CORPORATE FINANCE

APRIL INSIGHTS PAPER: SOCIAL CARE

Securing the Future of Social Care: Addressing Challenges & Embracing Innovation

Snapshot of the Social Care Sector

131,000
Carer job vacancies in the adult social care sector, with an attrition rate of nearly 25%[1]

£5,000
Per month average care home fees charged, with private-pay homecare costing £30–£50 per hour[2]

540,000
Additional care workers needed by 2040, attributed to the 38% projected increase of the over-65 population[3]

54%
Of adult social care providers said they were having challenges recruiting new staff, with 31% citing problems with retention[4]

£50bn
Contributed by the social care sector annually to the UK economy[1]

1%
Of local authority contracts meet the minimum sustainable fee for homecare services[5]

INTRODUCTION

The social care sector is a cornerstone of society, providing vital support to an ageing population and individuals with diverse care needs. Its importance is growing as demand for services rises, driven by demographic shifts.

Projections show a significant rise in the over-65 population by 2040, requiring hundreds of thousands of additional care workers to meet demand.[6] This growing need comes amid ongoing policy debates and reform efforts aimed at ensuring the sector's long-term sustainability. Despite initiatives like the Care Act 2014, systemic underfunding and operational challenges persist, leaving many feeling that the intended reforms have not been fully realised.

The sector is now at a critical juncture, contending with a combination of challenges that threaten its stability and the quality of care it provides. The most pressing issues include a **worsening workforce crisis, unsustainable financial pressures, and the complexities of an increasingly intricate regulatory environment.** These challenges are deeply interconnected, creating a cycle of difficulties for operators striving to deliver essential services to a growing population with diverse needs. Workforce shortages limit the ability to meet demand and place immense strain on existing staff, while financial constraints restrict the capacity to offer competitive wages and invest in resources. At the same time, navigating a complex regulatory landscape demands significant time and effort, further stretching operational capacity.

Regulatory bodies like the Care Quality Commission (CQC) play a vital role in overseeing the sector, yet their effectivenes is often impacted by these fundamental pressures. Technological advancements, particularly in the realm of artificial intelligence (AI), offer potential solutions for enhancing efficiency and quality, but their implementation requires financial firepower and necessitates careful consideration of ethical implications.

This paper explores impacts of these challenges from the perspective of social care operators. Drawing on case studies and evidence from within the UK, it highlights measures that have proven effective in mitigating these issues. A holistic and proactive approach, recognising the interconnected nature of these challenges, is essential to ensure the sector's sustainability and its ability to deliver high-quality care.

Sources: [1]Skills for Care, [2]Carehome.co.uk, [3]UK Parliament, [4]CQC, [5]Homecare Association, [6]Nuffield Trust

KEY CHALLENGES IN THE SOCIAL CARE SECTOR

1. Persistent Workforce Crisis

Securing and retaining a qualified workforce remains one of the most significant challenges for the UK social care sector, characterised by a critical shortage of leaders and persistently high vacancy and turnover rates among care workers. Operators face considerable difficulties in attracting new talent and retaining existing staff due to a range of factors. Recruitment is particularly hindered by restrictive post-Brexit immigration policies, which have reduced the availability of international workers who have historically been a vital source of labour. Retention is equally problematic, with many care workers leaving the sector due to low pay compared to roles of similar complexity in other sectors, alongside demanding working conditions, including long hours, high workloads, and limited career progression opportunities.

These challenges have significant consequences for social care businesses. Persistent staff shortages directly impede the ability of operators to meet the growing demand for care services. Vacancies increase workloads for remaining staff, leading to burnout and negatively impacting their overall well-being. 73% of care workers in one survey noted that they suffered high levels of emotional exhaustion[7]. High staff turnover disrupts the continuity of care, making it difficult to build stable and trusting relationships between care workers and service users, which are essential for person-centred care. Additionally, turnover incurs high recruitment and training costs, diverting resources from other critical areas. The reliance on agency staff to fill those gaps introduces further concerns, such as higher operational costs and inconsistencies in care quality, as temporary workers may lack familiarity with service users' needs and the organisation's protocols.

KEY CONSIDERATIONS

- **Improve working conditions by ensuring manageable workloads, offering flexible hours, and providing better support for staff well-being.** National Care Group, for example, offers flexible working patterns, access to mental health first aiders along with a confidential helpline, and menopause support, including HRT reimbursement.
- **Provide clear career pathways and invest in professional development opportunities to foster long-term commitment.** Acuity Care Group, for example, provides various social work roles with great career progression and learning opportunities, including apprenticeships for those without prior qualifications.
- **Cultivate a positive workplace culture with strong leadership, open communication, and recognition programmes to value staff contributions.** For example, Potens offers an award and recognition scheme to celebrate their employees and the difference they make – service users, family members, and any others individuals who interact with staff can nominate staff those employees.
- **Invest in technology to optimise workforce management, including efficient scheduling and long-term workforce planning.** Examples of specialists who can support with this are listed on page 7.

Source: [7]Queens University Belfast

KEY CHALLENGES IN THE SOCIAL CARE SECTOR (CONT.)

2. Growing Burden of Financial Strains

Businesses in the UK social care sector are facing mounting financial pressures, which are significantly affecting their sustainability and operational capacity. A key driver of these challenges is the sharp rise in operational costs, particularly staffing expenses due to increases in the National Living Wage (NLW) and changes to National Insurance (NI). The rise in the NLW (£12.21/hour), while aimed at improving pay for low-income workers, has significantly increased payroll costs for care providers, who already operate on tight margins. Employers are now required to contribute c.10% more towards NI for their staff, which disproportionately impacts the social care sector, where staffing costs represent a significant proportion of overall expenditure. For smaller providers, in particular, these additional costs can be overwhelming, as they can sometimes lack the financial reserves to absorb such increases.

Compounding these pressures is a widening gap between the cost of providing care and the funding allocated for it. The Homecare Association has revealed that the current fee rates paid by local authorities and the NHS are alarmingly low, with a mere 1% of contracts meeting their calculated minimum price for sustainable homecare, which stood at £28.53 per hour in 2024-25 and is set to rise to £32.14 in 2025-268. This imbalance leaves providers unable to cover basic operational costs, including the increasing staff wages. Moreover, the underfunding directly impacts the quality of care, as providers are forced to make difficult decisions that can compromise service standards and the well-being of those receiving care.

Adding to these financial challenges is the fragmented and inconsistent nature of the funding mechanisms for social care in England. The system relies on a mix of local council tax, central government grants, business rates, direct user charges, and financial transfers from the NHS. This patchwork approach creates significant disparities in the level and quality of care provision across the country. The reliance on local council tax as a major funding source exacerbates inequalities, as wealthier areas can generate more revenue, while less affluent areas struggle to fund essential services adequately. This results in a "postcode lottery" of care, where access to and quality of services vary widely depending on geographic location.

This combined financial strain has several critical impacts on social care businesses. For smaller providers with limited reserves, this creates a heightened risk of closure, which could have devastating consequences for service users and the sector's overall capacity. Financial constraints also affect service quality, as operators may be forced to cut staffing levels, training budgets, or investment in essential resources. Many providers struggle to increase fees to match rising costs, particularly when government funding itself is constrained. This combination of rising costs and restricted income often leads to increased pressure from creditors and suppliers, further destabilising businesses.

Separately, from a service user perspective, the rising costs of care in the UK, with private-pay homecare fees reaching £30 to £50 per hour and care home costs averaging over £5,000 per month, are prompting some families to explore international alternatives9. Facilities in countries like Thailand, such as the Chiang Mai Care Resort, offer significantly lower costs – around £1,200 per month – while providing a fundamentally different care model3. These include higher staff-to-resident ratios, luxury resort-style accommodation, and specialised dementia care programmes. Families have reported transformative outcomes, such as improved health and cognitive recovery, for loved ones receiving care abroad. However, challenges such as geographic distance, cultural adjustments, and integration with healthcare systems are important considerations. If funding for social care does not increase and operators are unable to reduce their costs, care services in the UK will become increasingly expensive, driving more people to seek alternative options, including moving abroad for their care.

Sources: : [8]Homecare Association,
[9]The British octogenarians swapping 'dreary' care homes for Thai luxury – Telegraph

KEY CONSIDERATIONS

- **Introduce salary sacrifice schemes for pension contributions and environmentally friendly travel options to reduce employer National Insurance contributions.**
- **Adjust hiring strategies to prioritise employees who attract lower or zero employer NI, such as those under 21, apprentices under 25, and veterans.**
- **Offer tax-exempt benefits, such as free meals or shopping discounts, to attract and retain staff without additional tax burdens.**
- **Implement energy-efficient practices in care facilities to reduce utility bills.** The Government has commissioned BRE to provide a free energy assessment tool for care homes, which also provides recommendations to improve energy efficiency.
- **Automate repetitive administrative tasks and optimise supply chain management by negotiating better vendor contracts.** Examples of specialists who can support with this are listed on page 7.
- **Outsource non-core functions, such as payroll or IT support, to access expertise without the cost of full-time staff.** Examples of specialists who can support with this are listed on page 7.
- **Engage with local authorities to advocate for fee increases that reflect the true cost of delivering quality care.**
- **Explore private funding opportunities and cater to self-funding individuals to diversify revenue streams.** Focusing on community engagement through social media and on popular lead generation sites (e.g. homecare.co.uk), high regulatory ratings, and referral schemes often incentivise private payors.
- **Form partnerships and collaborations with other organisations to share resources and costs.** For example, Home Instead has a multitude of partnerships, including a technology partnership with Taking Care, to support service users' independent living needs.
- **Pursue government grants and funding schemes designed to support the social care sector.** Compass Continuing Healthcare, for example, is a private company that assists people with continuing healthcare funding applications, recovering retrospective fees and, where applicable, initiating appeals.
- **Implement sound financial management habits, including conducting financial forecasting and sensitivity analysis to identify risks and opportunities, establishing robust financial controls, and restructuring debts to improve liquidity, and seeking independent financial advice.**

KEY CHALLENGES IN THE SOCIAL CARE SECTOR (CONT.)

3. Complex and Evolving Regulatory Landscape

There are ongoing concerns about inconsistencies in the interpretation and enforcement of regulations, particularly by organisations such as the CQC Care Quality Commission (CQC). This lack of uniformity creates uncertainty for providers and makes it difficult to ensure consistent compliance across different regions or inspectorates. Additionally, the administrative burden of meeting regulatory requirements, including extensive documentation, regular reporting, and preparing for inspections, places considerable strain on the time and resources of social care businesses.

These challenges result in several key difficulties for operators. The risk of non-compliance with regulations is significant and can lead to sanctions such as warnings, fines, or even the suspension or cancellation of registration, which would severely impact a business's ability to operate. Negative CQC ratings, often linked to perceived non-compliance, can damage a provider's reputation, making it harder to attract new service users and potentially leading to contract losses with local authorities. The time and resources required to ensure compliance can also divert attention from other critical areas, such as staff training and service innovation. Furthermore, the uncertainty and unpredictability of the regulatory system make long-term planning and strategic decision-making more challenging for operators.

KEY CONSIDERATIONS

- **Designate a compliance officer or team to stay updated on regulatory requirements and utilise resources and guidance from regulatory bodies such as the CQC.**
- **Subscribe to industry updates and legal alerts to stay informed about changes in legislation or guidance.** Care England and The Carer, as well as industry leaders such as Jane Townsend, post regular updates on the sector.
- **Participate in training programmes and workshops focused on regulatory compliance.** Skills for Care and Caredemy offer CPD-accredited compliance training for care workers and managers. Further examples are listed on page 7.
- **Develop and regularly review comprehensive policies and procedures covering key areas such as safeguarding, infection control, medication management, and data protection.**
- **Leverage technology and compliance management platforms to streamline documentation, track training, and facilitate efficient regulatory reporting.** Examples of specialists who can support with this are listed on page 7.
- **Maintain open and transparent communication with inspectors, seek clarification on ambiguities, and use inspection reports to implement improvements.**
- **Prepare thoroughly for inspections by reviewing all relevant policies and procedures and conducting internal audits.**
- **Engage with industry bodies and associations, such as the Homecare Association, to collectively raise concerns with regulatory authorities and advocate for clearer, more standardised approaches across the sector.**

THE ROLE OF TECHNOLOGY

Technology, including AI, is increasingly recognised as a critical enabler in addressing the challenges faced by the social care sector. The government has prioritised digital transformation, with initiatives such as the development of national standards for care technology and the widespread adoption of digital care records. These efforts aim to improve efficiency, enhance information sharing, and streamline care delivery, ultimately supporting better outcomes for service users and care professionals alike.

AI offers significant opportunities to improve care delivery. By automating routine administrative tasks, such as case recording and assessments, AI can free up care workers to focus on direct interactions and support, reducing workload stress and improving job satisfaction.

AI also enhances access to information by analysing large datasets, optimising resource allocation (e.g., scheduling home care visits), and streamlining reporting processes. Its ability to identify trends and provide insights can support better decision-making, enabling more proactive and personalised care. Additionally, AI shows promise in improving engagement with service users, enhancing supervision for care professionals, and supporting the development of tailored tools to meet individual needs. **Beam**, for example, offers an AI assessment tool designed to produce clinical reports on quality-assured templates.

The government's digital transformation agenda includes ambitious goals, such as the adoption of digital social care records (DSCRs). As of January 2025, 75% of adult social care providers have implemented a DSCR, covering over 85% of individuals receiving care. A further 13.8% of providers were in the process of adopting these systems, with reports suggesting that the government was on track to meet its target of 80% adoption by March 2025, though this is yet to be confirmed. DSCRs are delivering significant time savings, with an estimated 20 minutes saved per worker per shift[10]. This time is being reinvested into direct care, improving both the quality and safety of services. Behind the scenes, efforts have focused on ensuring that DSCR solutions meet rigorous standards for cyber security, interoperability with NHS systems, and consistent data collection. These advancements are enabling integration with GP records and laying the groundwork for a more connected and efficient care system.

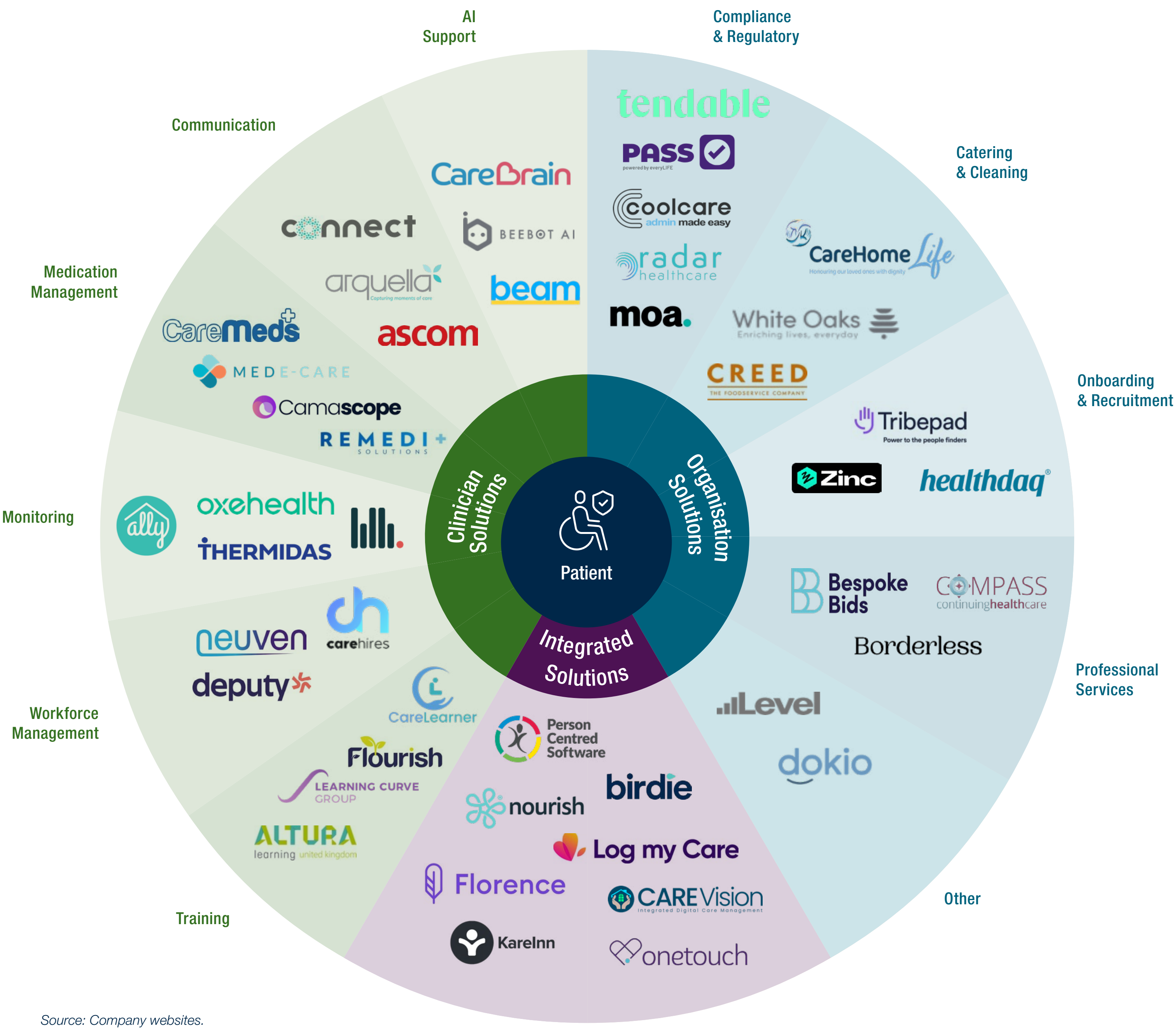
This shift is expected to reduce administrative burdens, allowing care staff to dedicate more time to personalised care. Other technologies, such as motion sensors for fall detection, automated medication dispensers, and telecare systems, are being implemented to support independent living and reduce hospital admissions. **Cera Care**, for instance, has recently introduced an AI tool, now being implemented across the NHS, that predicts a patient's risk of falling with an accuracy of up to 97%[11]. Additionally, **Oxehealth** provides innovative monitoring solutions that use cameras and sensors to track health and behaviour in care settings.

Despite these advancements, challenges remain. The successful implementation of technology depends on adequate funding, robust digital infrastructure, and comprehensive training for care professionals. The digital divide, which limits access to technology for certain groups, and the need for interoperability between different digital systems also present barriers to widespread adoption. Ethical considerations, such as data privacy, security, and the potential for bias in AI algorithms, must be addressed to ensure equitable and responsible use of technology.

To overcome these challenges, the government has committed significant investment, including £150 million to support digital transformation in social care[12]. The funding is distributed through Integrated Care Systems (ICSs), which are responsible for facilitating local grant funds, and there is also an Assured Supplier List for digital social care records and other technologies. This funding will help improve connectivity, enhance digital skills, and build cyber resilience across the sector. Additionally, regulatory bodies are working to establish clear standards for digital technologies, ensuring they are safe, effective, and interoperable.

Sources: [10]Adult social care in England, monthly statistics – gov.uk;
[11]Nationwide roll out of artificial intelligence tool that predicts falls and viruses – NHS England;
[12]A plan for digital health and social care – UK Parliament

OUTSOURCED SERVICE PROVIDERS



Source: Company websites.
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CONCLUSION

The UK social care sector stands at a pivotal moment, grappling with interconnected challenges of workforce shortages, financial pressures, and regulatory complexities. These issues, compounded by rising demand for services, have placed immense strain on operators, threatening the sector's sustainability and the quality of care provided. Additional insights will be highlighted through Baroness Louise Casey's independent review of the adult social care sector. An interim report is expected in 2026, with the first phase highlighting critical issues and recommending medium-term improvements.

However, amidst these challenges, there are clear opportunities for transformation.

Innovative technologies, such as AI and digital care records, are already demonstrating their potential to enhance efficiency, improve care quality, and support better outcomes for service users.

The adoption of these tools, alongside strategic cost optimisation and workforce management initiatives, offers a pathway to address the sector's most pressing issues. Furthermore, collaborative efforts between care providers, regulatory bodies, and policymakers are essential to ensure that funding mechanisms, regulatory frameworks, and digital infrastructure evolve to meet the sector's needs. Government support is imperative to achieving improvedl outcomes and collaboration.

Ultimately, a holistic and proactive approach is required to secure the long-term sustainability of social care. By embracing innovation, addressing systemic challenges, and prioritising the well-being of both care professionals and service users, the sector can continue to fulfil its vital role in supporting society's most vulnerable individuals.

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