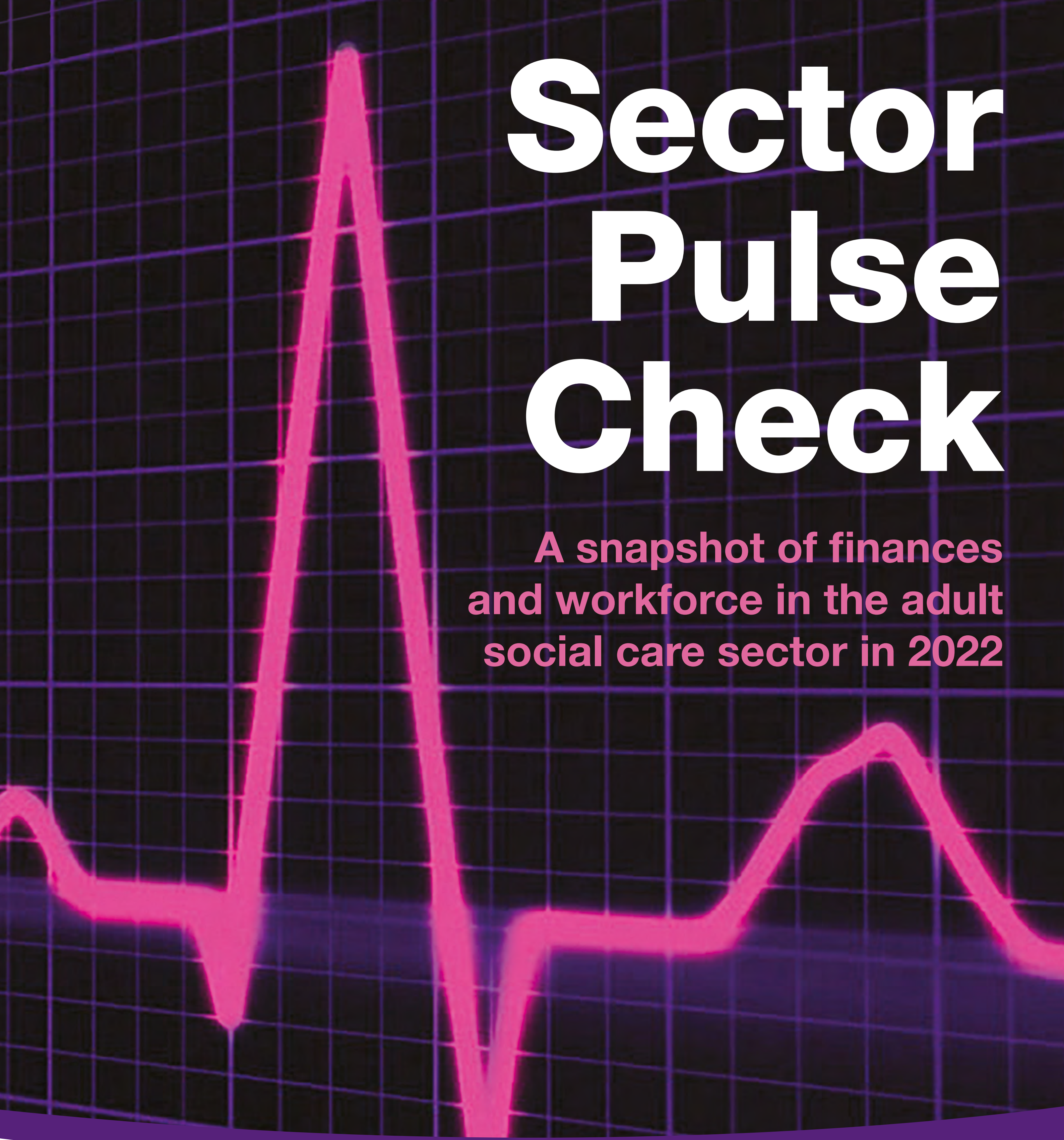

Sector Pulse Check

A snapshot of finances and workforce in the adult social care sector in 2022

#SectorPulseCheck

Hft and Care England
Analysis by CEBR
March 2023

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Contents

Foreword

The 2022 edition of the Sector Pulse Check marks the first time Hft and Care England have worked in partnership to produce the report, providing a representative view of finances and workforce across the entire adult social care sector. We want to extend our thanks to everyone who took part in the survey, contributing to the invaluable data which supports our calls for change.

In many respects, 2022 was a year in which we could breathe a sigh of relief. While the Covid-19 pandemic and its uniquely damaging impact on our sector has continued to loom large in our collective minds, it feels as though we have finally emerged from the confines of the pandemic, with a reduced, albeit closely monitored, infection control regime and a normalised vaccination routine. This is giving individuals receiving care greater freedoms to spend time with friends and family, go to work and do things they enjoy.

Yet the winding down of one turbulent period was swiftly met by another; a cost of living crisis, characterised by spiralling inflation, catastrophic increases to utility bills and accompanying public sector pay strikes. While adult social care was propelled to the fore during the pandemic, it has seemed to fall down the list of priorities in 2022. Political and financial efforts have been focused on tackling these national challenges, with very limited acknowledgement of the value of adult social care either intrinsically, or in terms of its central role in supporting the National Health Service and wider economy. Nothing illustrated this more pertinently than the Autumn Budget when it was announced that the Government would be halting long-term reform of the sector.

Our sector, however, is far from immune to the current cost of living crisis, as this research illustrates. Indeed, cost pressures including sky-high utility bills - rising by as much as 500% for some providers – and increasing, unfunded workforce pay mean that 82% of providers across the sector were in deficit or saw their surplus decrease in 2022.

Ultimately, the impact of this is being felt most acutely by those who draw on care and support, with providers forced to hand back contracts and offer care to fewer people in response to cost pressures. With a third of adult social care providers having considered exiting the market in the past 12 months, including nearly half of smaller providers, this year's research depicts a sector that is reaching the end of the line.

> **This is genuinely the most perilous period in the organisation's 50-year history. Our ability to provide residential care and supported living is seriously compromised.**
> *Learning Disability Care Provider*

> **The sector is now actually collapsing. It's no longer a future threat, we are failing our vulnerable.**
> *Older Persons' Care Provider*

Compounding financial challenges across our sector are those presented by the workforce. With average vacancy rates sitting at 21%, providers are increasingly being forced to rely on expensive and less reliable agency staff. The impact of high vacancy rates is not only financial, but human, with providers closing services and turning away admissions because of staff shortages, contrary to the desire to discharge people from hospital care. It is with frustration that our research illustrates that providers identify low pay as the key driver of this scenario, one which has only intensified with an increased cost of living, but cannot be solved without corresponding funding.

> **This is the worst I have seen recruitment and retention within our sector in 30 years. There is a real desperation to find people who share our values who can afford to work in social care at the rates we pay.**
> *Domiciliary Care Provider*

> **Our staff do an amazing job that is not recognised by the rates of pay on offer or the value placed on their role by wider society. We do not see any evidence that the pressure of numbers of staff will change in the next 12-18 months.**
> *Learning Disability Care Provider*

The adult social care sector is one which prides itself on empowering people so they can live a life they choose with dignity and independence. The system is brimming with talent and ambition yet, despite its invaluable role, our research depicts a sector that is struggling to survive. We hope that by working together to present this research alongside providers, adult social care will climb the political agenda and we can work towards a sustainable future where it is thriving, not just surviving.

Kirsty Matthews
CEO, Hft

and

Professor Martin Green OBE
Chief Executive, Care England

Executive Summary

Hft and Care England have partnered to deliver the 2022 Sector Pulse Check. This annual report provides a snapshot of the financial health of the adult social care sector and also examines workforce challenges. The findings reflect a national survey completed by a representative group of adult social care providers and illustrate the most pertinent issues facing the sector as described by those who live it on a daily basis and understand it best.

Financial position of the adult social care sector

The adult social care sector is on the precipice. In 2022, 82% of adult social care providers were either in deficit or experienced a decrease in their surplus. Of those who reported a decline in their surplus, almost half (45%) reported that it would turn into a deficit within two years.

The most significant cost pressure was workforce pay, highlighted by nearly all providers (92%) with annual increases to the National Living Wage cited as the most significant workforce-related cost pressure.

The cost of utilities is becoming an increasingly demanding cost pressure. Nearly two thirds of providers (60%) said that **rising utility costs** were a significant cost pressure in 2022.

81% of providers report that Local Authority fee increases did not cover the increasing cost of workforce pay in 2022.

Utility costs increased by as much as **500%** for some providers.

Concerningly, as a result of cost pressures, adult social care providers took the following actions:

1/3 considered exiting the market in 2022.

Among smaller providers (fewer than 250 employees), nearly half considered taking this action.

EXIT

42% had to close down
a part of their organisation or hand back contracts to Local Authorities.

Nearly 1/4 stated that they offered care to fewer individuals as a cost-saving measure.

Despite promises to 'fix social care once and for all', the sector has an overwhelming lack of confidence in the Government's plan to alleviate these financial challenges:

74% of care providers said they were not confident that the Fair Cost of Care exercise would improve the financial sustainability of their organisation.

Recommendations:

- Workforce pay is overwhelmingly the most significant cost pressure facing adult social care providers, selected by 92% of survey respondents. Increases in the National Living Wage (NLW) represent a particular challenge, highlighted as the most significant of these workforce-related costs. There is clear evidence that, across the sector, Local Authorities are failing to provide sufficient fee rates to cover workforce pay, with 81% of respondents saying the 2022 uplifts failed to cover the cost of the 2022 NLW rise. **We recommend that, as part of the development of a pay framework to establish a minimum care wage, the accountability for ensuring carers are paid sufficiently must be formally recognised as lying with the Local Authority/Integrated Care System and fee rates should be increased sufficiently to enable adult social care providers to pay carers in line with that minimum care wage.**
- The significance of utility bills as a cost pressure has increased dramatically, with 60% of respondents highlighting this as a key challenge and providers experiencing up to 500% increases in energy costs. The true scale of the impact of energy price increases is yet to be fully understood, with many providers still to face energy contract renewal. Current Government support, delivered through the Energy Bill Relief Scheme, is set to effectively come to an end from 1 April 2023 unless the wholesale price for energy doubles from its January 2023 level. **We recommend that the Government continues to offer enhanced support for energy costs equivalent to that offered through the Energy Bill Relief Scheme and remove the 5% VAT surcharge currently applied to energy bills until energy prices stabilise closer to 2021 levels.**

Workforce challenges

Individuals who work in adult social care play an invaluable part in supporting people to live full and independent lives. This comes with significant responsibilities and, as a role, it encompasses, but is not limited to, personal care, emotional support and financial management, as well as working with the NHS and other agencies to manage physical and mental health needs. Despite being the lifeblood of the sector, the adult social care workforce has been afflicted by a series of diverse and deepening challenges over the past few years. Among the most significant of these challenges are high turnover and vacancy rates.

In 2022: The average turnover rate was 25% | The average vacancy rate was 21%

Ultimately, high turnover and vacancy rates have an impact on the individuals receiving care and support. As a consequence of staff shortages and churn:

69% – **Over two thirds** of providers increased the use of agency staff.

58% – **Over half** had to turn down admissions to services due to staff shortages.

18% – **Nearly one fifth had to close** services altogether due to staff shortages.

Adult social care providers revealed that high turnover and vacancy rates are compounded by a difficulty in recruiting staff, with 42% of providers reporting a decline in the number of applications for care staff in 2022.

It is clear that pay is the key driving force behind this:

90% **of providers said** pay rates were a leading challenge in recruiting staff.

95% **of providers said** increasing staff pay was the measure which would have the most positive impact on recruitment and retention.

Recommendations:

- Despite workforce pay representing the standout cost pressure facing providers, low levels of pay for care staff is considered to be the biggest barrier to recruitment and retention. Increasing rates of pay is deemed to be the number one thing that would have the most impact on improving the workforce situation. **We recommend that the Government develops a pay framework to establish a minimum care wage, above the level of the NLW and tied to NHS band 3.**
- Poor perceptions of a career in social care and the existence of better opportunities elsewhere were recognised by providers as key contributing factors to the current workforce crisis. **We recommend that, as a part of the pay framework, the Government aligns benefits, terms and conditions for care staff with those in the NHS, including on pensions, statutory sick pay, holiday entitlements and access to training courses, the cost of which should be reflected in the Fair Cost of Care and funded by the Local Authority.**
- The poor perception of a career in social care is compounded in England by the lack of a professional register for care workers, something that is in place in every other UK nation. **We recommend that, following reforms to pay, benefits, terms and conditions, the Government establishes a professional register for care workers in England. This will not only raise the status of working in social care, but will also provide a framework for recognising an individual's experience and training, enabling care workers to be part of a formally recognised group.**
- The use of agency staff is widespread within the adult social care sector. While the use of agency is by no means a suitable replacement for permanent staff, it is an unfortunate necessity due to high vacancy rates and levels of attrition, and represents a significant cost pressure for providers. **We recommend that the Government introduces an exemption on VAT costs for agency care staff, as is currently in place for agency staff in the NHS, which would save the sector an estimated £300m per annum.**
- International recruitment, highlighted as the most successful recruitment channel by 15% of surveyed providers, has been the subject of much political attention in recent months. Despite this, there are a series of barriers limiting the viability of international recruitment as a recruitment method, particularly for smaller organisations. **We recommend that the Government streamlines the international recruitment process, including addressing duplication between and better aligning of the certificate of sponsor and sponsorship licence processes and waiving the immigration surcharge for care providers.**

Financial Position and Cost Pressures

Debates around adult social care funding have been rumbling on for over a decade, with numerous commissions, Green Papers and White Papers setting out a range of proposed solutions to move towards a sustainable future for the sector. In spite of these efforts, the Sector Pulse Check reveals that adult social care is in a financial crisis that seems set to worsen without Government intervention, with care providers forced to take severe action to maintain financial viability and continue to provide care.

Overall Financial Position

In 2022

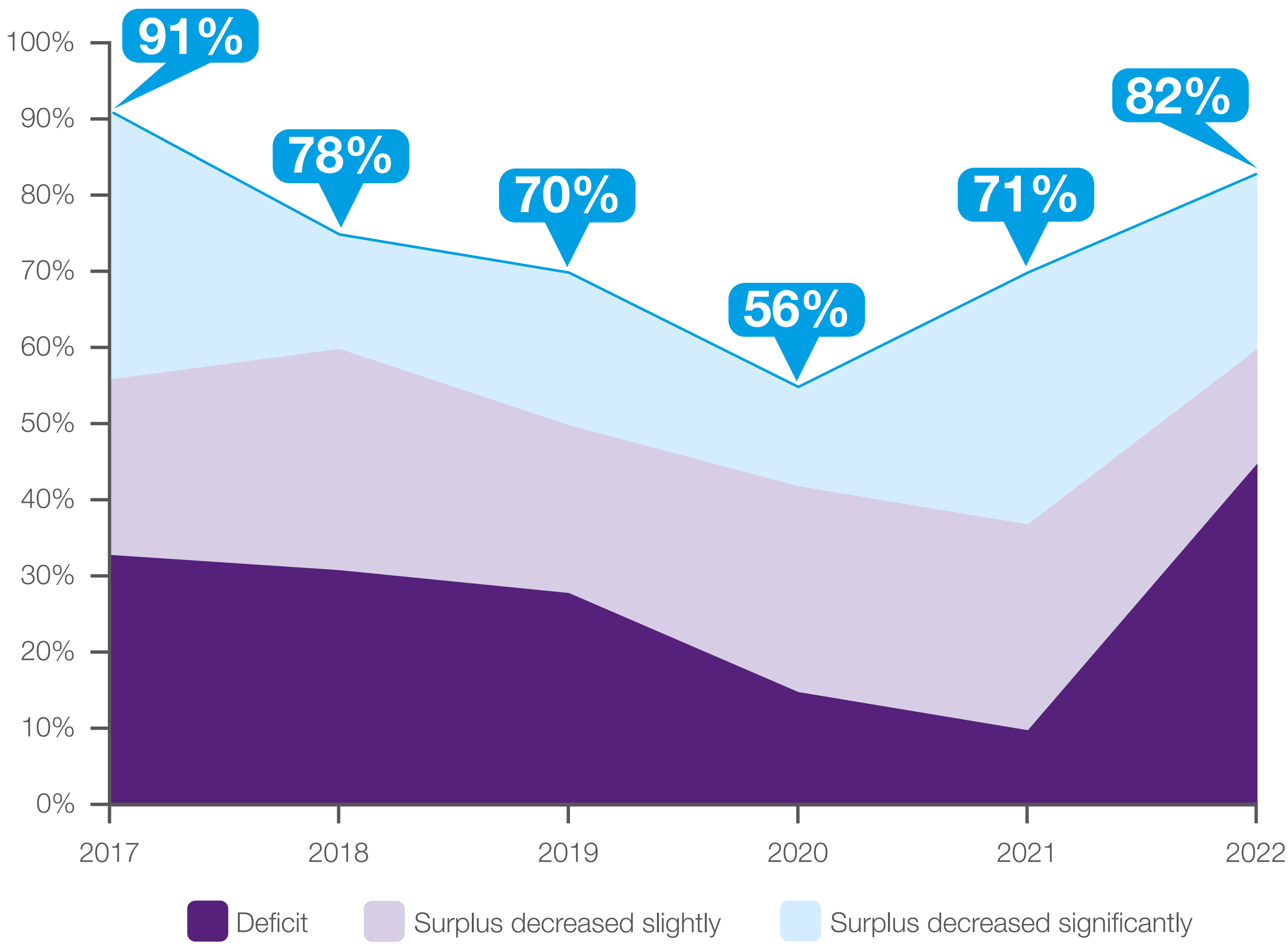
82% of adult social care providers were either in deficit or experienced a decrease in their surplus.

This was reported by 84% of learning disability providers and 76% of providers of services for older persons.

As reported in previous years, Figure 1 illustrates the continued financial uncertainty faced by care providers with the majority - 82% - stating they were either in deficit, or that their surplus had decreased in 2022.

Figure 1: Total percentage of providers who have reported their surpluses decreasing slightly or significantly, or being in deficit.

Source: Hft and Care England Survey, Cebr analysis



(Nb. dates before 2022 relate only to learning disability providers)

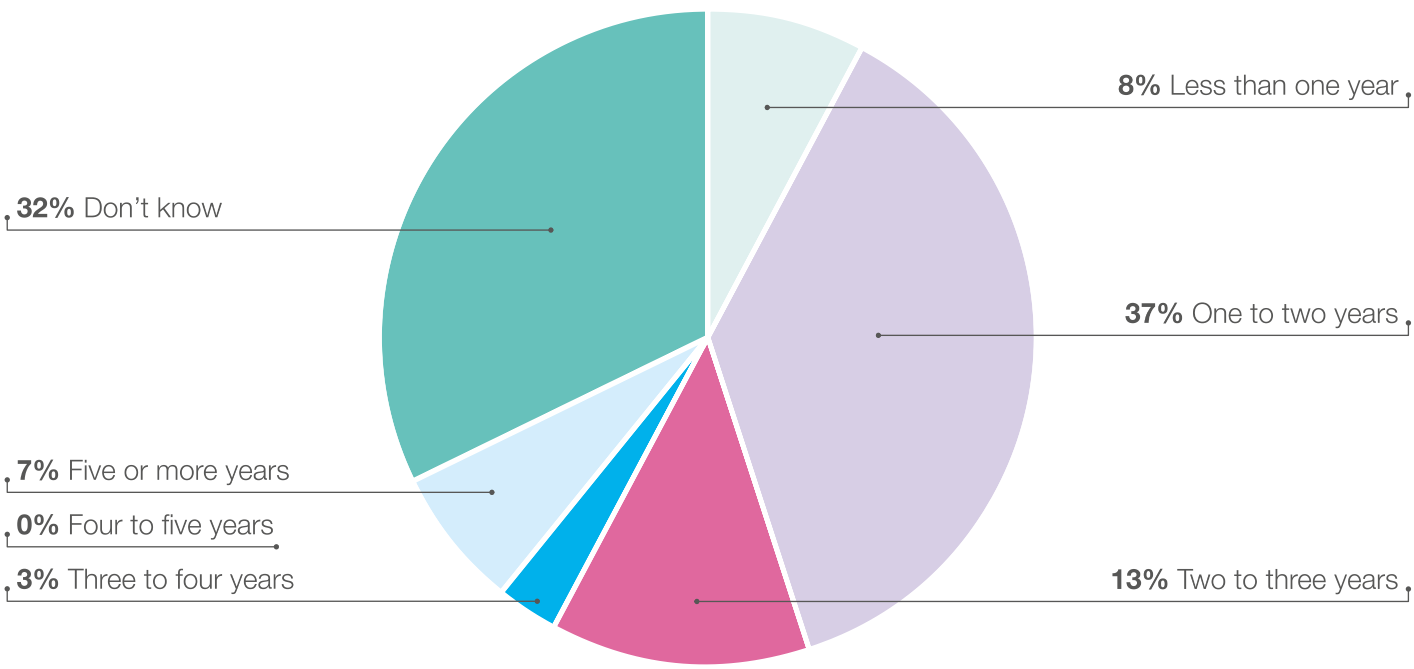
Of these providers, there has been a significant increase in the proportion reporting a deficit in 2022, revealing a sudden intensification of market instability. Only 9% of learning disability providers reported being in deficit in 2021, compared to 43% in 2022, which is also the average across the entire adult social care sector.

This reflects findings from 2021 which highlighted that almost half (46%) of learning disability care providers who were experiencing a decrease in their surplus believed they would be in deficit within one to two years.

It is possible that the proportion of providers in deficit across the adult social care sector will increase even further without Government intervention and an improving socio-economic landscape, as 45% of providers who reported a decrease in their surplus in 2022 expected to be operating at a deficit within two years, as outlined in Figure 2.

Figure 2: Expected number of years before beginning to run at a deficit for organisations experiencing a decline in their surplus.

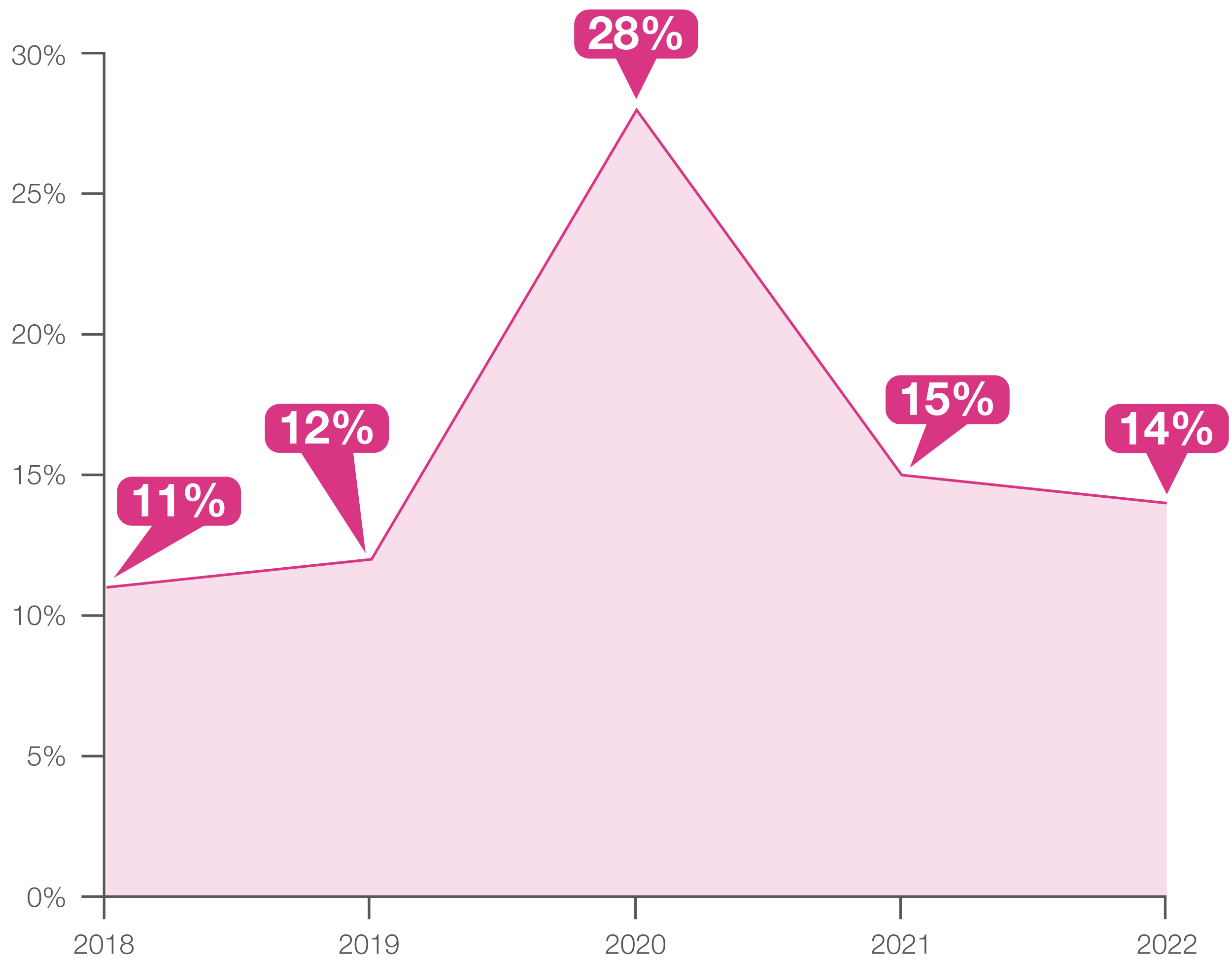
Source: Hft and Care England Survey, Cebr analysis



In terms of the number of providers experiencing an increase in their surplus, 2022 was broadly in line with the longer-term trend for the sector, as outlined in Figure 3. In 2018 and 2019, 11% and 12% of learning disability providers saw an increase in their surplus, respectively, before that figure surprisingly rose to 28% in 2020. In 2021, the proportion of providers reporting an increase in surplus fell to 16%, more in line with pre-pandemic figures, before dropping further still in 2022 to 14% across the whole adult social care sector.

Figure 3: Total percentage of providers who have reported their surpluses increasing slightly or significantly.

Source: Hft and Care England Survey, Cebr analysis



(Nb. dates before 2022 relate only to learning disability providers)

Key Cost Pressures

Providers were asked about the most challenging commercial cost pressures facing their organisation in 2022, outlined in Figure 4.

Workforce pay is the key cost pressure facing providers highlighted year on year.

Utility bills were the second most cited cost pressure in 2022, revealing the impact of spiralling energy costs over the past 12 months.

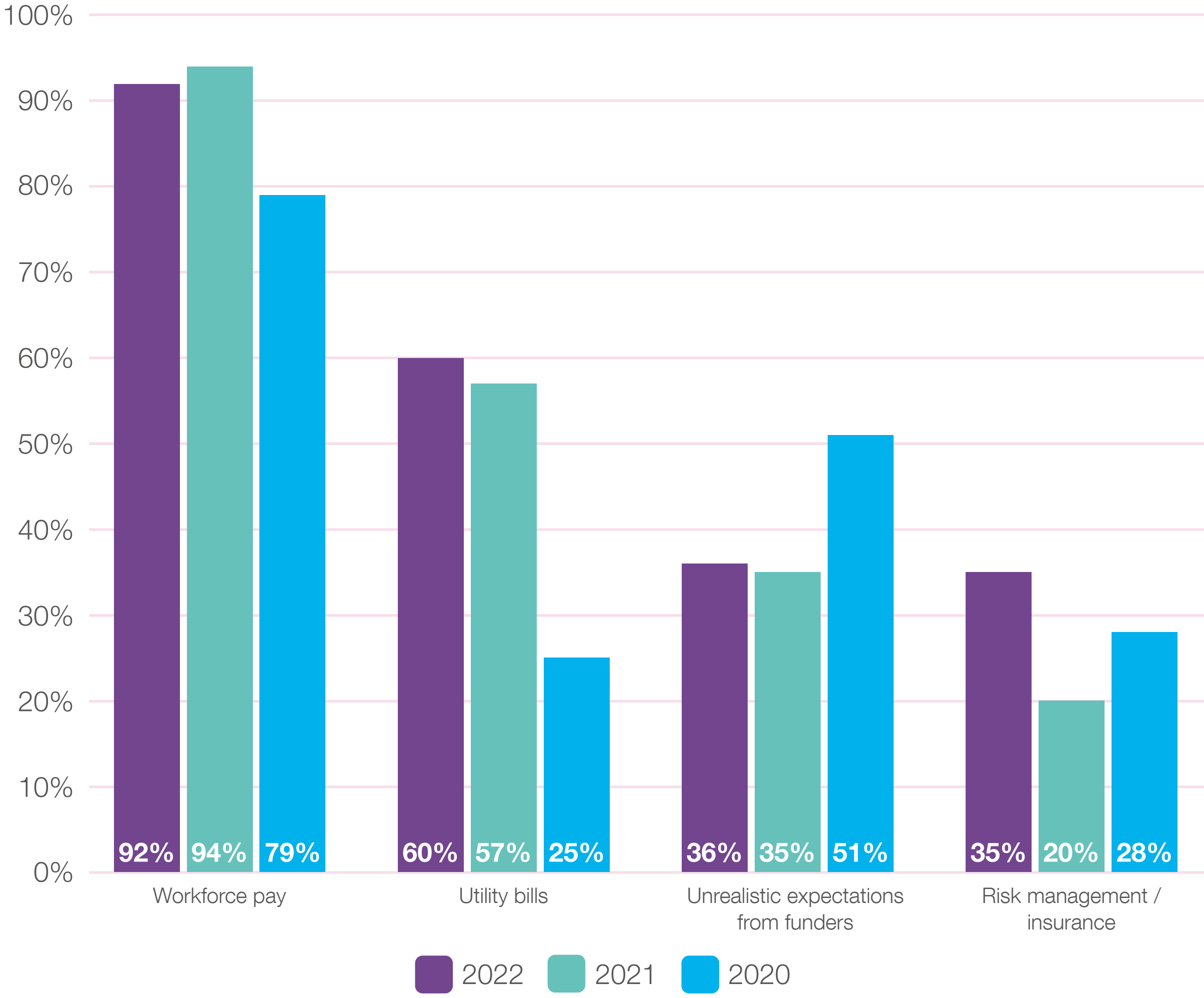
Consistent with trends over preceding years, the most significant cost pressure facing providers was workforce pay in 2022, with nearly all providers of services for older persons (98%) and 93% of learning disability care providers highlighting this as a key cost pressure.

Utility bills saw the second largest share, cited by 60% of respondents across the adult social care sector as one of the most challenging cost pressures for their organisation. Due to consistent increases to the energy price cap, compounded by the Russian invasion of Ukraine in early 2022 and subsequent disruption to global energy supply chains, the significance of utility bills as a cost pressure has increased dramatically over the past three years. This is discussed in further detail on page 18.

Other headline findings show over a third of adult social care providers (36%) felt that unrealistic expectations from funders, in the form of unfunded service elements, were adding pressure to budgets, a position broadly in line with findings from 2021, while the cost of risk management and insurance was cited by 35%, a significant increase from that report.

Figure 4: Main cost pressures facing care providers.

Source: Hft and Care England Survey, Cebr analysis



(Nb. only Learning Disability providers for years 2020 and 2021)

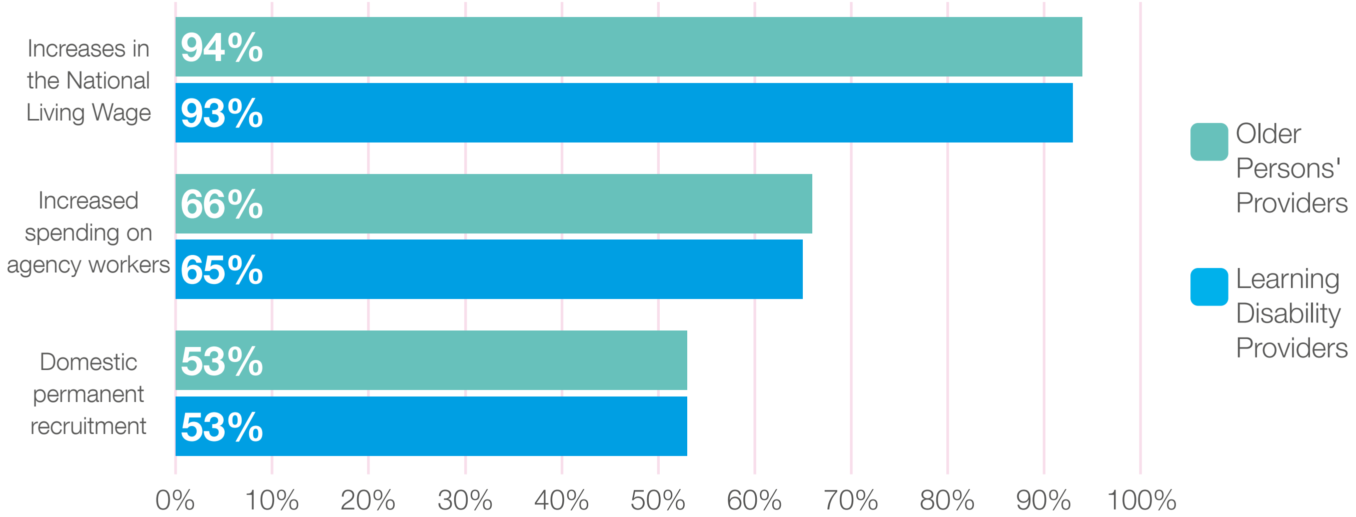
Workforce Pay

When asked about the most challenging workforce-related costs, increases in the National Living Wage (NLW) was overwhelmingly the most significant – selected by 93% and 94% of learning disability and older persons' providers, respectively. This was followed by increased spending on agency workers, at 65% and 66%, respectively, and domestic recruitment at 53% overall, as outlined in Figure 5.

Increases to the National Living Wage

was the most challenging workforce-related cost pressure in 2022 across the adult social care sector.

Figure 5: Most challenging workforce-related cost pressures impacting care providers in 2022.
Source: Hft and Care England Survey, Cebr analysis



The NLW increased by 6.6% in April 2022, rising from £8.91 to £9.50. In theory, annual Local Authority fee increases are in place to cover these rising workforce, and other, costs. Concerningly, however, 81% of respondents in the 2022 survey reported that the April 2022 Local Authority fee increases failed to cover the increased costs associated with the 2022 NLW rise.

The adult social care sector's ability to adjust wages is extremely limited by the current underfunding which characterises the sector; care provider fees are fixed with Local Authorities and reviewed annually. Fee reviews with Local Authorities are possible but are based on needs assessments and negotiated hourly pay rates. Indeed, increasingly stretched Local Authority budgets, which have decreased substantially over the past decade[1], limit the scope for fee increases, and often there is considerable debate before any increase is agreed. As our findings imply, in the overwhelming majority of cases the uplifts offered by Local Authorities are not reflective of the costs borne by providers.

81% of providers report that Local Authority fee increases **do not** cover the rising cost of the National Living Wage.

The inability of many Local Authorities to pay the true cost of care has resulted in many providers having to offset low fee rates from Local Authority-funded residents by increasing costs for self-funded residents. Without this 'cross-subsidisation' of fees, many providers would be financially unsustainable. Providers exposed to a higher degree of public funding for residents are less able to cross-subsidise and are more exposed to the insufficiency of Local Authority fee uplifts, although some with charitable status can fundraise.

As such, while increased NLW rates are positive for staff, they serve to add to the raft of cost pressures which Local Authorities are unable to accommodate into their annual uplifts, leaving providers to make up the difference. Moreover, while an increasing proportion of fees is spent on paying the NLW without an adequate uplift, it squeezes the funding left for other elements of care provision, placing quality at risk.

*1: Institute for Government, Neighbourhood services under strain: How a decade of cuts and rising demand for social care affected Local services - **accessible here.***

The average hourly pay rate paid by surveyed providers to care staff, excluding senior carers and nurses, was £10.52 at the time of data collection (December 2022-January 2023).This is higher than the current NLW (£9.50), which may be explained by providers paying other standard rates across the sector, including the Real Living Wage, London Living Wage and, in some cases, bringing forward the NLW pay uplift (due in April) to the end of 2022.

> **The effect of NLW uplifts is not recognised by national or Local Government as a whole, and it is depressing to have to compete with other sectors around this base rate of pay when you know that the job should be valued at so much more.**
> *Learning Disability Care Provider*

This average hourly pay rate is also higher than the upcoming April 2023 NLW of £10.42, yet the need for providers to maintain pay differentials across their workforce will mean the 92p uplift should be applied to all staff – for example carer, senior carer, catering, cleaning and laundry staff – as pay for these roles will often track or be impacted by the NLW. This is all the more necessary given the rising cost of living and to ensure recruitment and retention issues, which will be expanded upon in the next section of this report, are not exacerbated.

Other prominent workforce-related costs include increased spending on sub-contractors and agency workers due to high staff vacancies, cited as the second most challenging workforce cost pressure and selected by 66% and 64% of older persons' and learning disability service providers, respectively. Agency staff are known to cost, on average, around 80% more than permanent employees[2] and so it is unsurprising that agency spend made up around 16% of respondents' total payroll costs over the past 12 months.

Agency staff are also subject to VAT costs – with 600,000 workers across the sector in England, at 16% of total payroll costs, this equates to total VAT paid to Treasury on agency staff at just under £300m per annum[3].

High levels of staff vacancies, discussed in more detail in the workforce section of this report, also necessitate spending on recruitment and was the third most challenging workforce-related cost pressure, highlighted by over half (53%) of older persons' providers and the same proportion of learning disability care providers.

> **Local Authority [un]willingness to offer realistic fee increases is our biggest challenge.**
> *Provider of Care for Older Persons' and People with a Learning Disability*

> **The sector relies on cross-subsidisation.**
> *Older Persons' Care Provider*

*2: Cordis Bright, Learning Disability and Autism Social Care Providers, Financial Impact Assessment, October 2022 - **accessed here.***

3: £300m estimate based on 600,000 care workers across learning disability and older persons' services (Skills for Care, 2022), a £10.52 average care worker wage and 16% of average provider payroll costs being spent on agency.

Utility Costs

Following workforce pay, utility costs were cited as the second most significant cost pressure faced by care providers, highlighted by nearly two thirds (60%) across the sector – 68% and 56% of older persons' and learning disability providers, respectively.

Broader economic headwinds have stoked this pressure over the course of the past year. Energy bills soared dramatically in 2022 due to the economic fallout from the war in Ukraine, and while the Government has provided a discount on wholesale gas and electricity prices through the Energy Bill Relief Scheme, costs remain substantially higher than in previous years and financial support for the sector is set to become more limited from 1 April 2023 unless the wholesale price for energy doubles from its January 2023 level.

While the 60% of respondents selecting utility bills as a key cost pressure is an increase on the 57% reported in 2021, the true impact of rising energy costs is yet to be made fully clear. Care providers typically renew energy contracts every two to three years, meaning an estimated 40-50% of respondents to this survey will not have renewed their energy contracts since the dramatic rise in prices seen in 2022. As those contracts expire, a greater proportion of the sector will face dramatic price increases, a source of deep concern among respondents.

Indeed, some surveyed care providers stated that they had experienced as much as a 500% increase in energy costs over the past 12 months.

> **Our energy bills are currently fixed until the Autumn, but when the fix ends they will rise significantly – the current forecast is that they will quadruple if no Government support is put into place.**
> *Learning Disability Care Provider*

Consequences of Cost Pressures

As a consequence of the severe financial pressures facing providers, our research found that over one-third of providers (35%) have considered exiting the market altogether in the past 12 months. This concerning statistic corroborates similar research at a regional level, with the South East Social Care Alliance, predominantly SME providers, reporting in August 2022 that 45% of adult social care providers in the South East had considered exiting the market in the previous year.[4]

The size of the care provider has a significant impact on how likely they were to have considered exiting the market, reflecting the financial vulnerability of smaller providers in increasingly volatile financial circumstances. Indeed, among small providers (those with fewer than 250 employees), 47% had considered exiting the market over the past year, compared to 23% of medium providers (250 – 999 staff) and 24% of large providers (1000 staff or more). The reduced vulnerability of larger providers is likely due to their enhanced ability to financially restructure their organisations.

Due to cost pressures:

Over 1/3 of providers across the adult social care sector had considered exiting the market in 2022.

Almost 1/2 of smaller providers considered exiting the market in 2022.

Exiting the market is unquestionably the last resort for providers. Given the uniquely challenging nature of working in social care, care organisations are driven by their duty of care to the individuals they support and a desire to provide high-quality services for those in need of care and support. As such, our survey also explored what other measures providers are taking to protect their financial viability and remain operational.

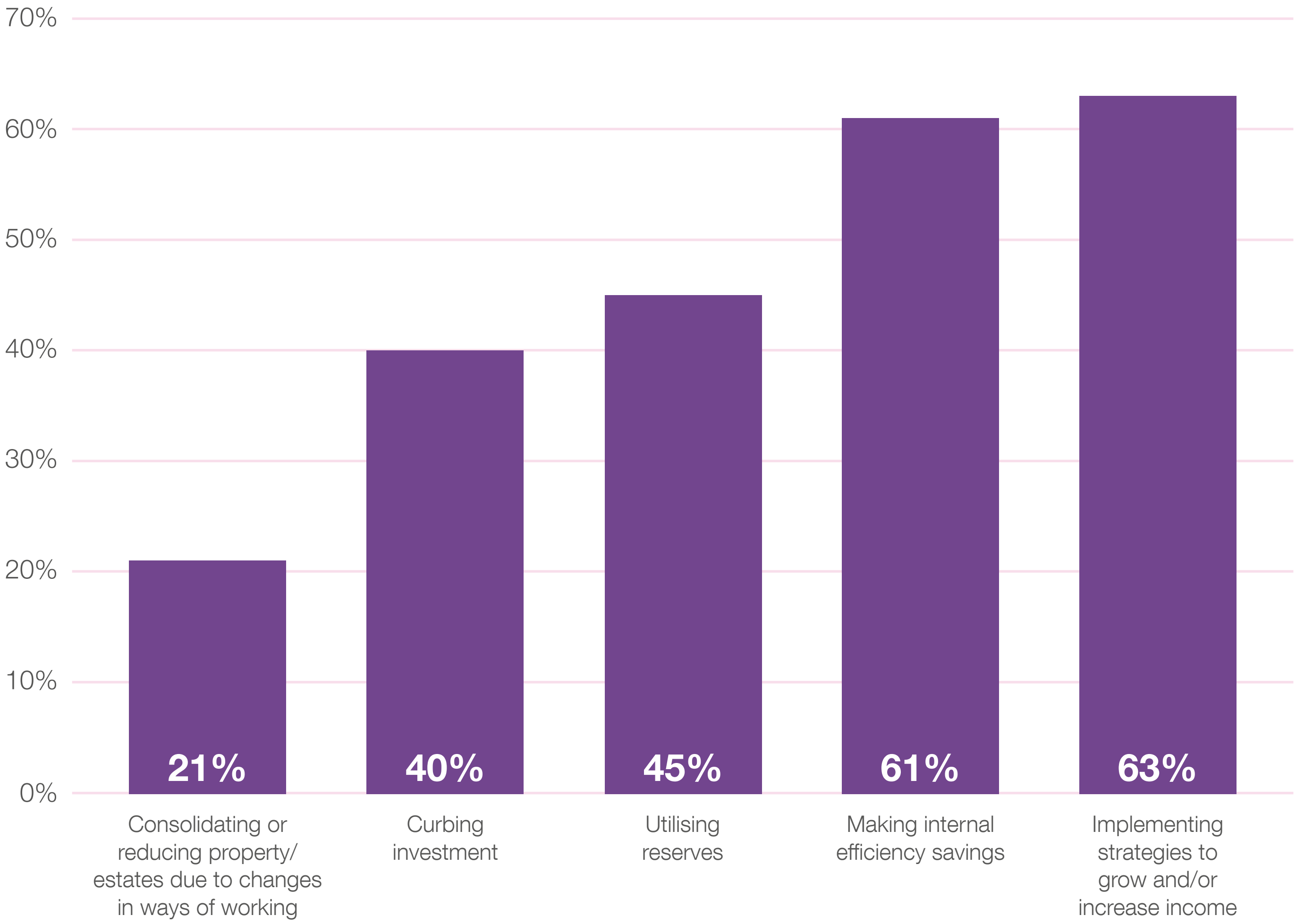
It is clear that providers do not want to take actions which directly impact the people they support and, where possible, will implement cost-saving measures at an organisational level. One of the preferred measures taken by providers was to make internal efficiency savings, with 61% of providers across the sector doing so in 2022, including 68% and 54% of learning disability and older persons' care providers, respectively. This is a smaller share than the 84% in 2021, perhaps illustrating that there are other, more effective options available, but also potentially showing that in many cases the scope to make efficiency savings has already been exhausted. While these measures only have an impact at an organisational level, aside from growing income they all nevertheless contribute to instability and increase the likelihood of failure in future years.

> **Local Authorities are still talking about efficiency savings after 12 years of cuts. There is nothing left - we are a sector on our knees!**
> *Learning Disability Care Provider*

*4: South East Social Care Alliance, Adult Social Care Market Stability Survey: South East region, August 2022 - **accessed here.***

Figure 6: Select measures taken by providers in response to cost pressures.

Source: Hft and Care England Survey, Cebr analysis



Despite the best efforts of providers to absorb cost pressures within their organisations, the scale and severity of challenges faced over consecutive years has meant an inevitable impact on staff and those who draw on care and support.

Figure 7 outlines which cost-saving measures have been taken by providers, with a direct impact on their ability to provide care and on the people they support, including a substantial amount of providers handing back contracts and offering care to fewer individuals.

The likely outcome of this will be a reduction in the number of adult social care providers, decreasing choice, and making it increasingly difficult for Local Authorities to place people requiring support. Undoubtedly, this will also have repercussions beyond the adult social care sector, and is likely to place additional pressure on the NHS. Where the care sector lacks capacity to support an individual, it is likely they will end up in crisis, requiring treatment in a hospital setting.

As a result of cost pressures, in 2022:

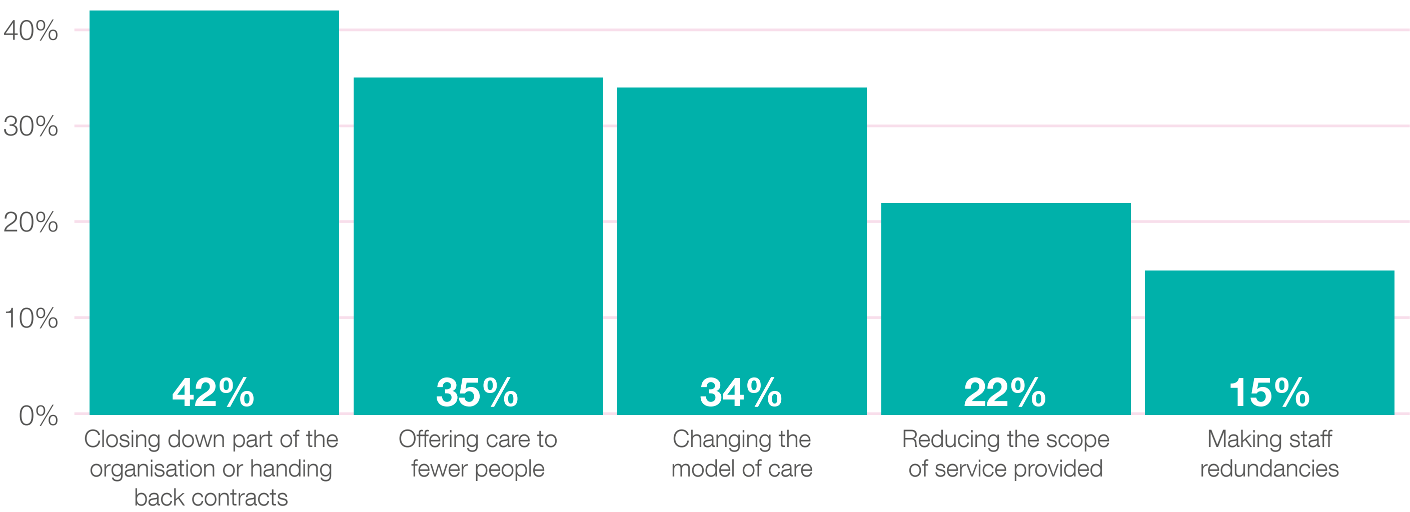
42% of adult social care providers
across the sector had to close down part of their organisation or hand back contracts to Local Authorities.

This action was taken by 47% of learning disability providers and over a third of older persons' care providers (35%).

Nearly a 1/4
of adult social care providers offered care to fewer individuals.

This action was taken by a quarter of learning disability providers (25%) and half of providers of care for older persons (50%).

Figure 7: **Select measures taken by providers in response to cost pressures, with consequences for staff and individuals supported.**
Source: Hft and Care England Survey, Cebr analysis



Concern about the implications of funding challenges on the individuals they support was widespread among care providers.

> **The sector is now actually collapsing. It's no longer a future threat, we are failing our vulnerable.**
> *Older Persons' Care Provider*

> **This is genuinely the most perilous period in the organisation's 50-year history. Our ability to provide residential care and supported living is seriously compromised.**
> *Learning Disability Care Provider*

Government Funding and the Fair Cost of Care

Adult social care has been under significant financial pressure for many years and the 2022 Sector Pulse Check research reveals the extent to which providers are at the end of the road, with a high proportion operating in deficit and many turning to cost-saving methods directly impacting those they support.

While attempts to address challenges in social care have a long history, there appears to be little confidence among adult social care providers in the Government's attempts to 'fix social care once and for all'.[5]

3/4 of providers lack confidence

in the Fair Cost of Care exercise, revealing **a lack of belief** in the Government's actions **to improve social care funding.**

The most recent attempt to 'fix' the sector has come through the parallel policies of the Fair Cost of Care and the implementation of Section 18(3) of the Care Act 2014 in relation to care homes in England.

The delayed Section18(3), when it eventually comes into effect, will mean self-funding care home residents will be able to ask their Local Authority to arrange their care for them at the standard Local Authority fee rate. This will eliminate the aforementioned cross-subsidisation of fees, whereby self-funder rates are inflated to make up for the inadequacy of Local Authority fees. This is unlikely to impact providers of care for adults with a learning disability, where the percentage of self-funders is low.

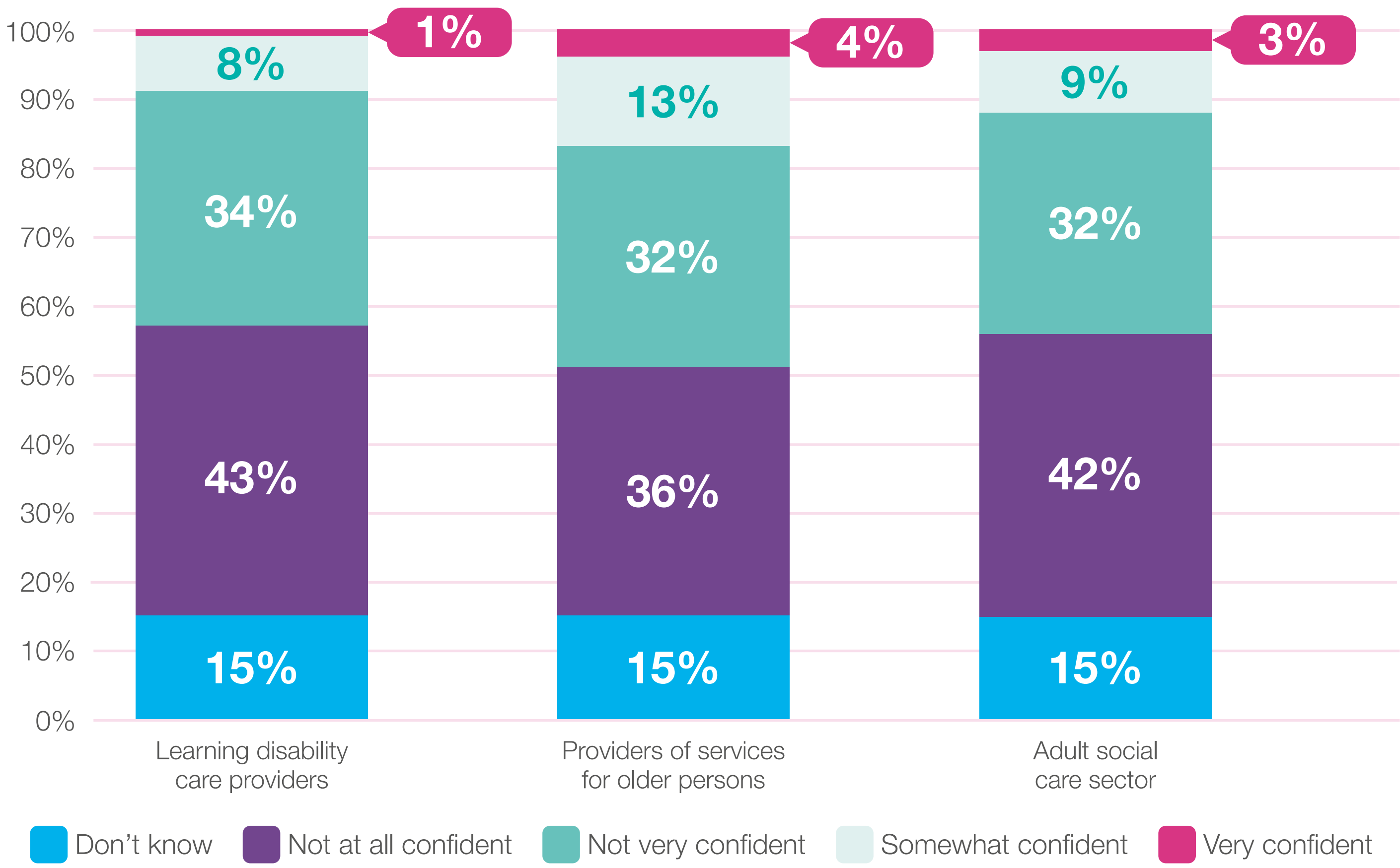
Recognising that Local Authority fee rates are significantly below the actual cost of care, 81% of respondents to this survey said Local Authority fees do not cover increases in the NLW. The Fair Cost of Care exercise is the process by which the Government is establishing the true local cost of care, which Local Authority fee rates are then expected to move towards. The Fair Cost of Care exercise uses data collected from care providers and analysis so that Local Authorities and care providers can arrive at a shared understanding of the local cost of providing care and the fees which should be paid for delivering it.

Our survey found an overwhelming lack of confidence in the Government's reforms, with three-quarters (74%) of providers lacking confidence that the Fair Cost of Care exercise would improve the financial sustainability of their organisation.

5: Gov.uk, Boris Johnson's first speech as Prime Minister: 24 July 2019 - ***accessible here.***

Figure 8: Care providers' confidence in the Fair Cost of Care exercise for Domiciliary Care 18-65 and care homes 65+.

Source: Hft and Care England Survey, Cebr analysis



Considering the inadequacy of current Local Authority fee rates and a lack of confidence in the Fair Cost of Care exercise, the implementation of Section 18(3) of the Care Act, currently delayed until October 2025, is something many providers are extremely apprehensive about. Many services are only able to maintain financial viability at present due to cross-subsidisation, which will either reduce or come to an end with the implementation of Section 18(3) as privately funded residents are able to access the lower, standard Local Authority fee rate. While in theory, this rate will be representative of the cost of care due to the Fair Cost of Care exercise, in practice providers do not believe it will be truly representative and, as a result, many will go out of business.

2023/24 and 2024/25 currently have provision for £162m in each year for Local Authorities to move toward the Fair Cost of Care. However, Care England analysis has identified the current gap between the average fees paid by Local Authorities and the Fair Cost of Care to be £2bn per annum,[6] reinforcing the overwhelming lack of confidence among providers that the exercise will improve the financial sustainability of their organisation.

Concern about the levels of funding being made available by Government extend beyond the Fair Cost of Care exercise and Section 18(3). While the Government put forward welcome proposals for longer-term social care reform in its 2021 White Paper, *People at the heart of care*, this has been

6: Care England, Fair Cost of Care Analysis, 2023 - ***accessed here.***

postponed with funding instead redirected to pay for immediate social care costs, amounting to £2.8bn of funding in 2023/24 and £4.7bn in 2024/25 in cash terms. While this funding is undoubtedly welcome, it is likely that the real-term impact of this will be quickly eroded through the simultaneous growth in cost pressures.

Indeed, in October 2022, the Local Government Authority reported that the funding gap for 2022/23 was £2.4bn, and would rise to £3.4bn for 2023/24 due to inflation and demography changes,[7] yet the Local Authority funding for 2023/24 needs to cover hospital discharges, children's services and needs to support 200,000 new packages of care over the next two years, resulting in a significant deficit set to increase into 2024/25. It is clear therefore, that current funding is insufficient to sustain the status quo, let alone address the pervasive funding pressures faced by the sector.

Recommendations: Financial position and cost pressures

The recommendations below represent realistic, easily implementable policies that can be actioned within the existing funding envelope.

- Workforce pay is overwhelmingly the most significant cost pressure facing adult social care providers, selected by 92% of survey respondents. Increases in the National Living Wage represent a particular challenge, highlighted as the most significant of these workforce-related costs. There is clear evidence that, across the sector, Local Authorities are failing to provide sufficient fee rates to cover workforce pay, with 81% of respondents saying the 2022 uplifts failed to cover the cost of the 2022 NLW rise. **We recommend that, as a part of the development of a pay framework to establish a minimum care wage, the accountability for ensuring carers are paid sufficiently must be formally recognised as lying with the Local Authority/Integrated Care System and fee rates should be increased sufficiently to enable adult social care providers to pay carers in line with that minimum care wage.**
- The significance of utility bills as a cost pressure has increased dramatically, with 60% of respondents highlighting this as a key challenge and providers experiencing up to 500% increases in energy costs. The true scale of the impact of energy price increases is yet to be fully understood, with many providers still to face energy contract renewal. Current Government support, delivered through the Energy Bill Relief Scheme, is set to effectively come to end from 1 April 2023. **We recommend that the Government continues to offer enhanced support for energy costs equivalent to that offered through the Energy Bill Relief Scheme and remove the 5% VAT surcharge currently applied to energy bills until energy prices stabilise closer to 2021 levels.**

*7: Local Government Association, LGA Submission: Government's Medium-Term Fiscal Plan, October 2022 - **accessed here.***

The Adult Social Care Workforce

Despite being the lifeblood of the sector, the adult social care workforce has been afflicted by a series of diverse and deepening challenges over the past few years which are explored in this section.

Staff Turnover

One of the most significant challenges facing the adult social care workforce is high turnover rates, also referred to as attrition.

Our survey found that between April and December 2022, providers saw an average of 25% of their staff leaving their roles. Whilst this is a slightly lower percentage than the 29% turnover rate reported by Skills for Care in 2022,[8] it remains an alarmingly high number and over double the attrition rate recorded in the NHS (11%).[9] This would suggest this is likely due to the loyalty of staff who are unlikely to leave the sector regardless, following the estimated 40,000 staff who left the sector after the implementation of the Vaccination as a Condition of Deployment policy[10], or are invested in the services they provide in their local communities. The reduction in attrition might also suggest that those recruited to the sector are more loyal and have entered the sector knowing the situation they are coming into.

2022 saw an average turnover rate for the sector of 25%

Overwhelmingly, providers stated that pay rates within the sector were the key driving force behind members of their workforce leaving, highlighted by three quarters (75%) of respondents, followed by better job opportunities elsewhere at 67%.

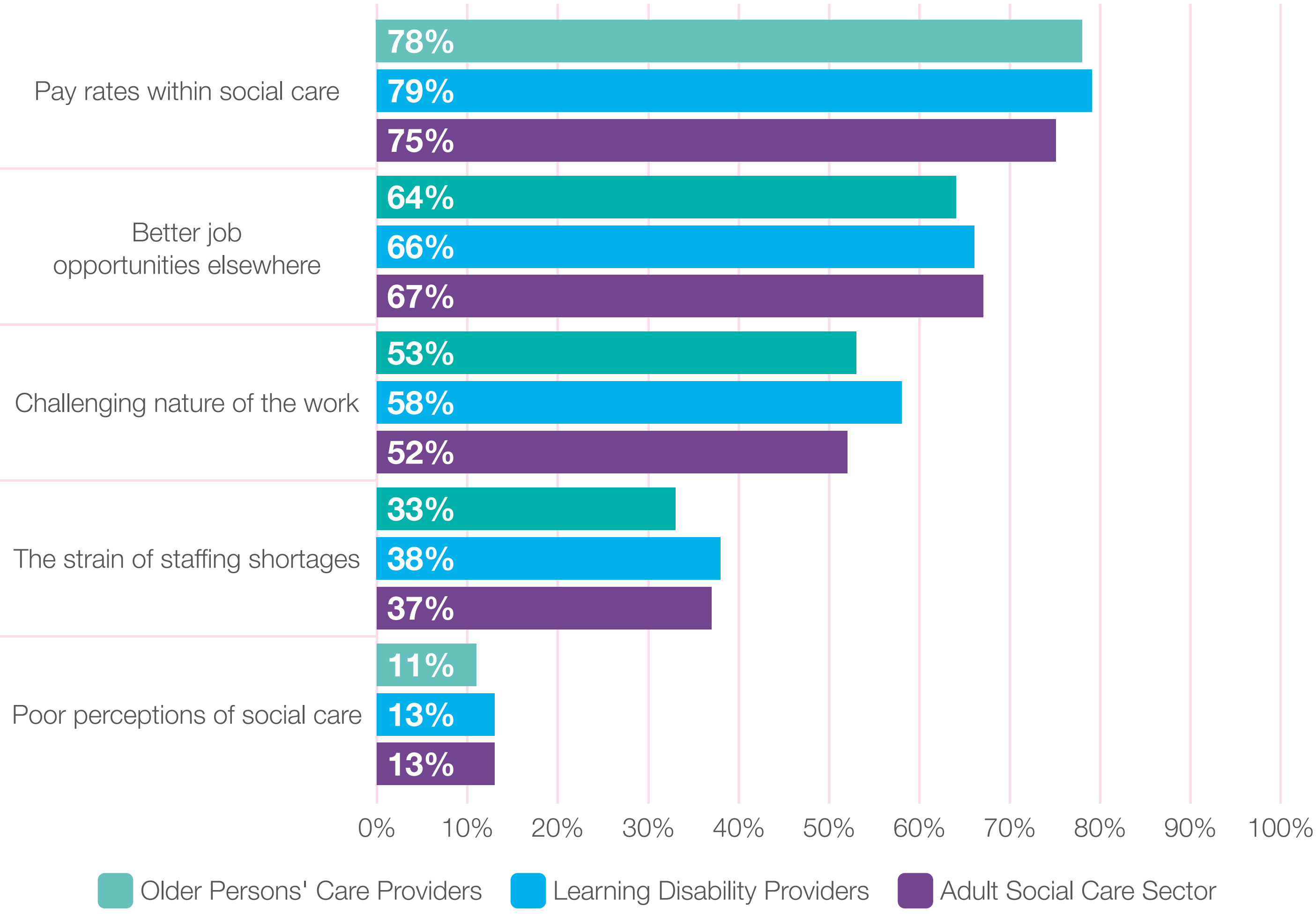
8: Skills for Care, The state of the adult social care workforce in England, 2022 - ***accessed here.***

9: The Nuffield Trust, Annual leaver rates for selected NHS hospital and community health staff groups, 2022 - ***accessed here.***

10: DHSC, Statement of impact – The Health and Social Care Act 2022 (Regulated Activities) (Amendment) (Coronavirus) Regulations 2021 - ***accessed here.***

Figure 9: Reasons for workers leaving respective organisations over the past 12 months based on provider type.

Source: Hft and Care England Survey, Cebr analysis



Despite survey respondents paying an average of £10.52 per hour to care staff, over £1 higher than the NLW, the adult social care workforce remains among the lowest paid in the economy. Amid the rising cost of living, 50% of providers reported having seen an increase in the use of hardship or support grants among their staff over the past 12 months.

Moving into retail or hospitality roles from adult social care is becoming increasingly common, not only due to better wages - the hospitality sector has increased what it is willing to pay both prospective and current employees - but also due to the appeal of less challenging and emotionally draining work, and the absence of pressure from staff shortages. Care sector employees operate in a more restrictive and demanding environment, with a heightened likelihood of staff burnout. The easing of Covid-19 restrictions and subsequent opening up of the hospitality sector has seen this form of competition for staff increase.

While a career in care can undoubtedly be incredibly rewarding, the survey data suggests the challenging nature of work in social care and the strain of staffing shortages are significant reason for staff leaving the sector, selected by 52% and 37% of providers, respectively.

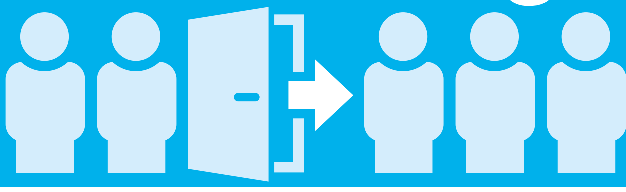
> **It is getting increasingly difficult to have a stable and well-trained workforce. Staff are so busy covering shifts they don't have the time or energy left for training.** *Older Persons' Care Provider*

> **The workforce is exhausted** *Learning Disability Care Provider*

Vacancy Rates and Recruitment

Providers not only face high rates of attrition but, once vacancies exist, it has proven extremely difficult for those roles to be filled, contributing to high vacancy rates across the sector. On average throughout 2022, respondents stated that 21% of roles were vacant.

During 2022 the adult social care sector saw an average vacancy rate of 21%



High vacancy rates within the sector are an enormous problem and a cumulative result of the aforementioned barriers to recruitment and retention, including low pay, the challenging nature of the work and better opportunities elsewhere.

It is worth noting that the vacancy rate reported here is significantly higher to that reported by Skills for Care for the year 2021/22 (10.7%).[11] This may be explained by the changing nature of work in the sector following the pandemic, with reported vacancies increasing due to a higher proportion of roles offering flexible shift patterns and part-time work to attract new entrants to care. Additionally, increases in the NLW will have seen some staff reducing their hours to preserve benefit entitlements.

Concerningly, 42% of providers noted a decline in the number of applications for care staff positions during 2022 – with no significant difference between different types of provider – making it difficult to fill gaps in the workforce and attract new people into the sector. This is the case despite national recruitment campaigns.

42% of providers saw a decline in the number of applications for care staff in 2022

*11: Skills for Care, The state of the adult social care workforce in England, 2022 - **accessed here.***

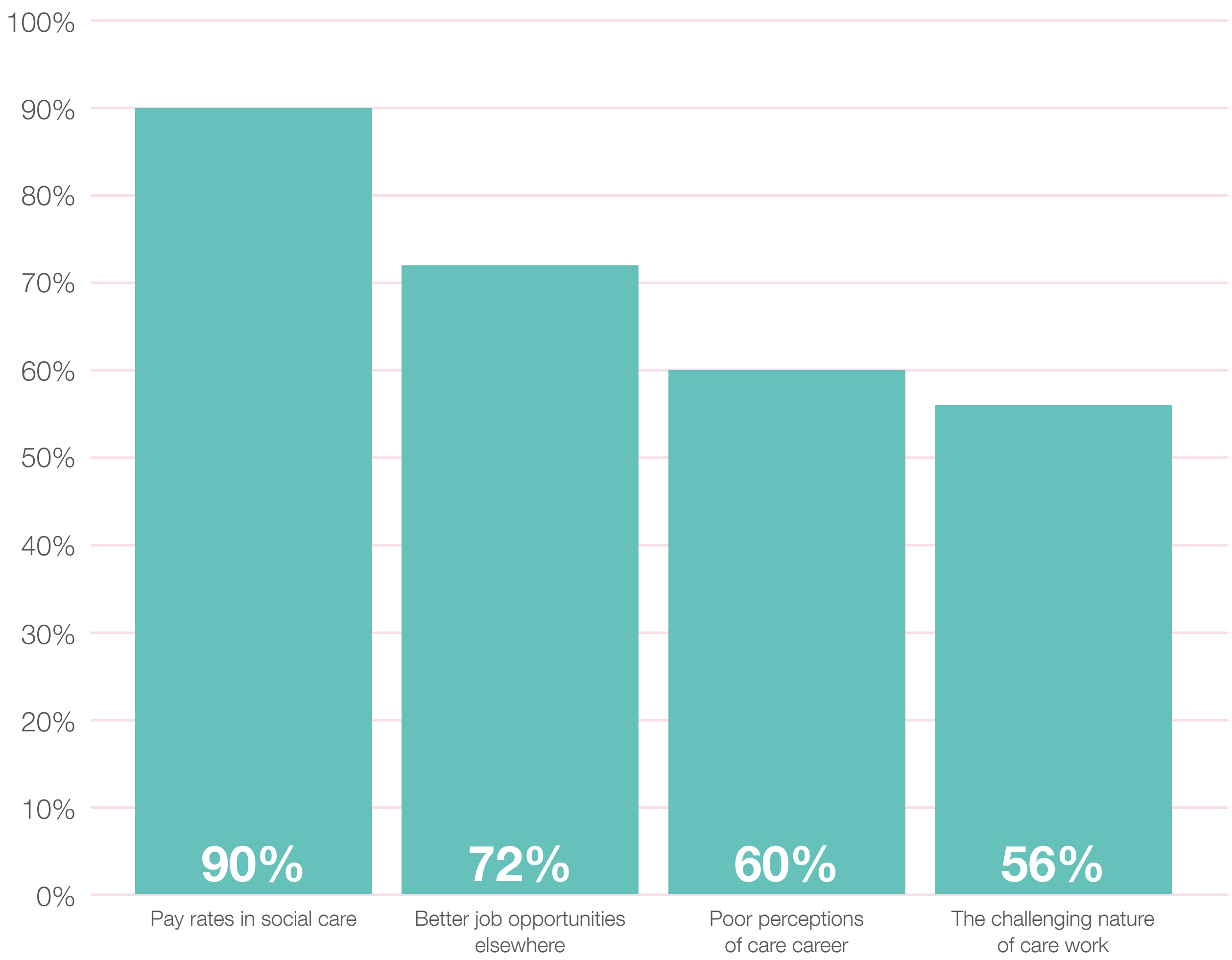
Providers also told us what they consider to be the main challenges in recruiting staff, outlined in Figure 10. Largely, these reflect the reasons why staff are leaving the workforce, with 90% of providers saying pay rates were a leading challenge in recruiting staff and better job opportunities elsewhere being cited by almost three quarters (72%) of respondents.

Providers desperately want to pay their staff more, both in recognition of the invaluable, skilled work they carry out, but also as a means of attracting and retaining staff. However, the sector is limited in its ability to adjust wages and offer competitive pay, as it is beholden to fees paid by Local Authorities which, as our research reveals, are often below the true cost of care due to lack of central government funding and stretched budgets.

Other recruitment challenges cited include the poor perception of a career in care and the challenging nature of the work.

Figure 10: Main challenges facing recruitment in adult social care.

Source: Hft and Care England Survey, Cebr analysis

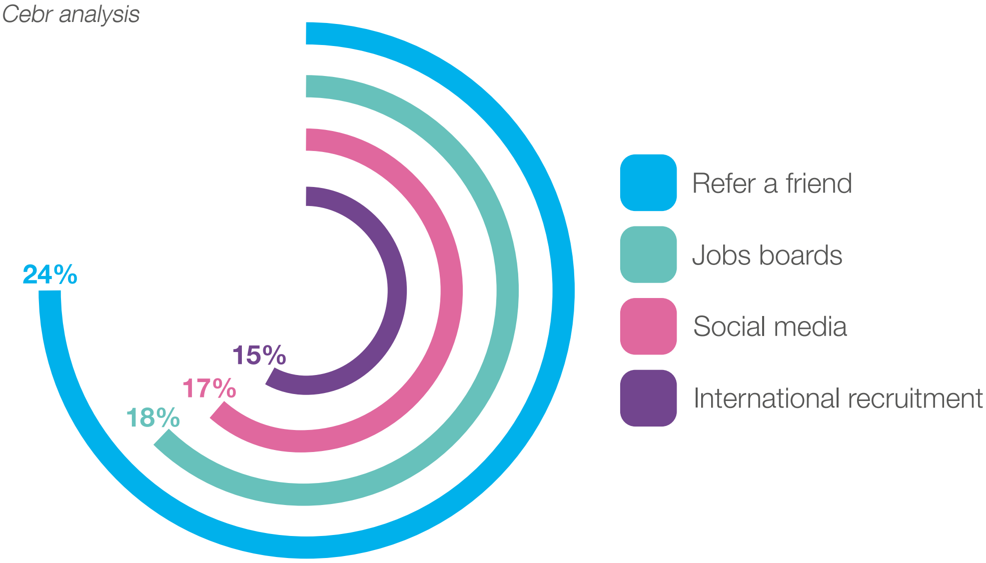


Mitigating Staff Shortages

Providers are acutely aware of the impact of high vacancy rates on the people they support as well as on staff, and seek to fill vacancies through a variety of innovative channels. We asked providers what their most successful recruitment channel was over the past 12 months, outlined below in Figure 11.

Figure 11: Care providers' single most successful recruitment channel during 2022.

Source: Hft and Care England Survey, Cebr analysis



Refer a friend, a method of recruitment whereby existing members of staff refer friends or relatives in exchange for a financial reward in the event of hiring, was the most popular among providers, selected by 24% of survey respondents. The prevalence of this method suggests a shift away from more traditional jobs boards.

International recruitment, selected by 15% of respondents as their most successful recruitment channel, has been the subject of much political attention over recent months. From February 2022, the Shortage Occupation List expanded to include social care worker, care assistant and home care worker roles following the Migration Advisory Committee's recommendations.[12] While this was a welcome policy, there are a raft of issues affecting the ability of providers, particularly smaller organisations, to recruit eligible candidates from overseas.

The primary barrier is pay – the minimum wage the Government set for care workers employed from overseas is £10.10 per hour, 60p higher than the current NLW of £9.50. This often causes a disparity in pay between the existing workforce and those employed from overseas. While the NLW is rising to £10.42 from April 2023, it is not yet clear how this will affect wages for international recruits.

Furthermore, the process of obtaining a Certificate of Sponsorship is often found by providers to be bureaucratic and time-consuming, with anecdotal evidence that the approval times for sponsorship licences takes up to 12 weeks. This significantly hampers the viability of international recruitment as a solution to immediate workforce pressures within an organisation.

Visa applications, too, are an issue, with the success of applications often contingent on the support of costly legal services, something which will often be unfeasible for smaller organisations.

*12: NHS Employers, MAC recommends adding care workers to the shortage occupation list - **accessible here.***

> **Given the number of vacancies across the industry, there is an obvious need for a Westminster-led international recruitment drive. Providers who are struggling with costs and in financial difficulties should not have to figure out how to fund and actually do international recruitment on their own. So much money is being wasted in duplication of effort and resources.**
> *Care provider employing between 500-999 people*

> **We have implemented an overseas recruitment strategy which will address some of the hiring challenges in our geographically challenging areas. The process is both time-consuming and costly. However, we believe this will be a strong addition to our current recruitment strategy.**
> *Care provider employing over 1000 people*

In spite of recruiting through diverse channels, vacancy rates have remained high over consecutive years and, in response to this, providers have been forced to take more concerted action to attract and retain staff, as well as to achieve safe staffing levels, often with financial implications for the organisation. Three quarters of providers (76%) increased staff pay, over two thirds increased the use of agency staff (69%) while over half (53%) used retention incentives.

However, in many cases, vacancy rates and recruitment challenges have been so adverse that providers have had to take action which has had a direct impact on individuals receiving care. Over half (58%) have had to turn down admissions to services due to staff shortages, while nearly one fifth (18%) have had to close services altogether. This is broadly similar across different types of care providers.

Due to high staff vacancies:

Over 1/2 of providers
across the care sector **turned down admissions**

Nearly 1/5 of providers
closed services

The use of agency staff to mitigate staff shortages is also prevalent. While the use of agency has a significant impact on the finances of providers, as outlined earlier, it can also have an adverse impact on other staff. Our research found that confidence in agency staff was low, with over a third of respondents (37%) stating that they do not believe agency staff are reliable or experienced. In light of this, the pressure for reliability, experience, training and communication sits on the shoulders of existing staff members who are already under considerable pressure and strain - likely a cause for high attrition levels and them seeking employment outside of the care sector.

Moreover, the use of agency staff can have an impact on people supported. This is particularly the case for specialist care services, such as those for people with learning disabilities and/or autism, as agency staff, no matter how good, are not replacements for known members of the team, with understanding, familiarity and trust central to providing safe and fulfilling care. The continuity of care is critical, yet undermined by the lack of permanent staff. This is reflected in responses from providers, as almost half (45%) do not think agency staff communicate well.

Adding to this frustration is that there is no guarantee of the availability of agency workers as agencies themselves struggle to source candidates. A Care England survey covering agency usage within the adult social care sector between April-June 2022 found that 88% of providers felt it was more challenging to book agency staff then than in the past.[13]

Finally, the demand for agency staff in the adult social care sector is having broader implications for the NHS. With significantly higher rates of pay at an agency, many NHS nurses are picking up shifts for agencies covering vacancies in adult social care services rather than working overtime in the NHS. There are concerns that failure to manage this market will see nurses leave both the NHS and adult social care and become agency nurses at a few, select high-paying agencies.

13: Care England, Agency Fees for Social Care: Key Findings - ***accessible here.***

A Wish List for the Adult Social Care Workforce

In the *People at the heart* of care White Paper, published by the Department of Health and Social Care in 2021, the Government recognised the social care workforce as 'our biggest asset' and the imperative to provide support and recognition to these individuals.[14]

The White Paper included the announcement of £500m over three years to develop the workforce, with policies including, but not limited to the production of a knowledge and skills framework; career pathways and linked investment to support progression; funding for care certificates; initiatives to provide wellbeing and mental health support, and to improve access to occupational health; a new digital hub for the workforce to access support, information and advice; and new policies to identify and support best recruitment practices locally.

However, when we asked adult social care providers what measures would have the greatest impact on recruitment and retention in their sector, none of the Government's proposed actions were highlighted.

Increasing staff pay was the standout measure, cited by almost all providers (95%) across the sector, and by 96% and 91% of learning disability providers and providers of care for older persons, respectively.

This reflects numerous comments from respondents who highlighted how increased pay would be an impactful measure to improve recruitment:

> **If we can't match, as an organisation, other employers, we aren't going to get staff and therefore our agency costs spiral out of control.**
> *Learning Disability Care Provider*

> **We need to stop peddling the notion that social care staff don't need higher pay, just better training. We already provide extensive high-quality training. Staff need higher pay to feed their families and heat their homes.**
> *Learning Disability Care Provider*

Our research also outlines how providers believe that putting social care on a more equal footing with the NHS would be an impactful measure to increase recruitment and retention. Half felt that aligning to NHS terms and conditions would be helpful while 41% stated that offering benefits given to NHS staff would improve recruitment and retention. If these measures were taken, it is likely that the number of people willing to work across the NHS and adult social care would grow, lessening workforce and pay competition across sectors.

95% of providers said that increasing staff pay would be an impactful measure to improve recruitment and retention.

This feeds into the wider notion that adult social care lacks parity of esteem with the NHS, not only in terms of pay, benefits and terms and conditions, but also in how it is regarded by people in Government and the general public.

14: *Department for Health and Social Care, People at the heart of care: adult social care reform white paper, December 2021 - **accessed here.***

> **NHS and care homes should be seen as the same and not as different entities with regards to pay and dignity.** *Older Persons' Care Provider*

While the Government has started down the path of integration, including through the introduction of Integrated Care Systems, it is important to note that bridging the gap between health and social care has to stretch beyond structure. In practice, it must also encompass reforming commissioning, data and information practice and service delivery. This would aid in relieving the pressure on finite NHS and emergency services.

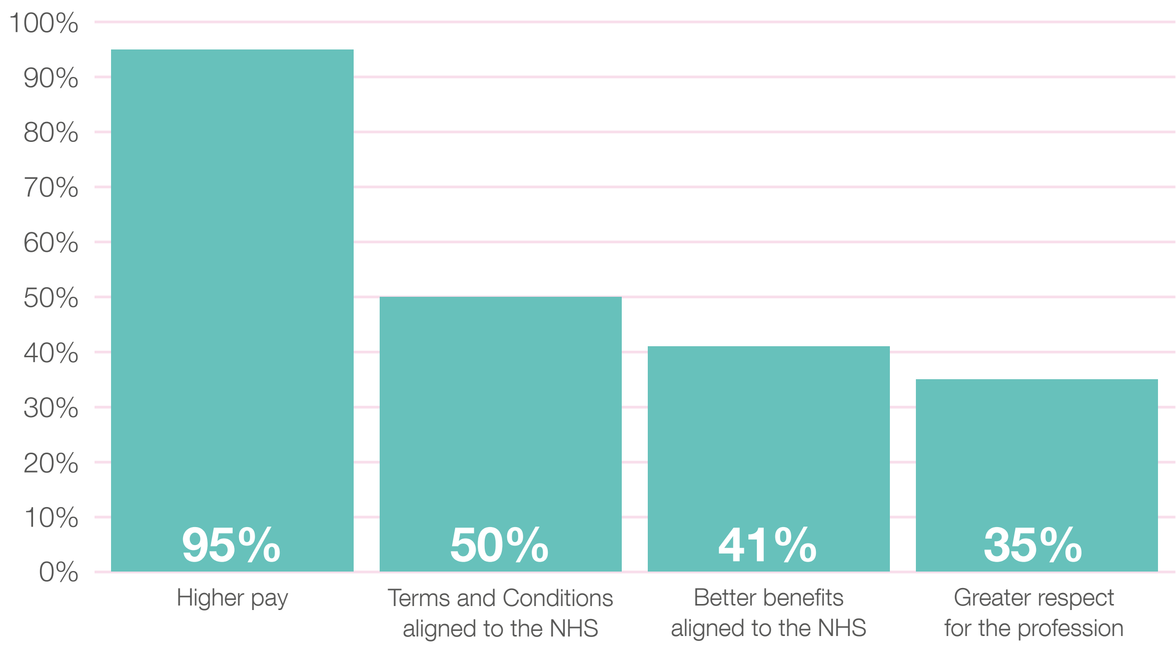
> **Unless older people care is recognised and staff paid on a par with the NHS, staff retention will be a problem and before you know the care homes will crumble under pressure.** *Older Persons' Care Provider*

> **If there was a national strategy to support the workforce on pay and conditions and professional recognition akin to that of the NHS, we may be in a better place than we are currently.** *Learning Disability Care Provider*

> **Government campaigns (national and local) supporting recruitment will remain ineffectual until pay and conditions are improved beyond what is available in, for example, retail, catering and hospitality, etc or put on a comparable footing with the NHS.** *Learning Disability Care Provider*

Figure 12: Most impactful measures that care providers feel would improve recruitment and retention.

Source: Hft and Care England Survey, Cebr analysis



Recommendations: The Adult Social Care Workforce

The workforce issues facing the adult social care sector are severe and worsening. The development of a long-term adult social care workforce plan, similar to that in place for the NHS, is long overdue and ought to incorporate the following recommendations:

- Despite workforce pay representing the standout cost pressure facing providers, low levels of pay for care staff is considered to be the biggest barrier to recruitment and retention, with increasing rates of pay deemed to be the number one thing that would have the most impact on improving the workforce situation. **We recommend that the Government develops a pay framework to establish a minimum care wage, above the level of the NLW and tied to NHS band 3.**
- Poor perceptions of a career in social care and the existence of better opportunities elsewhere were recognised by providers as key contributing factors to the current workforce crisis. **We recommend that, as a part of the pay framework, the Government aligns benefits, terms and conditions for care staff with those in the NHS, including on pensions, statutory sick pay, holiday entitlements and access to training courses, the cost of which should be reflected in the Fair Cost of Care and funded by the Local Authority.**
- The poor perception of a career in social care is compounded in England by the lack of a professional register for care workers, something that is in place in every other UK nation. **We recommend that, following reforms to pay, benefits, terms and conditions, the Government establishes a professional register for care workers in England. This will not only raise the status of working in social care, but will also provide a framework for recognising an individual's experience and training, enabling care workers to be part of a formally recognised group.**

Other challenges facing the adult social care workforce include the cost of agency staff, necessitated by high levels of vacancy and attrition, and barriers to existing methods of recruitment. These are addressed through the following recommendations:

- The use of agency staff is widespread within the adult social care sector. While the use of agency is by no means a suitable replacement for permanent staff, it is an unfortunate necessity due to high vacancy rates and levels of attrition and represents a significant cost pressure for providers. **We recommend that the Government introduces an exemption on VAT costs for agency care staff, as is currently in place for agency staff in the NHS, which would save the sector an estimated £300m per annum.**
- International recruitment, highlighted as the most successful recruitment channel by 15% of surveyed providers, has been the subject of much political attention in recent months. Despite this, there is a series of barriers limiting the viability of international recruitment as a recruitment method, particularly for smaller organisations. **We recommend that the Government streamlines the international recruitment process, including addressing duplication between and better aligning to the certificate of sponsor and sponsorship licence processes and waiving the immigration surcharge for care providers.**

Conclusion

Despite the gradual easing of direct challenges associated with the Covid-19 pandemic, 2022 was a year that exposed the underlying fragility of the adult social care sector in the face of unexpected and rising costs and deepening workforce challenges.

While other sectors have proved to be better able, and better supported, to weather rising inflation, increasing utility bills and other challenges associated with the rising cost of living, decades of chronic underfunding and neglect from central Government have resulted in an adult social care sector on the brink of collapse.

Undoubtedly, all the signs are pointing in this direction, with the vast majority - 82% - of the adult social care sector reporting being in deficit or having seen a decline in their surplus in 2022. Current inertia will only drive this up, as almost half of providers who reported falling surpluses believe this will become a deficit within two years. However, it is clear we are already reaching a tipping point when we consider that, across our vital sector, over a third of providers have considered exiting the market in the past 12 months.

Regrettably, to say no one saw this coming would be untrue. For years, experts and leading voices from the care sector have warned about mounting funding challenges and a deepening crisis within the workforce. Recent instalments of the Sector Pulse Check[15], which examined the financial health of the learning disability care sector, have shown the dwindling financial viability of many care organisations. In 2021, almost three quarters of learning disability care providers reported their surplus decreasing, or being in deficit.

The Covid-19 pandemic, a situation few could have fully anticipated, demonstrated the importance of vital services being well-resourced, well-supported and resilient enough to cope with a degree of unexpected pressure.

*15: Hft, Social Care: Sector Pulse Check - **accessible here.***

However, despite repeated calls for reform and repeated promises of delivery from consecutive Governments, the sector has been failed by those responsible for its viability.

The 2022 report reflects a sector that is fully aware of the key challenges it faces and in no doubt about where the Government ought to be prioritising resources, especially when faced with an average vacancy rate of 21%. Providers overwhelmingly highlight that pay is the fundamental barrier to recruitment and retention, and it is clear that they want to pay their brilliant staff more. Yet as a sector, we are held hostage by squeezed Local Authority budgets and consequently persistent underfunding, making our ability to pay competitively a distant dream.

Our sector - and the challenges we face - remain overwhelmingly hidden. Unlike the NHS - which members of the public interact with throughout their lifetimes, developing a deep affinity for - salience of the adult social care system is less universal, often developing only when an individual or their loved one is personally affected, often in later life, or when the challenges facing the adult social care system begin to directly affect NHS services. While championing the health service is a favoured vote winner among politicians, adult social care remains a largely hidden element in keeping our communities safe.

It is therefore clear that radical and long-term thinking is required to raise and address the suite of challenges raised in this report, central to which needs to be an acknowledgement that social care affects all of us and is intrinsically linked to the success of our health service.

About This Report

This report used survey data to highlight key challenges faced by care providers during 2022.

In order to collect this data, Hft, along with Care England, commissioned the Centre for Economics and Business Research (CEBR) to conduct a survey of CEOs and senior leaders within organisations which provide care and support to adults. The survey ran from 01 December 2022 to 12 January 2023.

In the survey of 192 organisations, 67.0% provided care for adults with learning disabilities and/or autism, while 28.8% offered care for older residents. Figure 13 shows the most common forms of care offered by those surveyed while Figures 14 and 15 show their status and size respectively.

Analysis in this report calculated averages across different subsections of care providers using demographic indicators from the survey and these averages were derived solely from the respondents who answered a specific question within each relevant subset.

Figure 13: Most common forms of care provided by organisations surveyed.

Source: Hft and Care England Survey, Cebr analysis

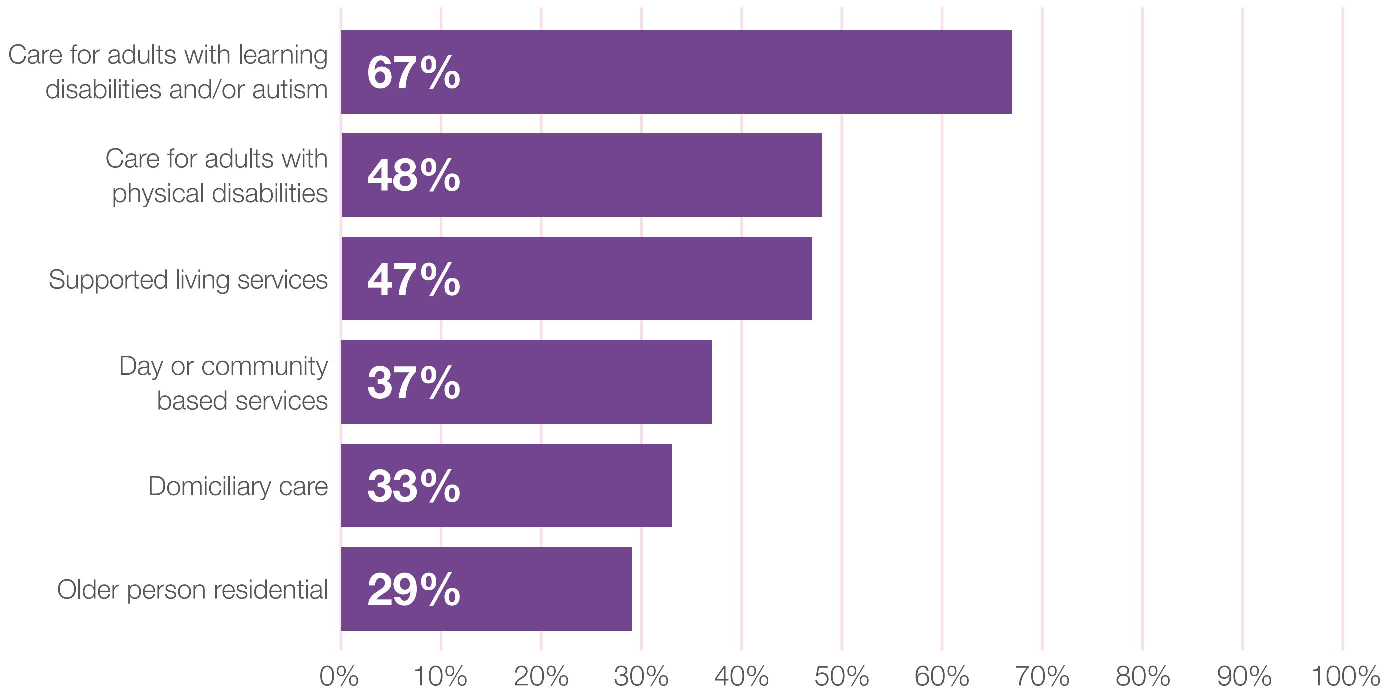


Figure 14: Status of organisations surveyed.

Source: Hft and Care England Survey, Cebr analysis

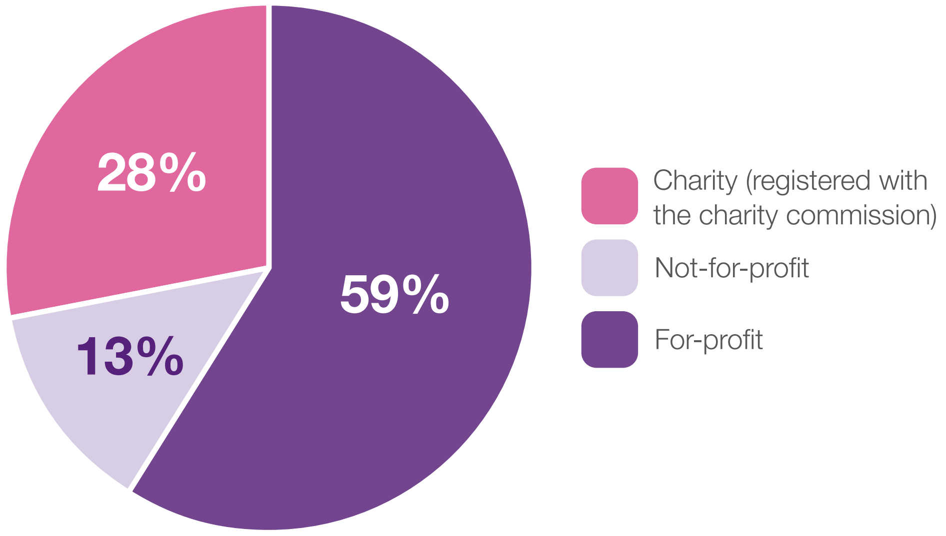
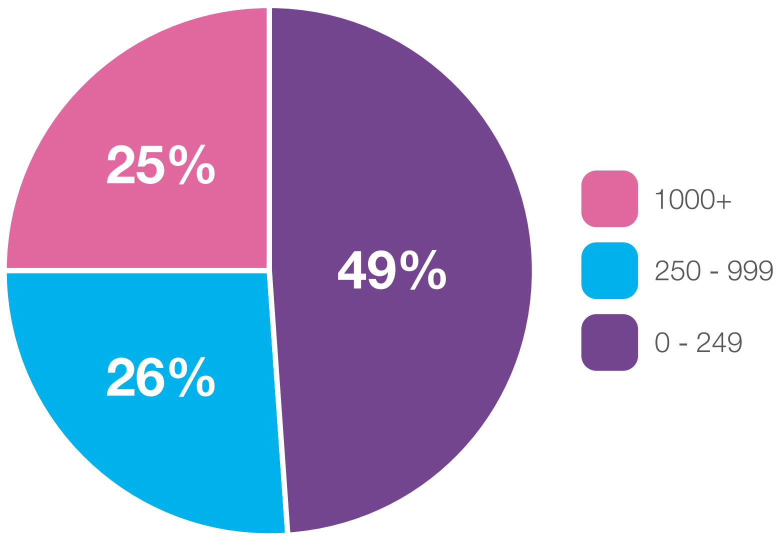


Figure 15: Proportion of respondents by workforce size.

Source: Hft and Care England Survey, Cebr analysis



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London, March 2023

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