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Contract Conundrum

CONTRACT HANDBACKS AS A WARNING FOR CHANGE

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Introduction

Following on from the issue of care home closures that my colleague Sibel discussed last week, this week's topic of contract handback is, at its core, still one of sector capacity. Contract handback is a step providers may take when they feel they can no longer viably provide the services that a local authority or ICB might commission, for the fee that is being offered after attempting to renegotiate terms with the commissioner.

Let's face it, Care England and Hft's Sector Pulse Check reports have consistently highlighted increasing cost pressures as an issue, so it's no wonder that now nearly 3 in 10 providers are handing back contracts or closing services entirely. Our responses from providers also show that this figure is higher for services for learning disabled adults, where services are entirely funded by local authorities. So concerned are the Department of Health and Social Care (DHSC), that they are using the NECS Capacity Tracker to ask care providers to disclose if they are having contract handback conversations with commissioners as its widely reported that when handed back packages are recommissioned, thy are often at a significantly increased cost.

This short article will take a whistle stop tour of the main pressures on sector capacity: the drivers of contract handbacks. It'll then discuss the solutions that Care England has been championing to government, alongside other work we've done around the issue of sector capacity.

The impacts of contract handback

Before ploughing into the causes, the impacts of contact handback must always be brought to the fore in our quest for change. We must continuously remind ourselves that the people a handback will impact most are the individuals that care is provided for. This is why some providers choose to continue operating their service at a loss, or cross-subsidise publicly funded services with the revenue from self-funding clients, if they are able to.

There reaches a point when this is no longer a viable course of action though, and with the recent announcement of the rises in Employers' National Insurance Contributions (eNICs), the sector could be fast exhausting their ability to do so.

Rising workforce pressures

In our *Sector Pulse Check* report this year, workforce-related cost pressures have been cited by 91% of providers as being an issue this year, as the government rolled out the largest-ever increase in the National Living Wage. This is fantastic news for our workforce, however, 85% of providers also reported that local authority fees failed to increase in line with the minimum wage in 2024 too. This has created a funding gap in the sector that providers can't absorb.

Other workforce-related costs exist around recruitment and retention, as the sector struggles to recruit care workers, and battle attrition rates of over 28%. These not only reduce capacity in and of themselves but addressing these issues also has a huge financial cost that increases the cost of providing care, such as when agency staff need to be hired, and recruitment exercises need to be taken more frequently and over a longer period. Our latest *Internet Job Boards* paper highlights that the sector spends £3bn a year on recruitment, with £100m spent on internet recruitment sites. Everything that increases costs, in a world where local authority fees aren't keeping up, will force some providers to hand back contracts.

Challenging changes impacting the sector can be seen in visa policy, where social care relies on an international workforce to keep it afloat. While NHS staff can still bring dependents under visa rules, social care workers have been banned making it far less attractive for international workers to want to come to the UK to work in social care. A 65% drop in the number of Health and Care visas granted, which is an alarming sign given the domestic workforce recruitment crisis. More recently, the Home Office announced that the fees for certificates of sponsorship, costing the sector an estimated £10.3m in another cost pressure care providers need to bear.

Local authority funding

The funding pressures faced are happening with the backdrop of dwindling resources of local government due to insufficient funding from central government to commission care under the Care Act. As the funding model for local government has changed, and funding from central government has been cut since 2010, more and more cuts have had to be made to council services, including social care. Not only has funding to commissioners been cut over this time, but demand for services has increased, and ADASS estimated there's still a £564m overspend in local authority adult care provision in their Autumn Survey.

As social care is a mandatory service that councils must provide, most of these cuts are made to other, discretionary services. This has not meant that social care has been immune from these cuts, but it does mean that any increases in funding (regardless of it being ringfenced) are likely to be channeled into other discretionary areas first, as the proportions of their budgets that care commissioning authorities spend on social care has now reached nearly two thirds according to the County Councils Network.

Action needed now

So, what can be done about it? Our recommendations to government mostly surround our workforce to retain capacity in the sector. Firstly, government must ensure that inflationary pressures in workforce costs, such as increases in eNICs and the national living wage, must be properly funded to retain capacity.

To address the crisis in recruitment and retention, a huge and short-term fix would be to reverse the previous government's changes to the Health and Social Care visas. This would recognise the sector's current reliance on international workers, and reduce costs in agency staff, alongside bringing the rules for care workers back to parity to those of NHS workers.

Speaking of parity with the NHS, the Government's Fair Pay Agreement and Employment Rights Bill are both huge opportunities to bring the sector pay and conditions in line with those of local authority run care services and the NHS which would require more than £10bn in additional funding to even start to match pay, terms and conditions. None of this will work without the government funding to back it, as we have expressed concern over consistently, and even when funding is provisioned, commissioning practices which undermine regulations currently need to change to ensure funding reaches the workforce.

Changes for providers

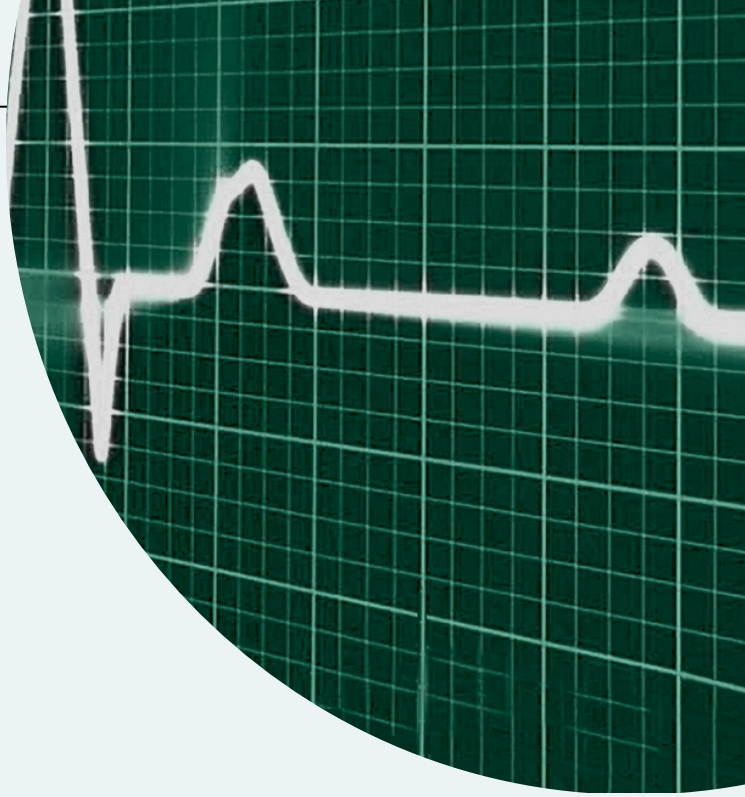
The funding needed is not about to land at any time soon, so care providers will need to make changes themselves in order to sustain services avoid closure and handing back packages until essential to do so.

In the shorter term, care providers need to measure their recruitment effectiveness and cost-per-hire; and ensure they are recruiting the right people suited to working in the care sector to reduce high costs of attrition which were over £3bn in the last 12 months to recruit 350,000 staff. The recent publication *Internet Job Boards: Friend or Foe?* explains how care providers can more effectively focus their resources when recruiting care workers. Values based recruitment as outlined in the Care Character and Skills for Care papers evidences the enhanced retention and higher quality resources this approach yields.

Care work can be incredibly pressured and emotionally draining, so care providers need to support staff when in their roles and consider implementing Employee Assistance Programmes (EAP) which cost from as little as £5 per person per year and help to reduce burnout, improve presenteeism, enhance mental health and wellbeing, and improve retention rates, by offering 24/7 in person and online professional counselling, online GP services, an equivalent £1,500 discount/savings solution for the average care worker, and all the resources needed to support their legal, personal, mental, and emotional wellbeing both at home and in the workplace, a great example being an EAP funded by Essex County Council to support its care workforce.

Long-term solutions

Longer-term solutions include trying to foster better public awareness of care work as a profession. Of course, it already is for lots of people working in the sector, however, it's certainly not well known to be in the public psyche.

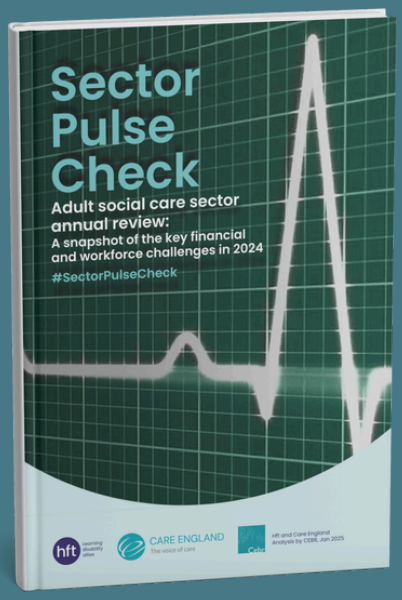


A lot of that has to do with pay and conditions, but it is also a case of the perception that social care is a career for women, and that bespoke professional qualifications for care, and a clear career pathway are in their infancy, having only been around for a year or less by this stage. Despite this, we're still yet to see a long-term work force strategy put in place by government, like the one seen for the NHS, despite the work having already been done already to put it together by Skills for Care. Reducing the cost of recruitment and retention will preserve some of the £3bn spent annually to sustain services.

With the increasing financial pressures forcing providers to consider leaving the sector entirely, one idea that could retain capacity is employee ownership. As outlined in Care England and eoa's paper *People Powered Care*, owners considering exiting the sector could look at employee ownership as a succession option, in which case studies have seen staff retention improve, and revenue increase.

Conclusion

Whilst it is very clear that the government have finalised its initial decisions on addressing sector issues in the long-term, through the launch of Baroness Casey's commission, our key message within the Sector Pulse Check report is that the sector simply can't wait. We need action in the shorter term as our publicly funded sector has been facing below inflation uplifts year after year. So I'll finish by reminding us once again, the impact of contract handback and all these cost pressures hit the individual receiving care the hardest. With some providers resorting to loss-making to avoid abruptly ending a resident's care, and many self-funders seeing their fees increase to fund the gap from local authorities, it's clear this can only go on for so long.



Read other issues of Post-Pulse and the full Sector Pulse Check 2024 report here.