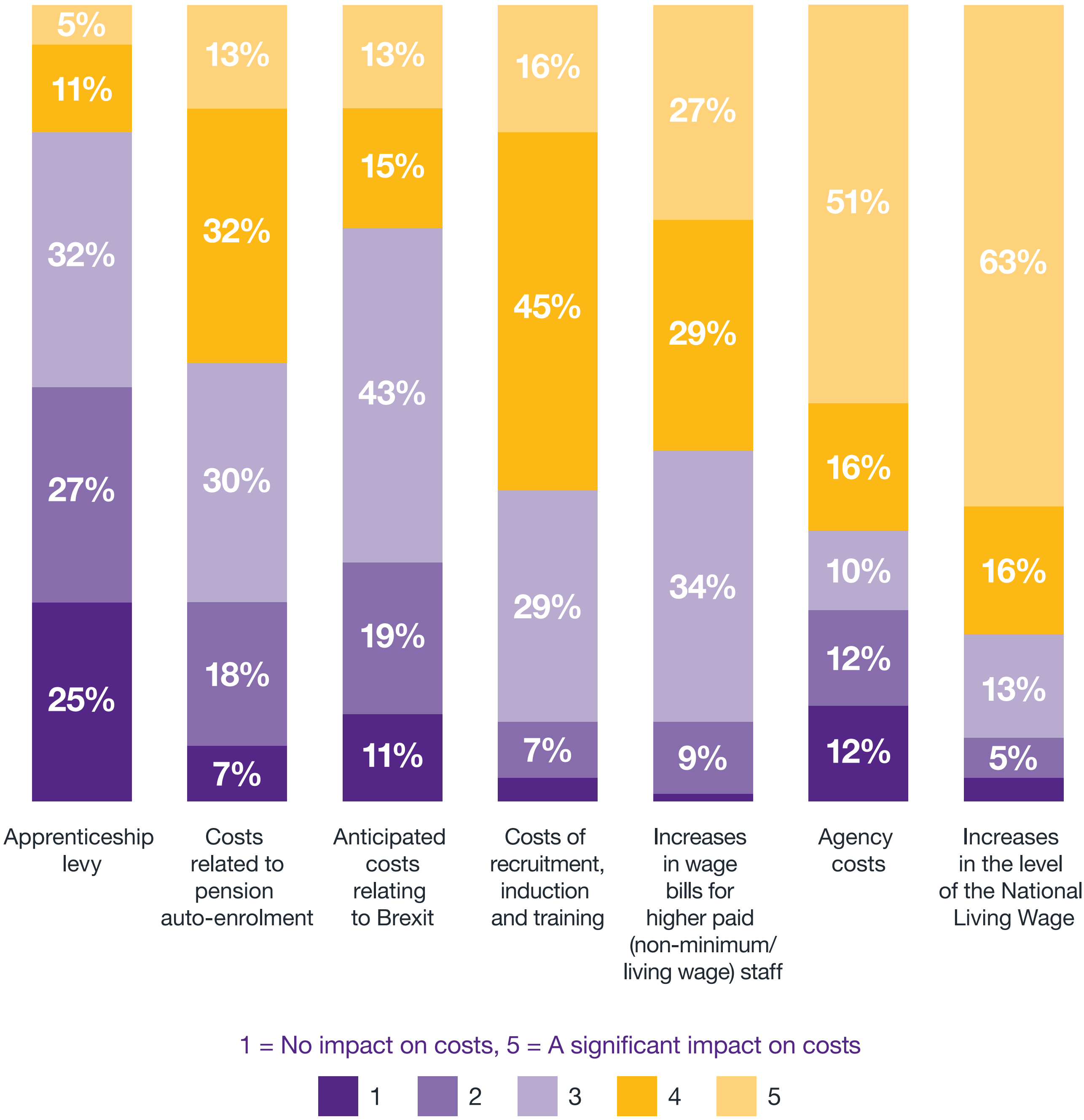
Source: Hft survey, Cebr analysis

In line with the findings of previous studies, rising wage bills remain by far the largest cost pressure facing care providers. 88% of survey respondents listed this as one of the main cost pressures facing their organisation. Average weekly earnings in the three months to October 2018 in the health and social work sector rose by 3.8% year-on-year, 0.5 percentage points higher than for the UK as a whole. The high number of vacancies in this industry point to a shortage of workers, which, combined with rises in the National Living Wage rate and top-up fee payments for sleep-ins, appears to be driving up wages. In July, the Court of Appeal overturned the ruling requiring care providers to pay employees the national minimum wage for every hour of a sleep-in shift. This could help to alleviate employment cost pressures over the coming years although the majority of care providers do not believe we will see any clarity on this issue in 2019 (see page 17).

There was a 50 percentage point rise in the share of care providers listing increasing costs for sub-contractors and agency workers as one of their main cost pressures. This reflects the increasing use of agency staff in the sector.

Less than a fifth (18%) of survey respondents listed rising rents as one of their organisation's main cost pressures, compared to 25% last year. This reflects the overall softening of the UK property market in recent months, which has weighed on rental inflation.

Figure 3: **Thinking about your organisation's wage bill, how would you rate the following cost pressures?**



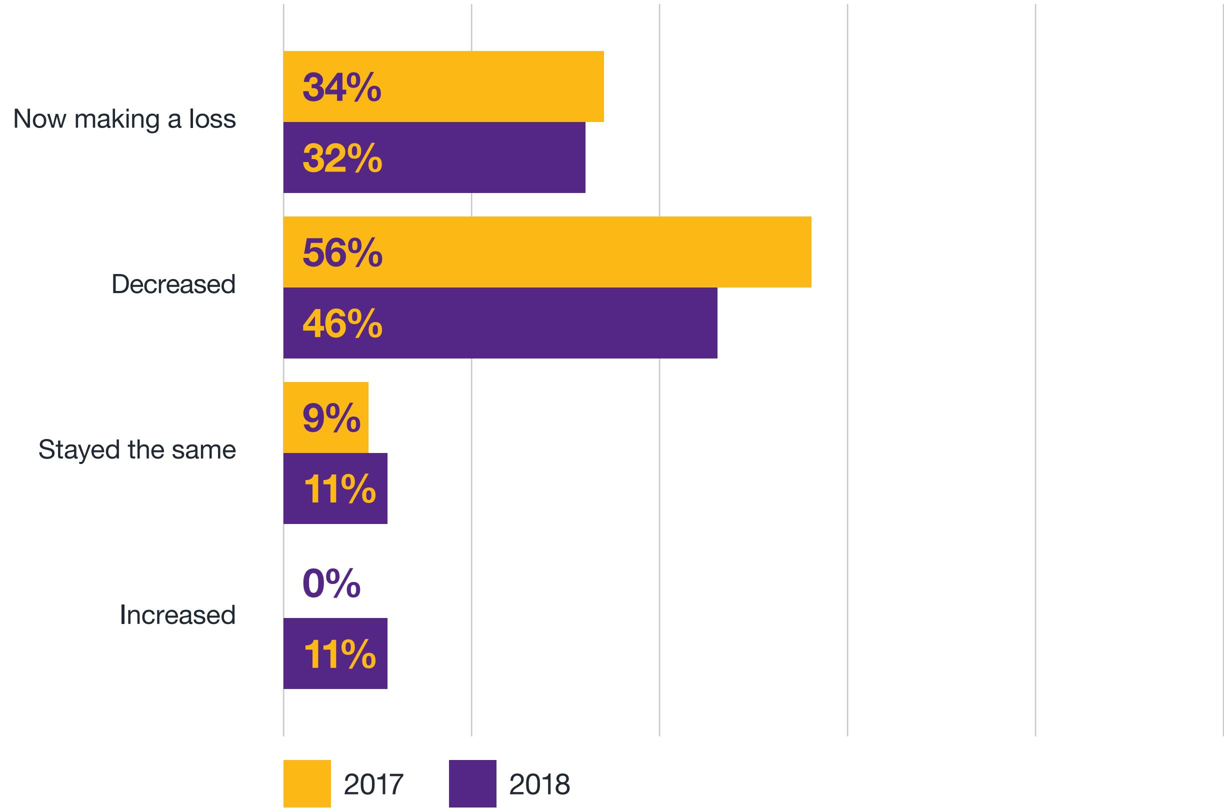
Source: Hft survey, Cebr analysis

Increases in the national living wage have become the largest pressure on organisations' wage bill. 63% of care providers in our survey said that this has a significant impact on their costs – up from 56% the previous year. The National Living Wage increased to £7.83 per hour in April 2018, and is set to rise a further 4.9% to £8.21 per hour this April. The results of the survey suggest that these changes could be a considerable burden on the UK's care providers.

The continued uncertainty surrounding the UK's future relationship with the EU and the increased possibility of a no-deal Brexit appear to have become a larger concern for respondents in our survey. However, the impact of Brexit on wage bills is still anticipated to be smaller than factors which will more directly affect labour costs such as recruitment fees and wage increases for higher paid staff.

63%
of organisations said increased costs in agency fees are now a major financial pressure,
up from 13%
in 2017

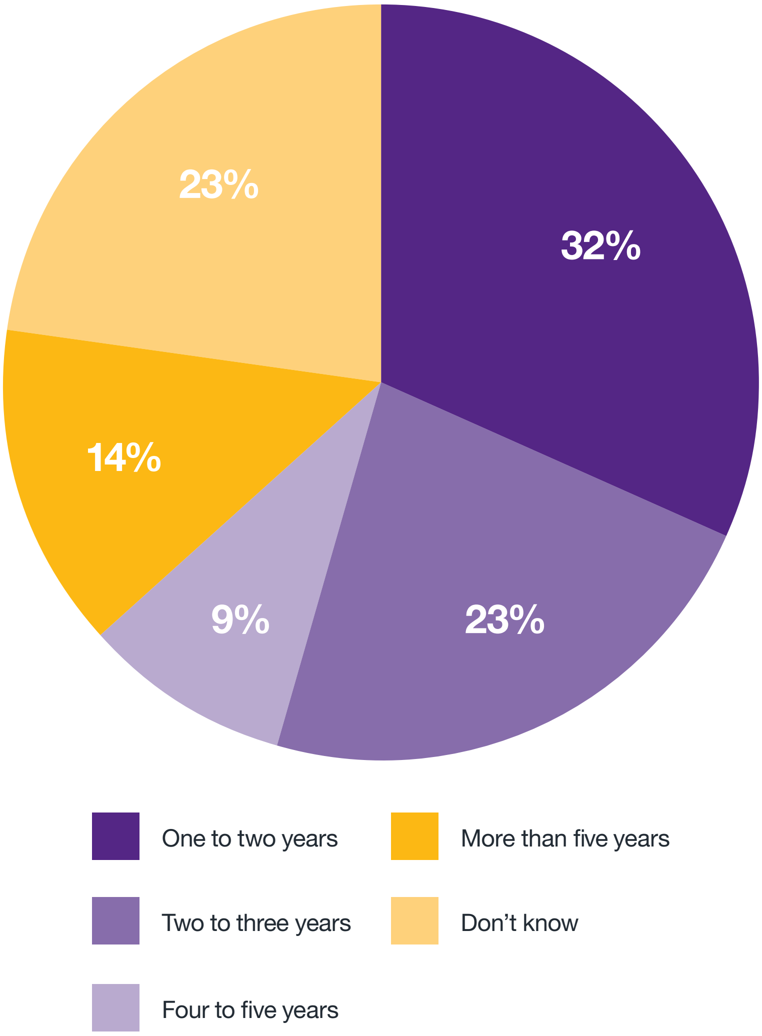
Figure 4: **Thinking about the “surplus” funding your organisation has left after costs, how has this changed over the past year?**



Source: Hft survey, Cebr analysis

The results from the 2018 Pulse Check survey suggest that the amount of surplus funding which care providers have left after paying their costs has continued to decline. Indeed, nearly half (46%) indicated that their surplus funding has decreased over the past year, compared to just one in ten (11%) who reported an increase in their surplus funding. The share of care providers that are now making a loss has edged down from 34% in 2017 to 32% in 2018. The government’s new 10-year plan for the NHS could potentially mean a boost to funding in the coming years, given the shift in focus from hospitals to community care.

Figure 5: **As your surplus continues to decline, how long before you feel your organisation will begin to run a deficit?**

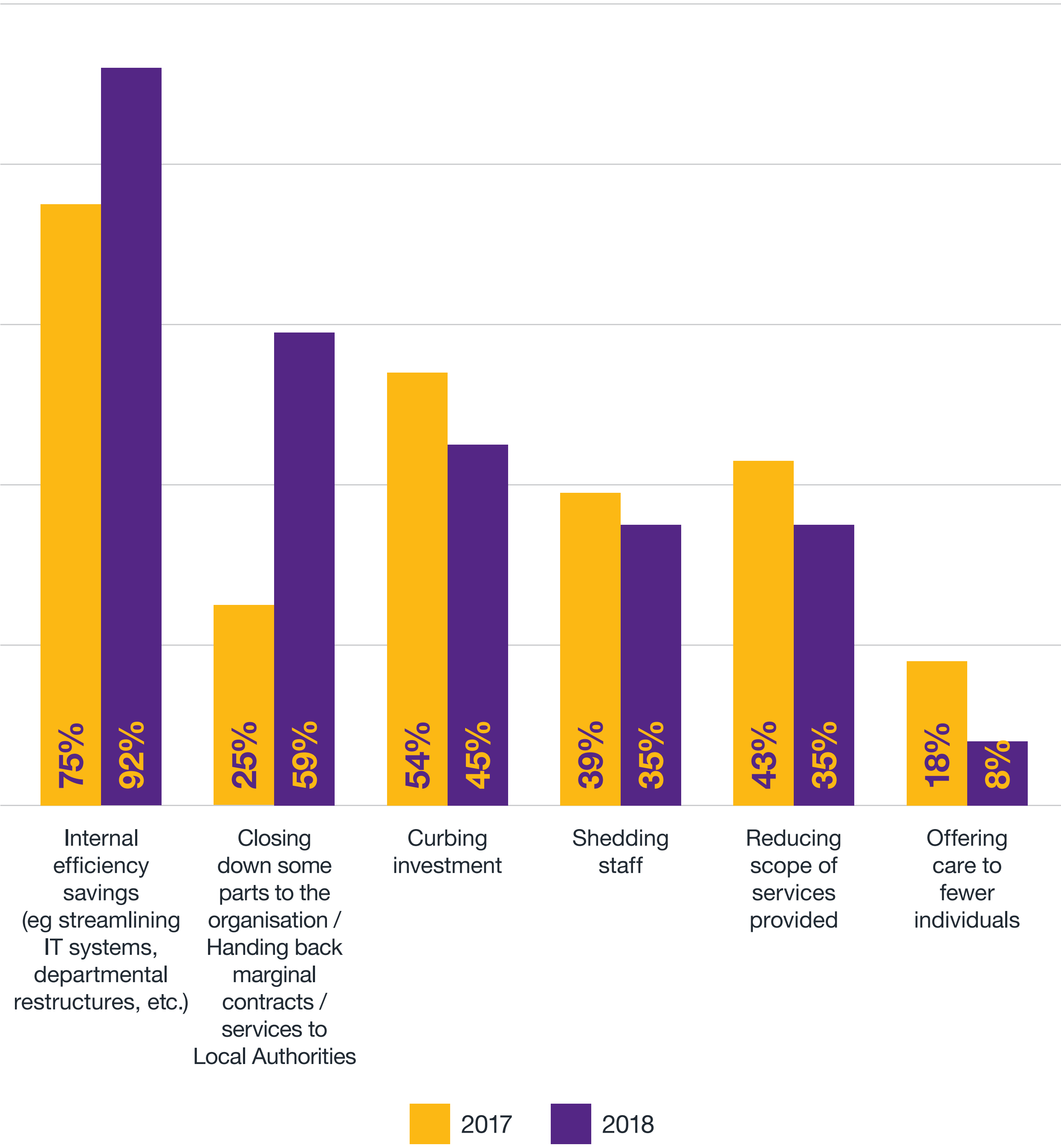


Source: Hft survey, Cebr analysis

Nearly a third (32%) of respondents who are not yet making a loss stated that their organisation would begin running a deficit within the next two years, assuming their surplus continues to decline. None of the care providers in the 2017 survey gave this response, which points to a more pessimistic outlook in the coming years.

Measures to deal with cost pressures

Figure 6: **Has your organisation taken any of the following measures in the past year in order to deal with cost pressures?**



Source: Hft survey, Cebr analysis

The results presented in Figures 2 – 5 highlight that care providers in the UK continue to face considerable cost pressures, which will have required many to take steps to ensure that their organisation remains viable.

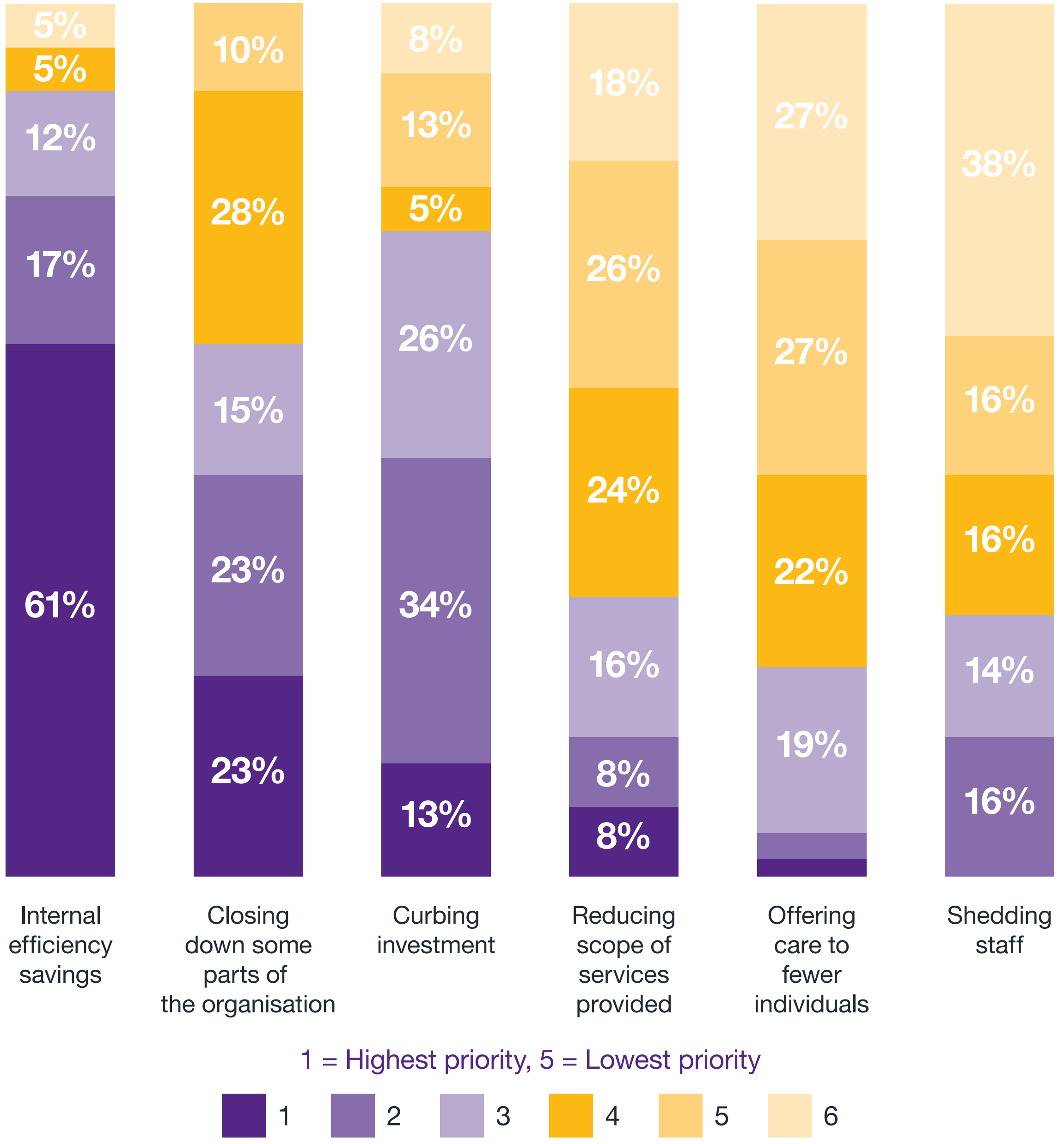
Figure 6 (see page 11) shows that 92% of survey respondents are taking measures internally to alleviate cost pressures, up from 75% in the 2017 survey. Meanwhile, the share of care providers that have begun to rein in their operations has soared from 25% in 2017 to 59% in 2018. This shows that an increasing share of organisations are being forced to either close down certain parts of their operations or hand back certain contracts to local authorities. This speaks volumes for the intensification of cost pressures that UK care providers have seen over the past year.

45% of care providers in the survey said that their organisation has curbed its investments as a result of cost pressures. Falling business investment is one of the key challenges facing the UK economy, with real terms declines registered in each of the first three-quarters of 2018.

The share of survey respondents that shed staff to deal with cost pressures fell to 35% in 2018, down from 39% in 2017. Among these, 59% have made less than 5% of their staff redundant, while 29% made 5% – 10% of their staff redundant.

Despite the number of providers handing back contracts, maintaining the provision of remaining services appears to be the priority for care providers in the survey, with just 8% offering care to fewer individuals and 35% reducing the scope of their services. Among those offering care to fewer individuals, three-quarters have reduced the number of people they provide care to by less than 5%.

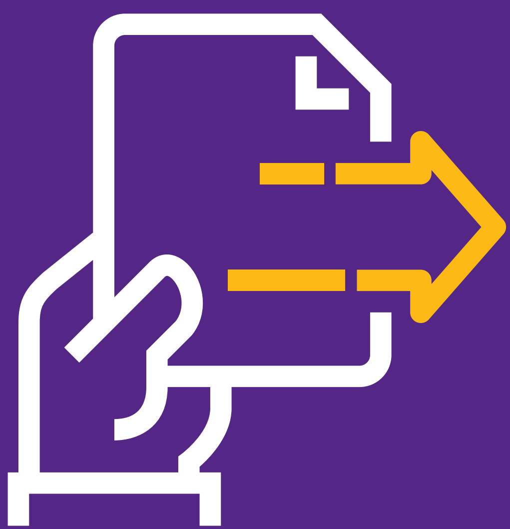
Figure 7: **Please rank the order in which you implemented, or will implement, the aforementioned cost-cutting measures if necessary?**



Source: Hft survey, Cebr analysis

When looking at future cost-cutting measures, internal efficiency savings are the top priority for 61% of care providers in the survey. Closing down some parts of the organisation would be / have been the first cost-cutting measure taken by nearly a quarter (23%) of survey respondents.

The majority of care providers in the survey appear to expend all other cost-cutting options before turning to either shedding staff or reining in the coverage of their services. None of the survey respondents indicated that shedding staff has been / will be the first measure they take to address costs, while only 3% said that they would first offer care to fewer individuals – down from 10% in the 2017 survey.

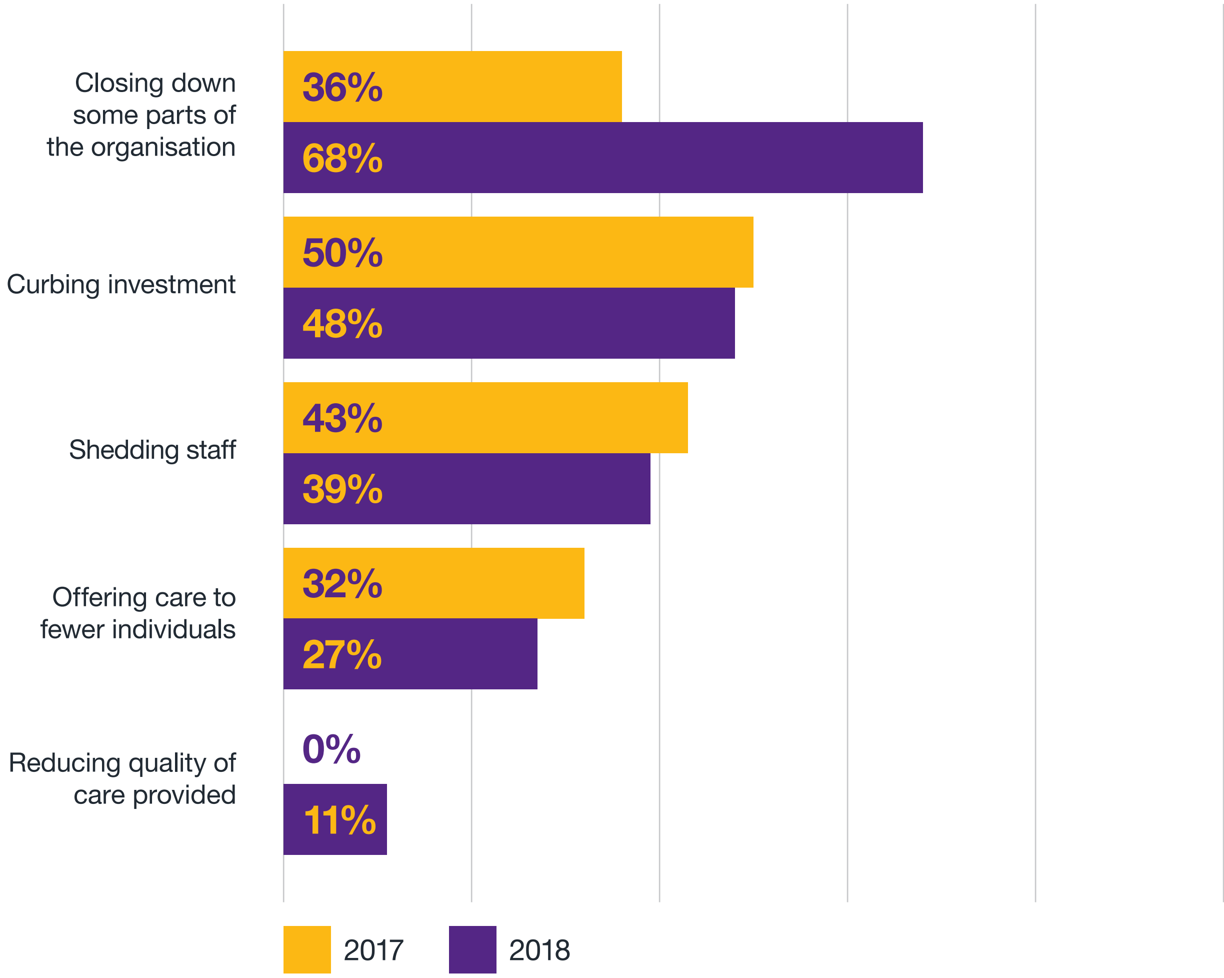


59%

of providers have begun to hand back contracts to local authorities as a way of reducing funding pressures, compared to 25% in 2017.

Looking forward 68% said that they envisage having to hand back contracts “in the near future” if their financial situation does not improve.

Figure 8: **Does your organisation envisage having to take any of the following actions in the near future?**



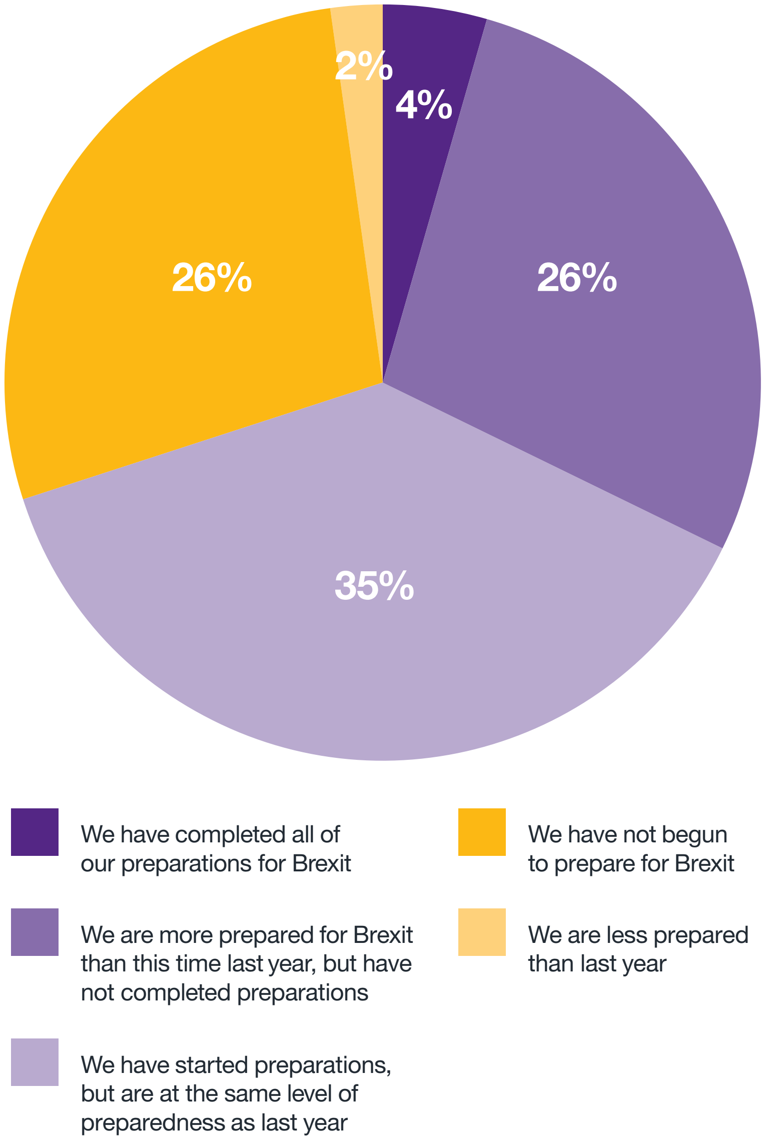
Source: Hft survey, Cebr analysis

68% of care providers in the survey expect that they will have to close down some parts of their organisation in the near future – almost double the share (36%) that reported this in the 2017 survey. Meanwhile, half anticipate that they will have to curb investment – a pattern being observed throughout the economy as Brexit nears.

Furthermore, in the next 12 months more than one in ten (11%) care providers expect to see a reduction in the quality of their care in the near future. This is despite the clear reluctance to do so, as indicated by the results presented in Figure 7. None of the respondents anticipated this in 2017 survey, and this finding suggests that the pressures being faced by organisations in this sector may soon start to be felt by care recipients.

16 Brexit

Figure 9: **Compared to this time last year, how prepared do you believe your organisation is for Brexit?**



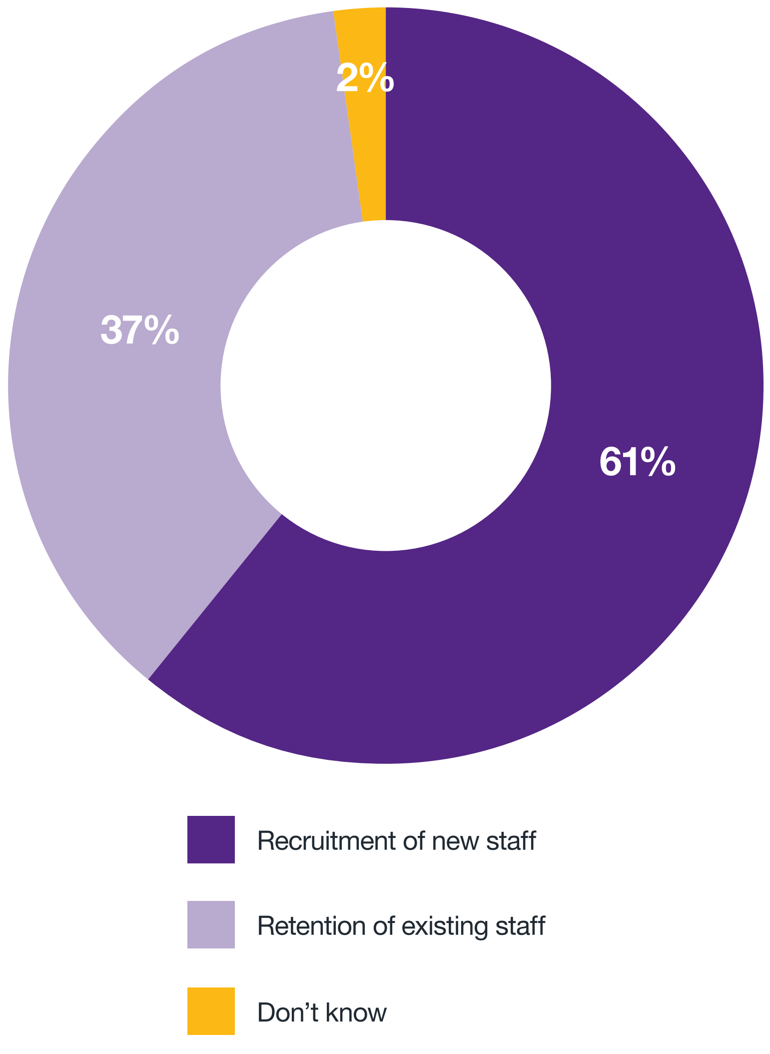
Source: Hft survey, Cebr analysis

In the 2017 Pulse Check survey, 43% of respondents said that they had not yet started looking into the potential impacts that Brexit could have on their organisation's future financial stability. A year on, the share of care providers who have not yet begun to prepare for Brexit stands at just over a quarter (26%), while the same percentage feel that they are more prepared than they were at this time last year. However, just 4% of survey respondents stated that they have completed all of their preparations for Brexit. With the formal date for the UK's withdrawal from the EU less than three months away, the survey confirms that despite a ramping up of preparations over the past year, the social care sector remains exposed to Brexit – particularly one that is highly disruptive.

Workers' pay and recruitment

In July 2018 the Court of Appeal upheld an appeal by Mencap ruling that sleep-ins are not eligible for payment under the National Living Wage. However, Unison is seeking to overturn this decision in the Supreme Court, and 72% of survey respondents are not confident that 2019 will see a decisive end to the ongoing issue of sleep-in pay.

Figure 10: **In your opinion, is the bigger challenge the recruitment of new staff, or the retention of existing staff?**



Source: Hft survey, Cebr analysis

The latest survey results provide further evidence that the sector is experiencing an acute shortage of workers. Indeed, half of respondents stated that their vacancy rate was 5% – 15% of their total workforce. This is compared to a labour market average vacancy rate of 2.8%*. 61% of care providers said that recruitment of new staff was their biggest challenge, compared to 37% that chose the retention of staff. Only 9% of survey respondents indicated that the average length of service of their front-line staff was less than two years, while 54% reported that the average length of service of front-line staff was more than three years.

When asked what they saw as the main factors fuelling the recruitment crisis, low pay stands out as a major factor. 80% of respondents in our survey stated that low pay had the biggest impact on their recruitment efforts. Many care providers (61%) also indicated that a career in social care is not valued the same as a career in the NHS, and that this is contributing to the difficulty in recruiting staff.

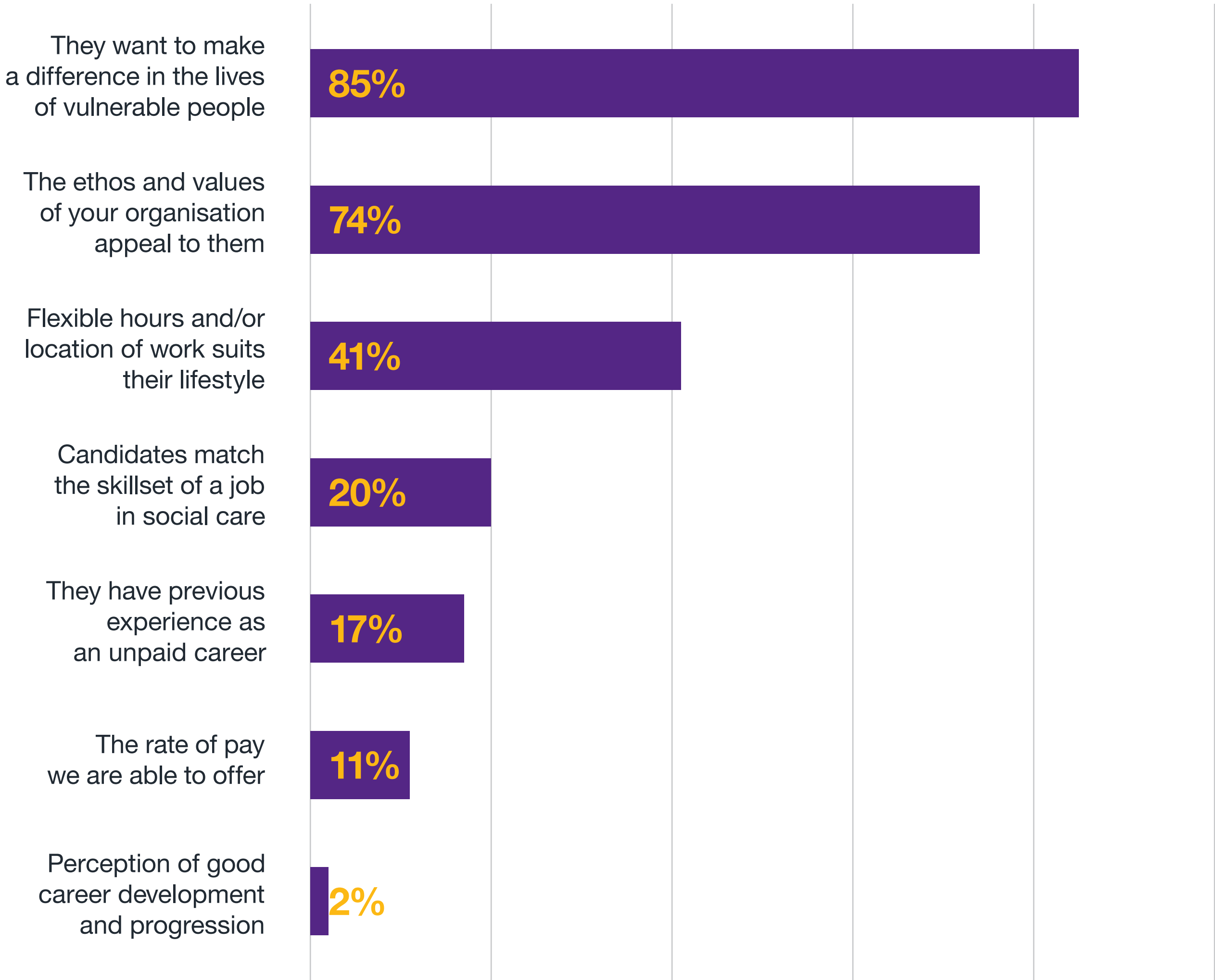
Recruitment remains an ongoing challenge.

80%

of providers cite low wages as the biggest barrier to recruiting and retaining staff.

* https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/vacanciesbyindustryvacs02

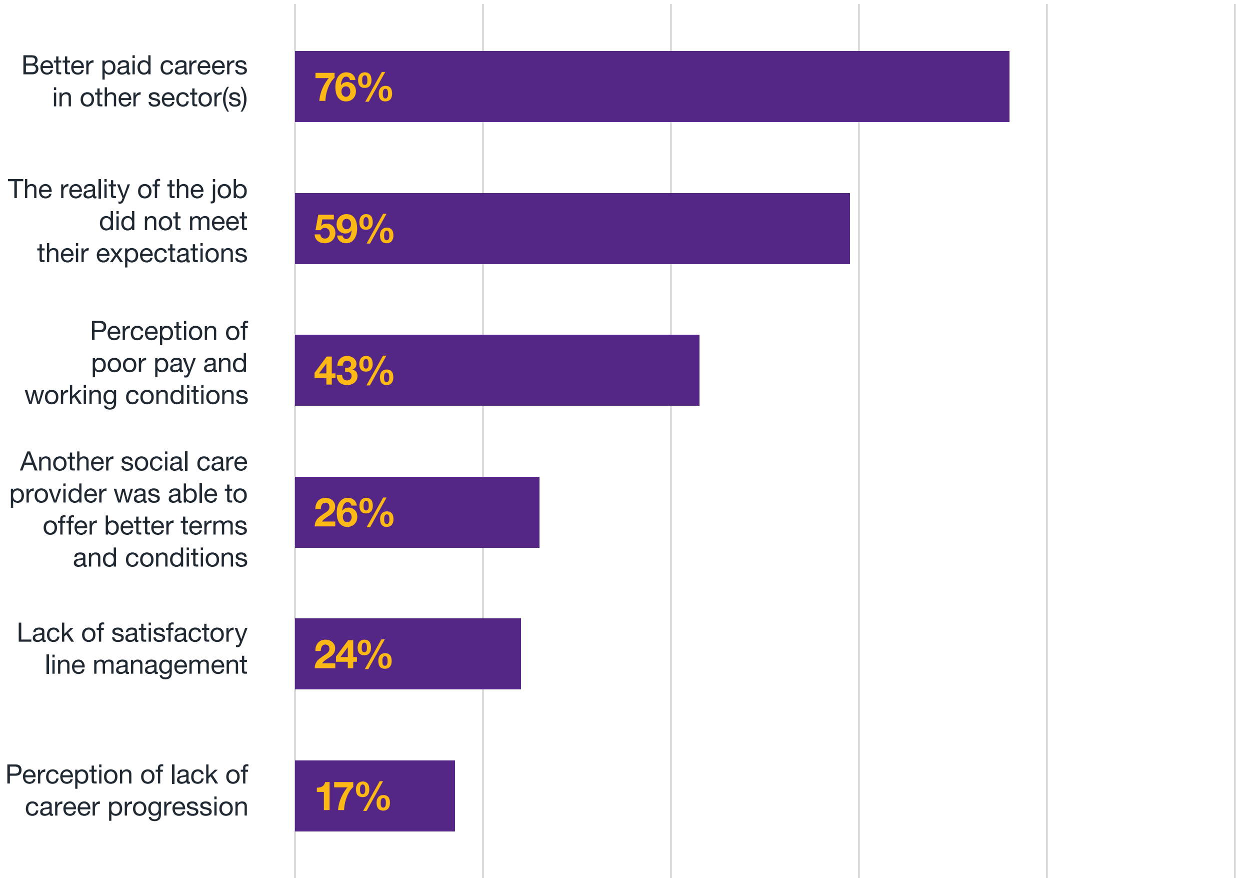
Figure 11: **What are the top three reasons given by employees for joining your organisation?** (Tick all that apply)



Source: Hft survey, Cebr analysis

According to the 2018 survey, the top reason given by employees for joining an organisation in the care sector is a desire to make a difference in the lives of vulnerable people. This highlights that for many, the positive societal impact of work in this field overrides concerns surrounding pay and conditions.

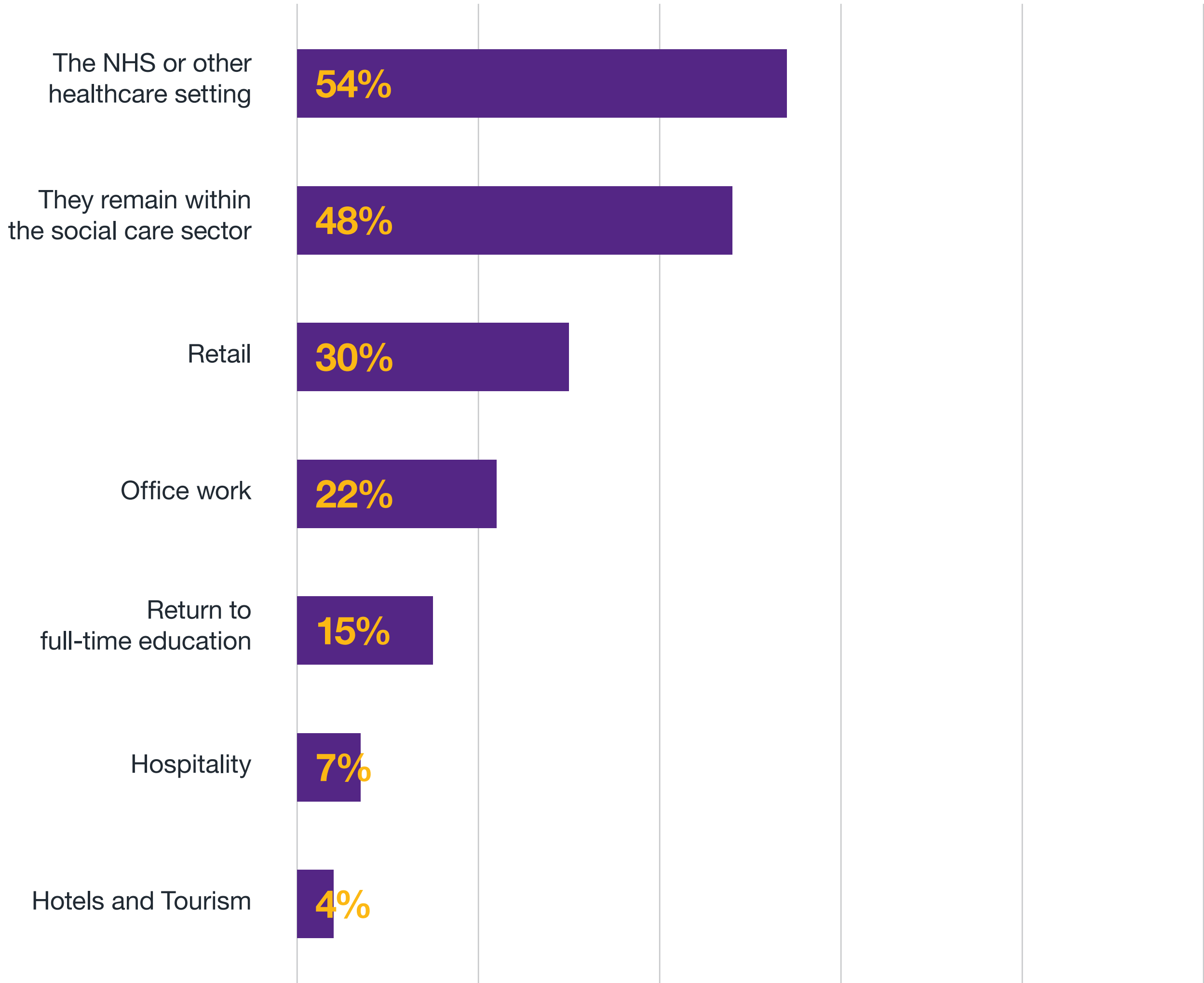
Figure 12: **What are the top three reasons given by employees for leaving your organisation?** (Tick all that apply)



Source: Hft survey, Cebr analysis

With that being said, the top reason listed by employers for staff leaving their organisation was better paid careers in other sectors. Meanwhile, 59% of survey respondents said that the reality of the job not aligning with employees' expectations was one of the top three reasons for staff leaving their organisation.

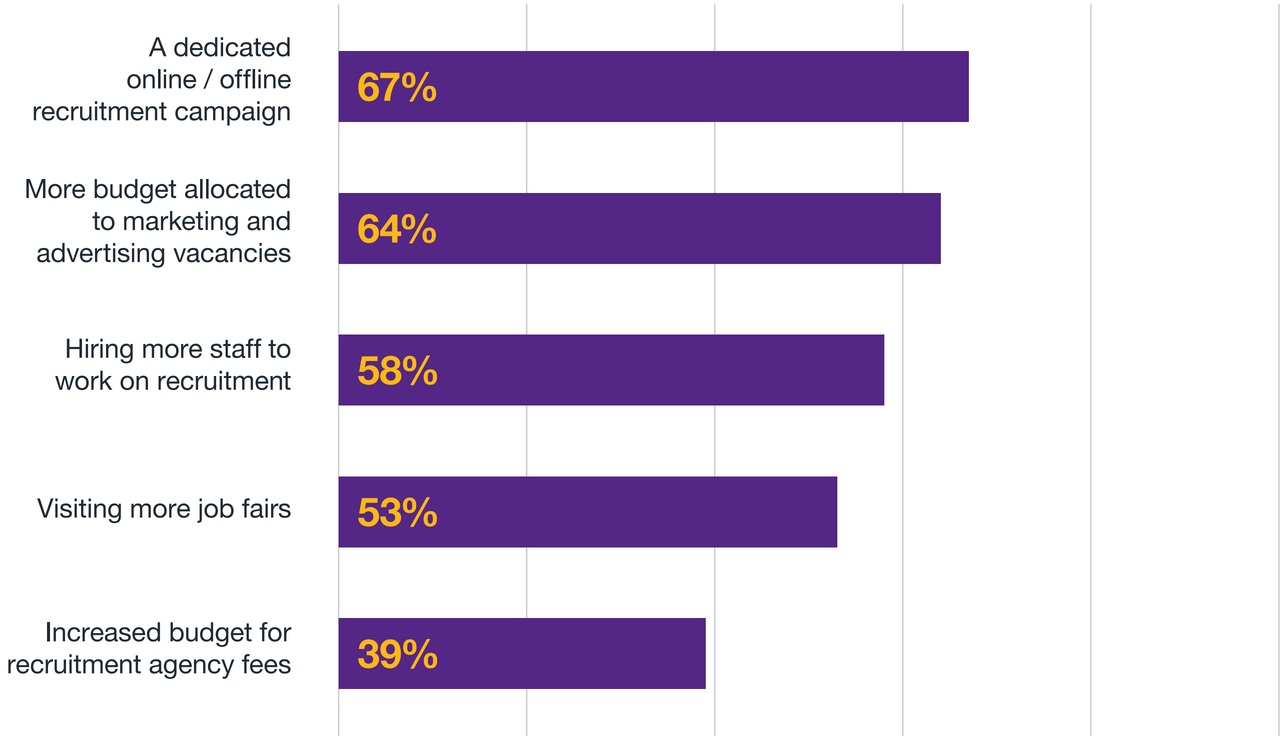
Figure 13: **What sector(s) do you find your staff are most likely to go to after leaving your organisation?** (Tick all that apply)



Source: Hft survey, Cebr analysis

While three-quarters (76%) of survey respondents listed the availability of better paid careers in other sectors as one of the top three reasons for employees leaving their organisation, the most common destinations for departing staff are other organisations within the social care sector, the NHS, or some other healthcare setting. However, 30% and 22% of respondents listed retail and office work respectively as likely destinations for staff leaving their organisation.

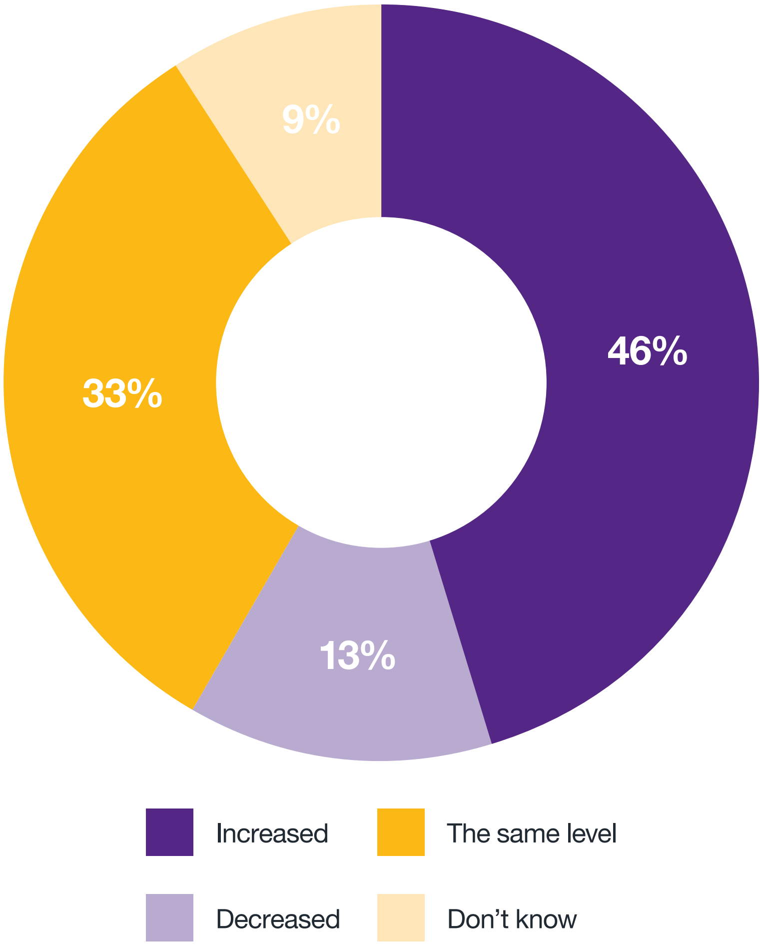
Figure 14: **What additional resources have you allocated to recruitment services?** (Tick all that apply)



Source: Hft survey, Cebr analysis

The recruitment difficulties outlined in this section have led to more resources being allocated to this area. Indeed, more than three-quarters (78%) of respondents said that the amount of resources dedicated to recruitment over the past year. Two-thirds of these (67%) stated that they allocated resources to a dedicated recruitment campaign, while 39% of respondents have increased their budget for recruitment agency fees. This reflects a sector that is proactively channelling resources into recruitment, in order to address the ongoing crisis.

Figure 15: **Has your use of agency staff increased or decreased over the past year?**



Source: Hft survey, Cebr analysis

Nearly half (46%) of care organisations in the survey indicated that their use of agency staff has increased over the past year, compared to just 13% who said that it had decreased. This finding is in line with the dramatic surge in the share of survey respondents listing increased costs for agency workers or sub-contractors as one of their main cost pressures in 2018, as illustrated in Figure 2.

Further issues

In the general comments section of the survey, 39% of respondents expanded on their survey responses. The issue raised most frequently was concerns over government funding, and the pressure this was putting on the delivery of services as well as the retention of staff. These comments are captured below and feed into the results presented earlier in this report, which suggest that the social care sector as a whole is struggling with rising cost pressures as well as challenges retaining and recruiting staff.

Social care is in a precarious position with the funding levels unable to sustain the salary levels required to attract and retain good staff.

"Lack of fee increases making recruitment even more difficult."

"Learning disabilities is one-third of adult social care. The government does not understand the size of the sector and is failing to find a sustainable funding solution to the problem."

"Financial sustainability is a major risk."

"After 10 years of austerity and cost cutting, clients' wellbeing is now at risk and service quality cannot be sustained."

"Brexit is a worry as we find very few UK staff willing to engage."

"There is no financial room to invest in quality or contingency planning."

"We are trying to find other ways of generating income through social enterprise to reduce the cost pressures, but this takes time and investment."

One key challenge is local commissioners are not skilled or inclined to partnership working – this varies over different local authorities.

“As funding is cut by local authority we look more to the independent sector for income.”

The formula doesn’t add up anymore.

“Biggest challenge is keeping wage levels for all other than support workers aligned to rise in National Living Wage each year.”

“The uplift that we receive from councils does not cover increasing costs.”

“There is no clarity on funding so we cannot plan for the future.”

“There has never been a harder time to make things work. We urgently need the government to focus on social care and stop seeing it as an adjunct to the NHS.”

"As an organisation we have always taken pride in the terms and conditions for our staff, this includes the first class training that staff receive to support people to have great lives. Leadership is a component part of running excellent services and it appears that this is not valued by local authorities who are facing funding pressures. I fear that these will now be compromised whilst attempting to balance the books, thus hindering quality."

"Not knowing if local authority contracts can increase to meet Living Wage expectations."

"Local authorities not always engaging with funding discussion and underfunding by over £10,000pa per placement in some areas is a significant issue."

"Placement funding is limited and has not risen in line with inflation, recruitment is low, pay has remained static for most with a recent small increase for some staff depending on role, agency costs are high, we remain in an overspend vicious circle in a not for profit organisation."

I am worried the green paper will be lost to Brexit. The government is so focused on the one issue, that it seems social care is never their top priority!

Conclusions

The 2018 Pulse Check survey points to intensifying cost pressures for the UK's care providers. While care providers are striving to handle this situation through internal efficiency savings, a significant share expect that they will need to continue to curb investment in future services, or have to hand contracts back to local authorities. With a growing number of providers also reporting that they may see a reduction in the quality of care they provide, there are concerns that the pressures being faced by organisations in this sector may soon start to be felt by care recipients. The Court of Appeal's reversal of the ruling on sleep-in pay will alleviate some of these cost concerns, although the majority in the survey feel that this issue will not be settled in 2019.

Recruitment remains an ongoing challenge for the social care sector, as care providers are struggling to meet their employees' wage expectations given increasing funding pressures. Organisations will hope that the government's recent claim that austerity is coming to an end will result in an expansion of support for the social care sector.

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