Chancellor of the Exchequer, Rt Hon Rachel Reeves MP
Deputy Prime Minister, Rt Hon Angela Rayner MP
Secretary of State for Health and Social Care, Rt Hon Wes Streeting MP

9 December 2024

Dear Chancellor, Deputy Prime Minister and Secretary of State for Health and Social Care,

Serious risks to the sustainability of care and support services in the UK

We write again to flag serious risks to the sustainability of the UK's adult care and support sector. On 29 November 2024, the Care Provider Alliance shared disturbing findings of a provider survey[1]. This detailed the potential impact of budget measures on care and support services and drastic actions providers will have to take. Now we present a detailed analysis of market data to October 2024, provided by industry analysts, LaingBuisson (attached). The Homecare Association and Care England commissioned this. Our aim is to ensure ministers and officials have a full understanding of the sector and the perilous position it is in.

We report on the scale, structure, funding and financial performance of the independent adult care and support sector. LaingBuisson extracted financial data from the statutory accounts of providers large enough to post profit and loss. These include non-profit, for-profit and local authority providers of homecare; supported living; residential care for younger adults; and residential care for older adults. Total market value is £35.3 billion, contributing £68.1 billion to the economy[2].

Data show that providers with the highest exposure to state-funding are most at risk of failure. Given that 70-80% of adult care and support services are state-funded, the sector has reached a tipping point. Local authorities and providers are unanimous in their views on this.

Without urgent action, we face the risk of widespread failure of many providers, particularly those serving the state-funded market. This would have severe consequences:

- Reduced access to essential care and support services for people in need
- Increased burden on families and unpaid carers
- Greater pressure on NHS services; including more hospital admissions, more delayed hospital discharges and longer NHS waiting lists

[1] Letter to stakeholders with the Care Provider Alliance survey findings, November 2024
[2] https://www.skillsforcare.org.uk/Adult-Social-Care-Workforce-Data/Workforce-intelligence/publications/national-information/The-state-of-the-adult-social-care-sector-and-workforce-in-England.aspx

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All the local authority-run care services in this dataset are loss-making. So, too, are many non-profit and for-profit care providers delivering council and NHS-funded services.

Larger providers benefit from economies of scale and can operate more efficiently. In theory, they should be more financially resilient than small and medium enterprises (SMEs). Budget deficits are so severe that even big companies relying on government funding are struggling. If the larger providers are facing difficulties, the plight of SMEs is even more serious. As we explain below, 80-85% of the 18,500 PAYE employers in the care and support sector are SMEs with fewer than 50 employees.

Local authorities could not cope with contract hand-backs or failure of multiple providers. Councils would have to provide the care themselves. This would cause insolvency of councils.

Announcements made in the Autumn Budget have caused deep fear among many who commission, provide and receive care and support services. The government has chosen not to respond to representations made by the care and support sector. This suggests a lack of understanding of the sector or a lack of care about those affected. We offer this new and up-to-date evidence to help address the former.

1. 80-85% of providers are SMEs with fewer than 50 employees

Our sector is highly fragmented, with the ten largest providers accounting for only 17.9% of older people's care homes, 18.1% of care homes for younger adults, and 16.3% of homecare and supported living services.

This means 80-85% of care provision comes from small and medium-sized enterprises (SMEs) - the backbone of our care infrastructure.

2. Local authorities and the NHS purchase most care services

The vast majority of care services are state-funded:

- 96% of supported living
- 89% of care homes for younger adults
- 79% of homecare
- 57% of older people's care homes

Only a minority of providers in older person's residential care and homecare focus purely on private-pay clients, primarily in affluent areas of southern England.

3. Employment costs are 70-80% of the total and will increase by at least 10%

The sector faces an existential threat because of rapidly rising employment costs without corresponding income increases.

Employment comprises 70-80% of total costs. These will rise by at least **10%** in 2025-26 because of the Autumn Budget 2024 increases in employers' national insurance contributions and the national minimum wage.

Unlike other business sectors, most care providers cannot pass these costs on to customers. This is because local authorities and the NHS, as dominant purchasers, fix prices.

Local authority budgets are under severe pressure, with projected cuts of £1.4 billion to adult social services. Many councils estimate they will only be able to increase fees by 0-5%, which is far below cost inflation. The Local Government Settlement Policy Statement offered no grounds for optimism.

4. Sector profitability has declined over the past 10 years

Profitability in the state-funded sector has plummeted over the past decade:

- Homecare average EBITDA margins have fallen from 10.8% to a low of 5.2% in 2019, with some recovery to 7.6% in 2024
- Care homes for younger adults have seen EBITDA margins halve from 26% to 13%
- Older people's care homes serving mainly state-funded residents have seen margins fall by 50%

As stated, the financial data presented by LaingBuisson are from the statutory accounts of companies large enough to post profit and loss. Larger providers should, in theory, be more resilient than SMEs.

Even among these larger providers, the data show concerning trends. Many state-funded providers are struggling financially, with some losing money and others barely making a surplus. Only those focused on private-pay residential care for adults over 65 in the affluent south are achieving higher double-digit margins.

All local authority operated care organisations for which we have data are recording losses.

Of the five care organisations with the highest margins, two are non-profit and three are for-profit. Non-profits re-invest surplus back into the organisation rather than distributing it to shareholders. Care organisations that make the most money, whether non-profit or for-profit, typically avoid state-funded work. Some earn income from other sources, like housing, and subsidise council-funded care.

These figures are before interest, tax, depreciation, amortisation (and rent for residential care). Unfunded increases in tax and employment costs risk insolvency for many providers. This is especially true for the 80-85% SME care providers who deliver a high proportion of the UK's care and support.

A recent email from a small homecare provider said:

"My accountant gave me a spreadsheet to calculate my NI this year and next year. Next year will be £70k more for NI and NMW increases. In my last full year I made £38k profit, so without a big increase in income I'm running at a loss."

5. Private equity controls a little over one tenth of social care capacity overall

Despite some perceptions, private equity involvement in the care sector is limited. Just 12.2% of older people's care homes; 10.1% of younger adult care homes; and 12.2% of homecare/supported living services are private equity backed.

Sources of investment capital (there may be more than one for any provider) include:

- Providers' equity leveraged by bank loans (the largest source)
- Bond issues (effectively restricted to not-for-profit providers)
- Private equity (12.2% of capacity – see Table 1.3)
- Real Estate Investment Trusts (REITS) and other UK and overseas property investors (the most important source of capital funding for new care homes currently being built, mainly targeted at private payers)

There are no stock exchange listed care home groups.

Many lenders and investors might be hesitant to support all but the most profitable private-pay providers; these comprise less than 20% of the care market.

Who will invest in care service development, digital transformation and economic growth in future?

6. Call to action

We call on the government to:

1. Invest at least £2.8 billion in the care sector to mitigate immediate risks. Evidence shows that every £1 invested in early stage support saves £3 in longer-term costs across the health and care system[3]. Without this investment, access to care and support will reduce, harming people who rely on services and costing the UK more in the future.

2. Exempt care providers from changes to employer's national insurance contributions

3. Ensure a multi-year funding settlement for social care to meet future demand and cover the full cost of care (estimated £18.4 billion needed by 2032/33)

[3] Time to Act Reform Board letter to Ministers, November 2024

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4. Implement a National Contract for Care services. This needs to set a minimum price for care services to ensure public sector commissioners pay the full cost of quality care.

The social care sector has shown remarkable resilience over the years. Government grants saved it during the COVID-19 pandemic. It cannot, though, withstand the current combination of steeply rising costs and constrained income.

The Prime Minister has reaffirmed the government's commitment to build an NHS fit for the future. The Secretary of State has emphasised three shifts:

- Hospital to community
- Illness to prevention
- Analogue to digital

Care and support services are embedded in communities and can play a key role in achieving these shifts. The NHS depends on a functioning social care system. Difficulties in accessing social care lead to an increase in unplanned hospital admissions and delays in discharge. This results in longer waiting times for NHS treatment. Decline in availability and quality of care and support services will make the government's aspirations for the NHS hard to achieve.

Social care services are vital public services supporting the health and well-being of tens of thousands in communities across the UK. We need your immediate action to ensure they continue.

We look forward to your urgent response.

Yours sincerely,

Jane K. Townson

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Chief Executive, Homecare Association

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Professor Martin Green OBE
Chief Executive, Care England

Status: We believe this letter is in the public interest and may share it openly.

Copies by email:

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Minister for Care, Stephen Kinnock MP
Leader of the Conservative Party, Kemi Badenoch MP
Leader of the Liberal Democrats Party, Sir Ed Davey MP
Liberal Democrat Spokesperson (Treasury), Daisy Cooper MP

Chair of Health and Social Care Select Committee, Layla Moran MP
Second Permanent Secretary DHSC, Tom Riordan
Director-General Adult Social Care DHSC, Michelle Dyson
Director, DHSC, Tom Surrey
Director for Adult Social Care – Strategy & Reform, DHSC, Tabitha Jay,
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