



Navigating the Headwinds Facing the Adult Social Care Sector

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Introduction

Occupancy rates in the UK residential adult social care market have now largely recovered post-COVID-19, supported by strong underlying long-term demand dynamics. However, providers are still facing a number of headwinds, particularly in the form of rising staff costs as a result of recent National Insurance Contributions (NIC) and National Living Wage (NLW) rises, which mean the operating environment remains challenging.

Independent providers play a fundamental role in delivering both elderly and adult specialist care services in England. In recent years, they have had to overcome a number of significant obstacles, including occupancy and staffing challenges caused by the COVID-19 pandemic and a rising cost base due to the global inflation crisis and UK government policies (e.g. NLW rises). Although the sector has recovered in terms of occupancy rates and workforce pressures have eased in the short term, providers are still facing a number of significant headwinds which need to be carefully navigated.

Rising operating costs, long-term workforce challenges and difficulty securing local authority fee increases are placing significant pressure on provider margins — particularly in the adult specialist sector, where dependence on local authority funding is highest. Providers are also facing operational uncertainty due to delays in CQC inspections, which are hindering efforts to improve occupancy, demonstrate quality and plan strategically. These pressures are further compounded by a more complex, higher-acuity resident population. In parallel, ongoing government policy uncertainty and unclear reform timelines are eroding provider confidence and making long-term planning more difficult.

As such, it is critical for providers to remain agile and effectively execute against a growth strategy which addresses today's challenges and supports long-term sustainable growth.

Teneo has worked extensively across the adult social care sector over the last 20+ years, supporting our clients to address complex challenges. Drawing on this expertise, over the following pages, we outline the key trends shaping the adult social care sector in England, the headwinds providers must respond to and practical actions operators can take to build resilience, protect margins and position themselves for long-term sustainable growth.



Market Overview

Strong Underlying Demand for Adult Residential Care Services

In 2023/24, the total number of long-term adult social care recipients in England rose by 2.8% compared to 2022/23, reaching the highest level since 2017!¹ In particular, demand for adult residential care remains high, both for elderly and adult specialist care services.



Increased role of paid-for care: An increasing social acceptance of paid care, combined with a decline in unpaid alternatives, is driving more elderly individuals into care homes. This shift is influenced by the rising old-age dependency ratio, set to increase from 22% in 2022 to 25% in 2032.³ With fewer working-age relatives available to provide unpaid support, reliance on residential care is growing.³

Elderly Residential Care Demand Dynamics

Strong demand for elderly residential care services is currently being driven by the following factors:

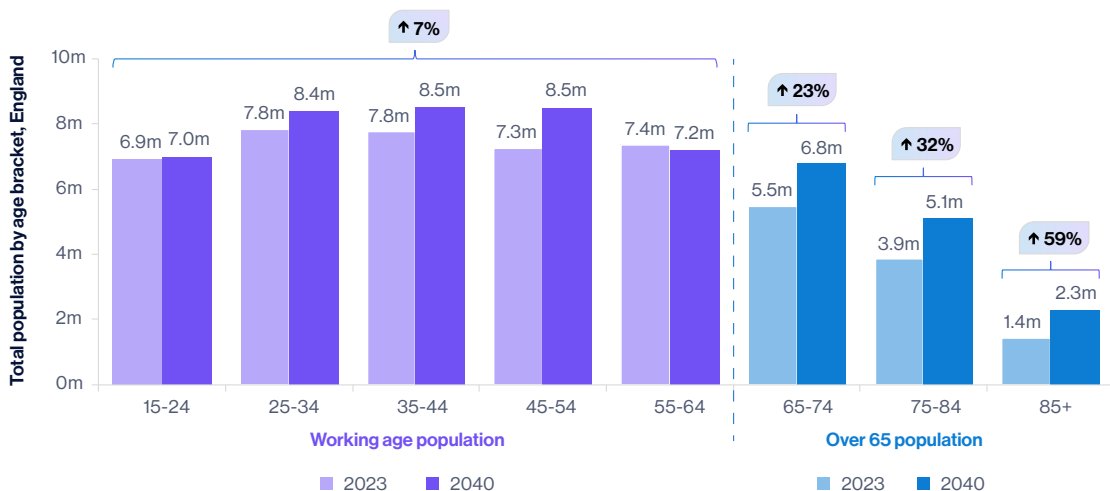


Greater wealth among older generations: Increasing personal wealth among older adults is enabling more people to self-fund care. Since 2010, the 65–74 age group has remained the UK’s wealthiest demographic, with average wealth growing 60% over the decade to £338k—compared to just 21% for 16–24-year-olds (£52k).⁴ Despite the cost-of-living crisis, pensioner incomes rose 5.4% from 2011/12 to 2022/23.⁵ A significant share of this wealth is tied to property, with over-65s holding 43% of the UK’s housing wealth (as of May 2023), offering a key funding source for long-term care (Figure 2).⁶



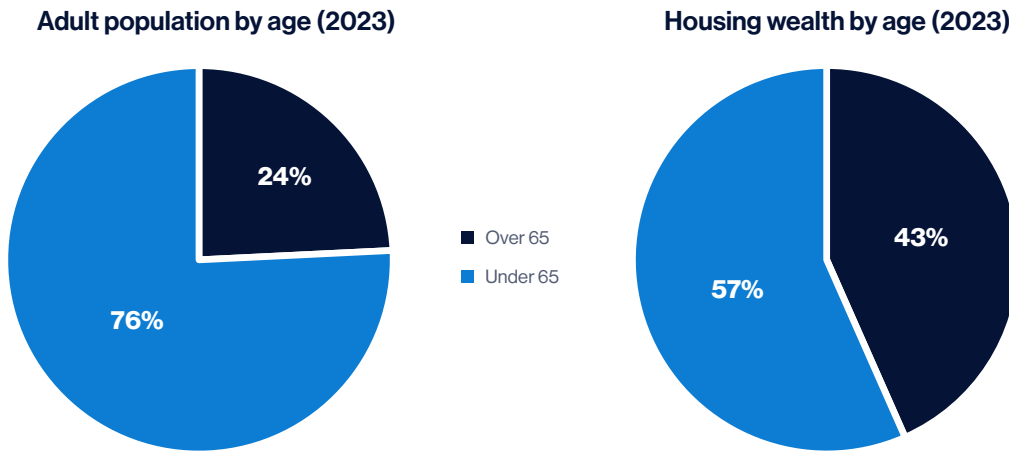
An ageing population: The over-65 population in England is set to grow by 31% between 2023 and 2040, with the 85+ age group projected to grow the most at 59%.² As the total addressable market expands, demand for adult residential care is expected to rise accordingly (Figure 1).

Figure 1: Projected Growth of England’s Population (2023 and 2040)²



1. Adult Social Care Activity and Finance Report 2023-24, NHS England, 2024
 2. Principal projection - England population in age groups, Office for National Statistics, 2024
 3. National population projections: 2022-based, Office for National Statistics, 2025
 4. Distribution of individual total wealth by characteristic in Great Britain, Office for National Statistics, 2022
 5. Pensioners’ Incomes: financial years ending 1995 to 2023, Department for Work and Pensions, 2024
 6. Housing wealth held by over 65s hits record high of over £2.6 trillion, according to research by Savills, Savills UK, 2023

Figure 2: Proportion of Adult Population Over 65² in England, and Proportion of Housing Wealth Held by Over 65s⁶ in the UK, 2023



Adult Specialist Residential Care Demand Dynamics

Demand for adult specialist care in England is increasing rapidly, driven by several key factors:



Rising life expectancy: Medical advancements are extending the lifespan of individuals with specialist care needs (e.g. individuals with learning disabilities and acquired brain injuries, increasing the demand for long-term care).



Decline in informal caregiving: More middle-aged adults with learning disabilities are outliving their parents' ability to provide informal care, leading to greater reliance on formal care services. In the UK, the proportion of the population providing informal care fell from 9% in 2012/13 to 8% in 2022/23.⁷



Shifting care from NHS to social care settings: To reduce hospital bed blocking, more patients are being transitioned from NHS settings into long-term social care facilities, driving greater demand for social care services (also relevant to the elderly care sector).

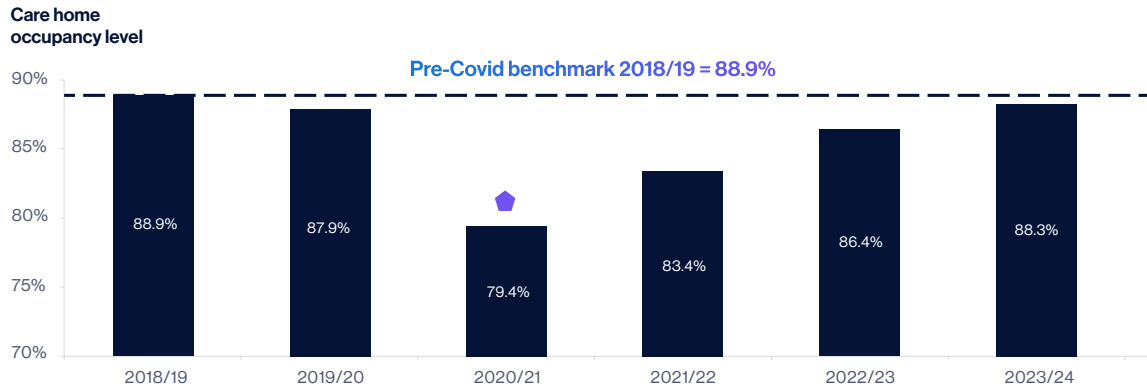


7. Unpaid care by age, sex and deprivation, England and Wales: Census 2021, Office for National Statistics, 2023

Rebound in Occupancy Levels Post-COVID-19

During the COVID-19 pandemic, care home occupancy fell dramatically due to higher resident mortality, strict social distancing measures and infection risks.⁸ However, as the impact of the virus has diminished and concerns over elderly vulnerability have eased, occupancy rates have rebounded close to pre-pandemic levels (88.3% in 2023/24 vs. 88.9% in 2018/19).⁹ This has helped stabilise the market and support revenue recovery for care providers (Figure 3).

Figure 3: UK Care Home Occupancy Levels, 2018/19 – 2023/24⁹



◆ The COVID-19 pandemic led to a substantial 8.5 percentage point decline in care home occupancy.



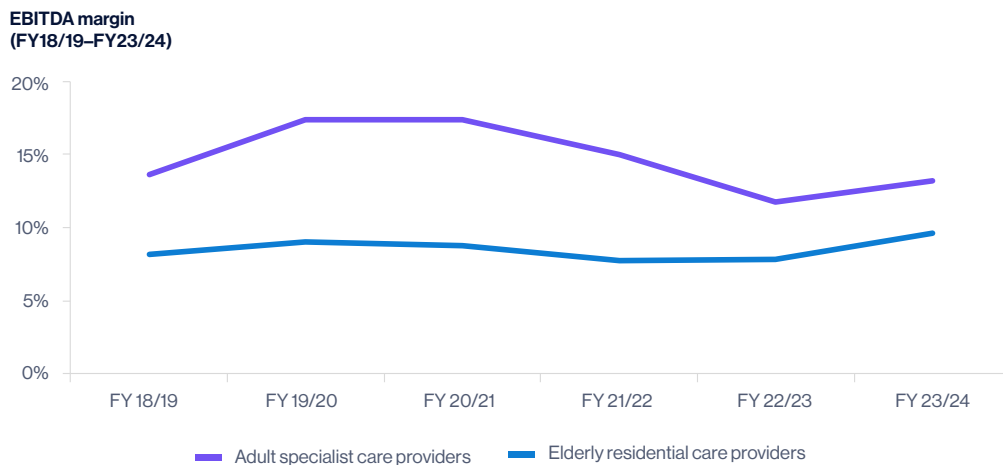
⁸ Technical report on the Covid-19 pandemic in the UK, Department of Health and Social Care, 2023

⁹ UK Care Homes Trading Performance Review, Knight Frank, 2024

Market Headwinds Are Putting Pressure on Many Providers' Margins

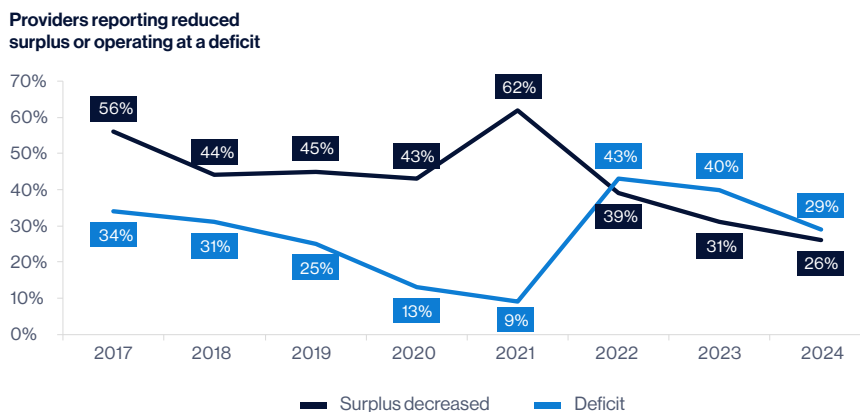
Although specialist care providers' margins are significantly higher than elderly care providers', the gap has narrowed over the last six years. This reflects a structural advantage for elderly care providers whose access to self-pay income has helped mitigate rising cost pressures. In contrast, adult specialist care, more reliant on local authority funding, has experienced overall EBITDA margin decline from FY18/19 to FY22/23, with only modest recovery beginning in FY23/24 (Figure 4).

Figure 4: Weighted EBITDA Margins for Largest, For-Profit Adult Specialist and Elderly Residential Care Providers in the UK, FY18/19-FY23/24¹⁰



Providers are still experiencing significant margin pressure today due to insufficient local authority (LA) fee uplifts, rising costs (including NLW and employer NIC hikes) and operational challenges. While post-COVID-19 occupancy gains have eased some financial strain, 29% of providers surveyed in the Sector Pulse Check report were operating at a deficit in 2024, and 26% saw a decline in surplus (Figure 5).¹¹ As financial pressures mount, many providers have been forced to make difficult decisions, with 30% of surveyed providers responding by closing parts of their operations or handing back contracts.

Figure 5: Percentage of Adult Social Care Providers Who Reported a Decline in Surplus or Operating at a Deficit, 2017-2024^{11,12}



¹⁰. Teneo research and analysis

¹¹. Sector Pulse Check 2024, Hft and Care England, 2025

¹². Note: 2021 only refers to adult specialist providers

Government Policy and Funding: Action Underway, But Uncertainty Remains

While the government is taking steps to reform adult social care and has committed funding through the recent Spending Review, significant uncertainty remains, hindering long-term strategic planning across the sector. In light of this, providers must take independent, strategic action to navigate ongoing challenges, drive efficiencies and ensure long-term sustainability.

Key uncertainties include:

- **The Casey Commission—Delayed reform:**

The government's independent review of adult social care, led by Baroness Louise Casey, is still years away from delivering meaningful change. With a diagnostic phase set for 2026 and final recommendations in 2028, providers are left without a clear policy framework to guide investment and service planning.¹³

With a general election expected in 2028 or, at the latest, 2029, there is a significant likelihood that any major recommendations from the commission will be pushed into the next Parliament—and potentially delayed further if there is a change of government.

- As part of the review, a framework for a National Care Service is being developed, aiming to centralise governance and reduce regional disparities in access and quality.

- **Spending Review 2025—Funding announced but lack of clarity:** Chancellor Rachel Reeves announced an additional £4bn per year for adult social care by 2028–29, contingent on significant council tax rises.¹⁴ However, the Health Foundation estimates that £3.4 billion of this is the bare minimum needed to meet rising demand, and an additional £6.4bn would be required to improve access.¹⁵ With ongoing downward pressure on government budgets, significant additional spending is unlikely to be available in the immediate term.



¹³. New reforms and independent commission to transform social care, Department of Health and Social Care, 2025

¹⁴. £4bn a year more available for adult social care by 2028-29 in spending review, CommunityCare, 2025

¹⁵. Extra £3.4bn needed to save adult social care services from decline, The Health Foundation, 2025

- Crucially, the review also lacks clear policy direction or implementation timelines, with widespread concern that substantial decisions will be deferred until the Casey Commission's initial findings in early 2026—leaving providers without certainty in the interim.¹⁴
 - The review also earmarks £100m between 2025 and 2028 to support local partnerships focused on early intervention and crisis prevention for adults with complex needs, but plans remain vague.¹⁴
- **Fair Pay Agreement—funding announced but agreement to come into force in 2028:** Health Secretary Wes Streeting announced that £500m of the £4bn outlined in the Spending Review will be invested in a Fair Pay Agreement for adult care workers across England,¹⁶ aimed at improving recruitment and retention in the sector, backed by the legal force of the Employment Rights Bill. However, the agreement is expected to increase costs¹⁷ for social care providers, with further clarity

expected following establishment of the Adult Social Care Negotiating Body in 2026. The Health Foundation has warned that the investment will be insufficient to boost pay meaningfully, with c.£2.3bn required by 2028/29.¹⁸

- **Structural changes:** The abolition of NHS England and its reintegration into central government marks a major structural shift,¹⁹ indicating government's appetite to significantly overhaul the health and social care sector. Many local authorities also face restructuring, with expanded numbers of metro mayors and other changes demanding political focus.
- **Unclear role of NHS 10-Year Plan:** The NHS 10-Year Plan promotes an integrated, whole-system approach, but its implications for adult social care remain undefined.²⁰ With current priorities skewed toward healthcare, there is little clarity on how adult social care will align with or benefit from wider NHS objectives, further complicating joint planning and service coordination.



16. £500m for first ever Fair Pay Agreement for care workers, Department of Health and Social Care, 2025

17. Fair pay agreement for adult social care likely to increase council costs, says government, CommunityCare, 2024

18. £500m social care fair pay agreement investment just the start, says Streeting, The Standard, 2025

19. World's largest quango scrapped under reforms to put patients first, Department of Health and Social Care, 2025

20. Fit for the future: 10 Year Health Plan for England, Local Government Association, 2025

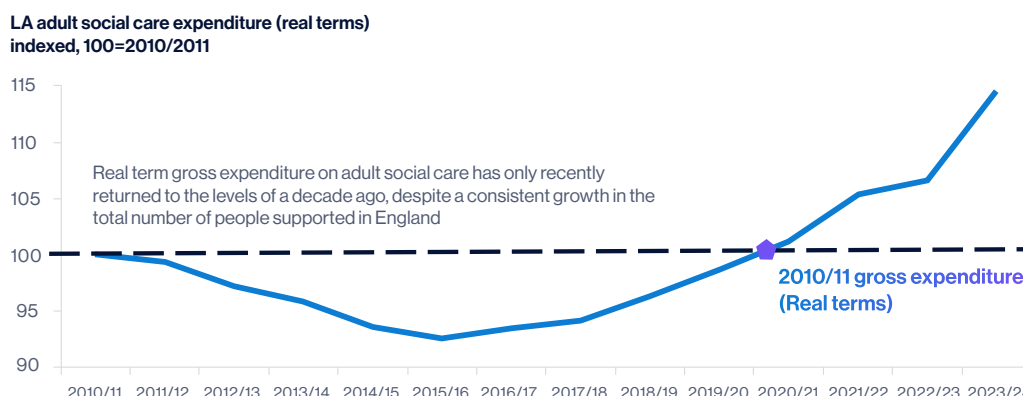
Market Headwinds Impacting Providers

Local Authority Funding and Budget Allocation Challenges

Local authority (LA) underfunding remains a pressing issue for social care providers (Figure 6), especially in the adult specialist care sector, where limited self-pay revenue leaves providers unable to offset funding shortfalls.¹¹ However, this issue may soon become a critical concern for all adult care residential providers, as the government's Fair Cost of Care initiative aims to reshape funding by limiting the use of self-pay revenue to compensate for inadequate LA funding (see more details below).²¹

To navigate the challenging funding and commissioning landscape, providers will need to focus their services on regions with sustainable LA funding uplifts and pivot towards high-demand, better-funded and more profitable service offerings.

Figure 6: Gross Expenditure on Adult Social Care by Local Authorities in England (Real Terms), 2010/11 to 2023/24¹



Fee Uplifts Not in Line with Cost Base Rises

The August 2024 Budget pledged a £600 million grant for LA social care funding in 2025/26, but this falls short of covering providers' increased cost base.²² Council spending power is expected to rise by 3.2% in 2025/26, largely driven by a projected 5% increase in council tax receipts, amounting to just over £2bn for all services — funding that will be quickly consumed by rising wage and tax costs. In 2024, only 15% of providers surveyed in the Sector Pulse Check reported that fee uplifts covered the NLW increase, with the average uplift at just 4.9% — less than half of the NLW's 9.8% rise.¹¹

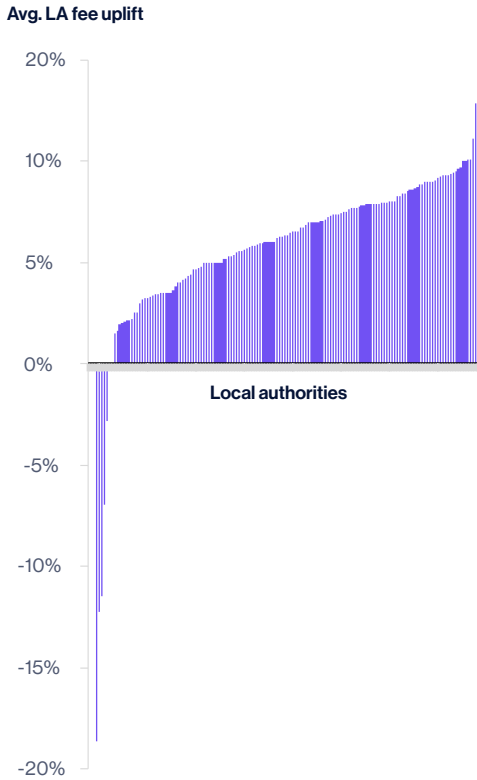
Significant Geographic Variation in Fee Uplifts

Regional disparities in LA funding uplifts further compound the crisis, with some LAs and Integrated Care Boards (ICBs) providing inflationary adjustments while others impose minimal or zero-percent uplifts, effectively reducing real-terms funding.¹¹ These inconsistencies create a fragmented funding landscape, where access to care and service quality vary widely based on geography rather than need (Figure 7).

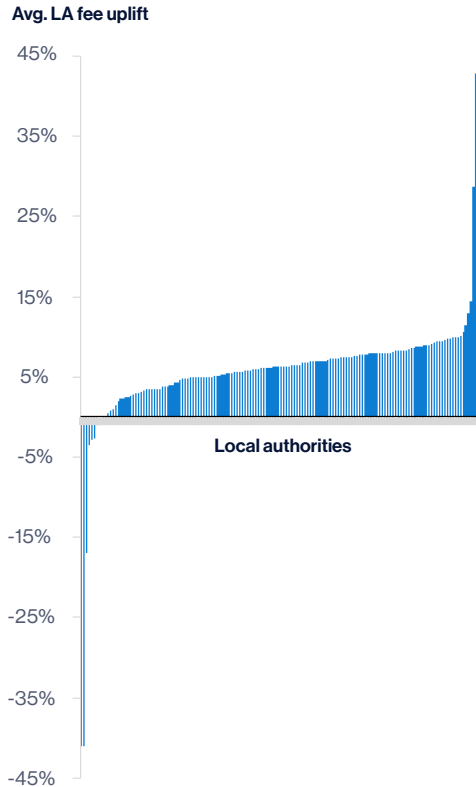
²¹ Fair cost of care: what is it and will it fix the problems in the social care provider market?, Nuffield Trust, 2022
²² Will the Autumn Budget push the social care sector beyond breaking point?, Nuffield Trust, 2024

Figure 7: Average Weekly Fee Rate Uplift for External Providers of Care Homes Without Nursing for Residents Aged 18-64 and 65+ in 2024-25 by England Local Authority²³

Adult specialist homes (residents aged 18-64)



Care homes (residents aged 65+)



Government’s Fair Cost of Care Initiative May Reduce Self-Pay Fees

Elderly care providers, long reliant on cross-subsidisation, are increasingly vulnerable under the evolving policy landscape. The initiative will enable self-funders to request council-arranged care placements at LA rates, potentially eroding a key revenue stream and increasing providers' dependence on public funding.²¹ While Labour remains committed to these reforms, the timeline remains unclear.²⁴

Delayed and Unpaid LA payments

Beyond chronic underfunding, delayed LA payments are disrupting cash flow and operational planning.¹¹ Unpredictable cash flows require operators to retain a cash buffer, reducing investment in workforce development, technology and service improvements.

Preference for Supported Living

There is a long-term shift in commissioner preferences toward supported living placements over residential care due to greater independence for individuals and cost-effectiveness.²⁵ To remain competitive, providers must align with evolving commissioning needs and preferences.

²³ Market Sustainability and Improvement Fund 2024 to 2025: care provider fees, Department of Health and Social Care, 2024

²⁴ Chancellor statement on public spending inheritance, HM Treasury, 2024

²⁵ Adult Social Care: Key facts and figures, The King's Fund, 2024

Rising Costs

Social care providers are under increasing financial strain, with 91% identifying workforce expenses as a top-three cost challenge in the 2024 Sector Pulse Check report, followed by utility bills (39%) and maintenance costs (25%).¹¹ The ability to manage these rising costs varies by provider size and service type. Larger providers, typically elderly care operators, often lack the flexibility to pivot to more profitable service lines through service closures or facility repurposing, relying instead on internal efficiencies to mitigate costs.¹¹ In contrast, smaller, more agile adult specialist providers are adapting by exiting unviable services, handing back contracts and shifting their offerings—both geographically and at a service level—to sustain profitability.¹¹

Going forward, providers will need to continue to focus on cost optimisation. This includes unlocking workforce efficiencies, leveraging digital infrastructure to drive operational savings, reducing reliance on agency staff, investing in energy-efficient systems, and proactively reviewing and negotiating property expenditure. These steps are essential to mitigating financial challenges while ensuring sustainable, high-quality care delivery.

Workforce Costs

NLW and ENIC

In April 2025, the NLW rose by 6.7%, increasing from £11.44 per hour to £12.21. This marked the first time NLW has been adjusted to reflect inflation and the cost of living.²⁶ With social care workers earning, on average, just 2% above the NLW, this increase will significantly drive up workforce costs.⁹ Independent sector social care providers anticipate a £1.9bn rise in their total 2025 wage bill, further straining already tight financial margins.

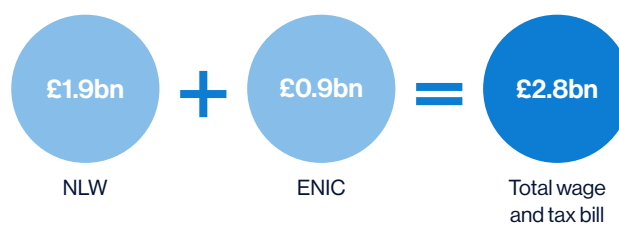
Alongside rising wages, the employer’s National Insurance Contribution (ENIC) rate increased by 1.2 percentage points to 15% in 2025, while the earnings threshold for ENIC contributions dropped from £9.1k to £5k. These changes are expected to add approximately £940m to the sector’s total ENIC bill in 2025/26, bringing the combined impact of wage and tax increases to £2.8bn (Figure 8).²²

With most adult social care providers operating on tight margins, only the largest organisations—representing just 2% of the market, according to the Department of Business and Trade (2024)—are positioned to absorb rising workforce costs. While many providers will seek to offset these increases by raising fees for self-funding clients,²² this strategy is far less viable in sectors like adult specialist care, where self-funding is rare. As a result, providers face difficult financial decisions and must look to drive efficiencies to control a growing cost-base.

Employment Rights Bill

The proposed Employment Rights Bill, which has recently passed the House of Lords, seeks to establish an Adult Social Care Negotiating Body with the remit to set pay and conditions for care workers in England through a Fair Pay Agreement, allocated £500m in funding.²⁷ While this initiative seeks to improve workforce stability and address long-standing recruitment challenges, it is anticipated to increase costs for local authorities and self-funding individuals.¹⁷ Although the government has acknowledged that care providers have limited capacity to absorb these additional expenses, there is currently insufficient information on how these increased costs will be managed or funded.

Figure 8: Independent Sector Social Care Projected Wage and Tax Bill Increase in 2025, England²²



^{26.} April pay rise set to boost pockets of over 3 million workers, Department for Business and Trade, 2024

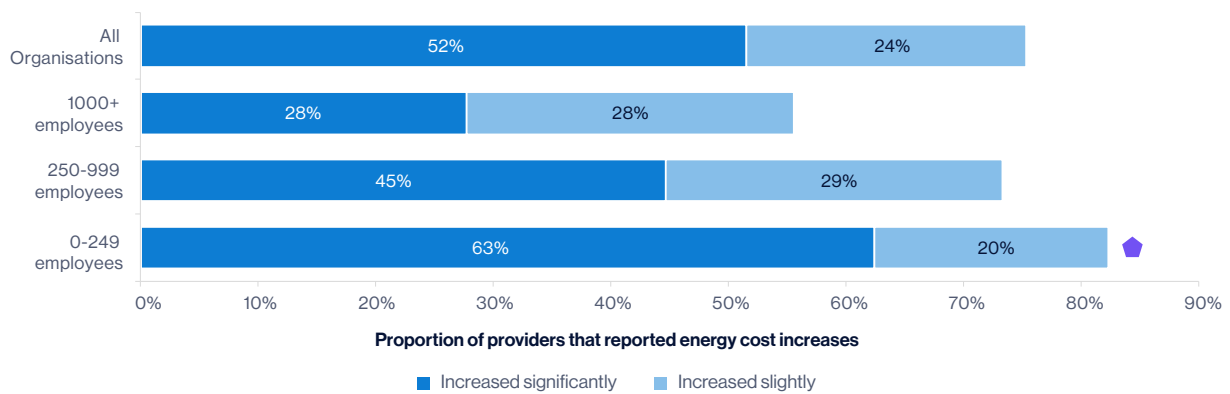
^{27.} Establish a Fair Pay Agreements process in the Adult Social Care sector, Department of Business and Trade, 2024

Agency Costs

Agency costs remain a major workforce pressure, ranking as the second-largest financial challenge for providers in 2024.¹¹

While agency use has declined in recent years—from 15.7% in both 2022 and 2023 to 7.8% in 2024¹¹—this trend is set to reverse. Tightening restrictions on international recruitment are worsening workforce shortages (see page 15 for further details), leaving many providers with little choice but to rely more on agency staff. This shift will drive up costs, heighten workforce instability and has the potential to disrupt continuity of care and service quality.¹¹

Figure 9: Percentage of Adult Social Care Providers in England that Experienced Rising Energy Costs Across 2024¹¹



Smaller organisations were particularly impacted by rising energy costs in 2024, with 4 in 5 providers reporting increases.

Utility and Maintenance Costs

Energy and utility costs remain a key financial challenge for the adult social care sector, with 76% of providers surveyed in the Sector Pulse Check reporting an increase across 2024. More than half classified this rise as “significant,” highlighting the ongoing burden of high operating costs (Figure 9).¹¹

Energy Crisis Stabilisation

There are signs of energy price stabilisation, with UK natural gas prices having fallen from the record highs seen after Russia’s invasion of Ukraine in 2022. As a result, the relative impact of utility costs on provider finances has begun to ease.⁹

In 2023, 59% of providers surveyed ranked utilities among their top three cost pressures, but by 2024, this fell to 39%.¹¹ However, energy costs remain volatile and hard to forecast due to ongoing geopolitical tensions.

Maintenance Costs

Beyond energy expenses, social care providers are facing rising maintenance costs driven by several structural and operational factors.¹¹



Stricter regulatory standards: Increasing health, safety and care quality requirements are driving up the cost of maintaining facilities to compliant standards.



Old care infrastructure: Many care facilities are outdated, requiring significant investment for upgrades and repairs.

Operational Challenges

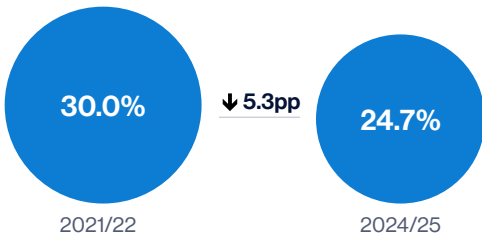
Workforce Shortages

Between 2021/22 to 2024/25, both turnover and vacancy rates in the sector have improved, falling by 5.3 and 3.6 percentage points respectively — a positive step towards workforce recovery post-COVID-19 (Figure 10). However, as of 2024/25, the sector still has 111,000 vacancies (7.0%) and a 25% turnover rate.²⁸ This vacancy rate far exceeds the UK-wide average of 2.3% (Figure 11), with no sector, other than the NHS reporting a vacancy rate above 4%.²⁹ This underscores the unique and ongoing difficulties the social care sector faces in attracting and retaining staff.

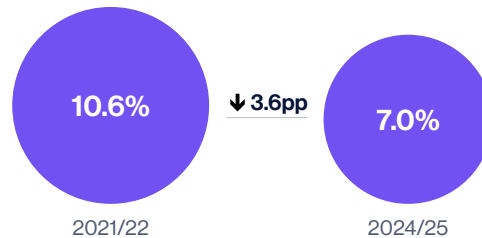
To navigate workforce headwinds, providers will need to enhance employee value propositions, optimise care models to maximise staff efficiency and leverage technology to streamline operations and ease workforce pressures.

Figure 10: Turnover and Vacancy Rates in Adult Social Care 2021/22 and 2024/25, England^{28,30}

Staff turnover rates



Staff vacancy rates

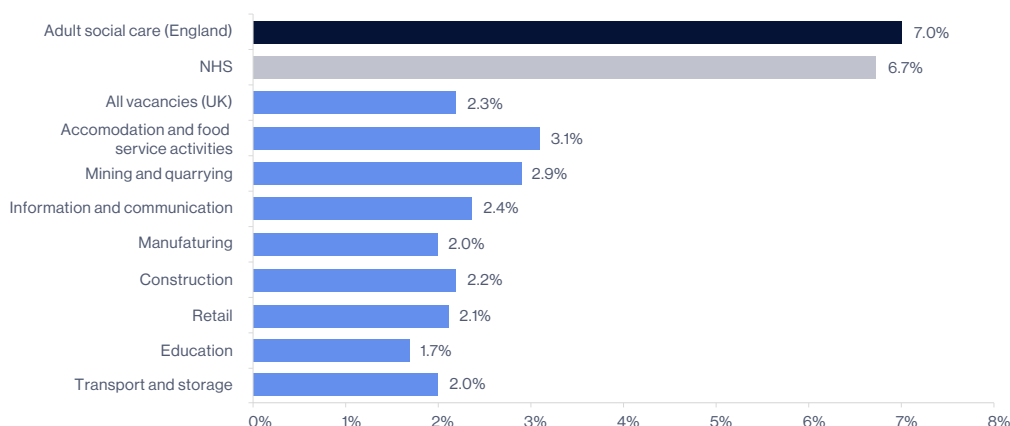


²⁸. The state of the adult social care sector and workforce in England, Skills for Care, 2025

²⁹. The size and structure of the adult social care sector and workforce in England, Skills for Care, 2025

³⁰. The state of the adult social care sector and workforce in England, Skills for Care, 2022

Figure 11: Adult Social Care Vacancy Rate in Comparison to the NHS and the Wider Economy 2024-25, England²⁸



Stalling Domestic Recruitment

A key driver of elevated vacancy rates is the stagnation of domestic applications. In 2024, 33% of providers surveyed in the Sector Pulse Check reporting a decrease in domestic applications, while 34% saw no change.³¹ Social care struggles to attract workers due to low pay, demanding conditions and limited career progression. As of 2022, over 80% of jobs in the wider economy offered higher wages, leading many candidates to opt for roles in sectors like hospitality, which offer better pay and fewer responsibilities.³⁰

Recruitment challenges are further compounded by pay and career disparities between the NHS and social care. In 2024, care workers earned, on average, £7,617 less per year than their NHS counterparts—a 35.6% pay gap.³¹ With higher salaries, clearer career pathways and greater societal recognition, the NHS remains the more attractive choice for those entering the care profession, further limiting the applicant pool for social care providers.

International Recruitment Barriers

With domestic applications stagnating, providers have relied on international recruitment to fill workforce gaps. However, recent government policies³² have severely restricted this option:

- **March 2024:** Care workers lost the ability to bring dependants, significantly reducing the appeal of UK social care roles for international candidates.
- **July 2025:** The government banned new overseas care worker visas, effectively halting international recruitment in the sector.³³ While existing sponsored workers can continue or extend their visas, the ban removes a critical workforce pipeline.

Increasing Complexity of Care

The UK’s adult social care sector is undergoing a fundamental shift, with residential care settings increasingly made up of higher-acuity individuals, as lower-acuity populations move towards home and community-based alternatives. This trend is reshaping both elderly care and adult specialist services.

To meet growing complexity, providers must evolve their service models by expanding specialist staff, enhancing clinical leadership and upgrading facilities.

³¹ Unfair to Care, Community Integrated Care, 2024

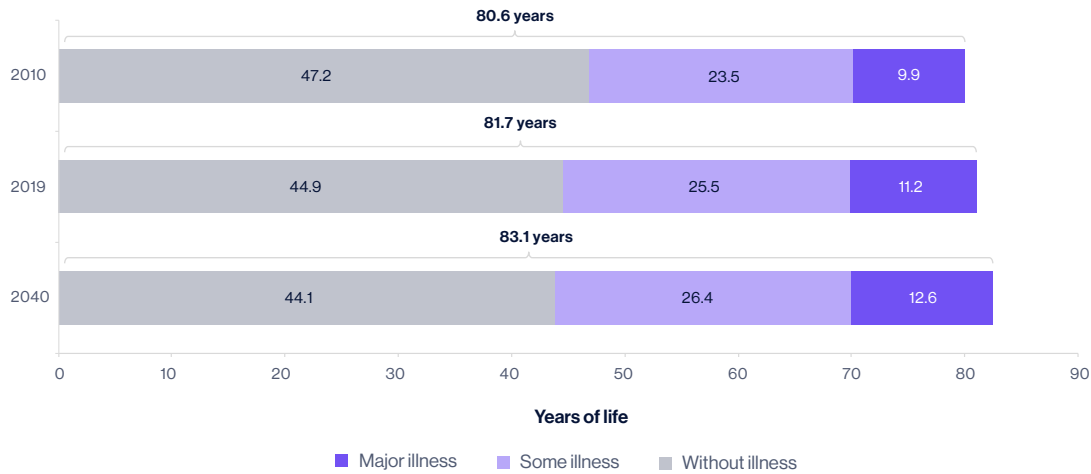
³² Impact of the changes to the UK immigration policy, NHS Employers, 2025

³³ Overseas care worker recruitment ban comes into force, CommunityCare, 2025

Elderly Care Complexity

Although life expectancy in England rose from 80.6 years in 2010 to 81.7 in 2019, the number of years spent in ill health also increased—from 9.9 to 11.2 years.³⁴ This disparity is set to widen further, with life expectancy projected to grow by 2% by 2040, while years in ill health are expected to rise by 13% (Figure 12). Multimorbidity affects 48% of those aged 59–73 and 67% of those over 74.³⁵ As individuals live longer with multiple health conditions, elderly care providers must meet greater care demands.

Figure 12: Average Years of Life the Population Spends in Different States of Health, England, 2010, 2019 and Projected for 2040³⁴



Further exacerbating care complexity is the rising prevalence of dementia. As of May 2024, it was estimated that c. 1 million people in the UK are living with dementia – a figure projected to rise to 1.4 million by 2040.³⁶

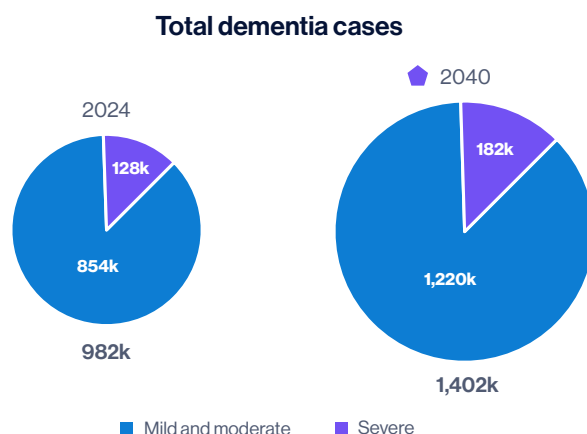


³⁴. Health in 2040: projected patterns of illness in England, The Health Foundation's REAL Centre, 2023

³⁵. Multimorbidity: How common is it?, National Institute for Health and Care Excellence, 2023

³⁶. The economic impact of dementia, Alzheimer's Society, 2024

Figure 13: UK Dementia Cases, By Type, 2024 and Projected 2040³⁶



◆ Dementia cases are projected to increase by 43%.

Adult Specialist Care Complexity

A similar trend is evident in adult specialist care, where supported living and step-down care are the preferred options for lower-acuity individuals. Residential settings now house individuals with more complex needs.³⁷ Advances in early-life care and medical interventions have extended the lifespan of people with severe disabilities, many of whom now live with conditions that were previously non-survivable. This has led to growing demand for long-term specialist care within residential settings.³⁸

Discharge to Assess Pressures

The Government’s ‘Discharge to Assess’ (D2A) policy has further intensified pressures on adult social care by increasing the influx of high-acuity individuals. Originally designed to expedite hospital discharges and alleviate NHS bed pressures, the policy has shifted the burden of complex post-acute care onto social care providers.³⁹ As a result, more medically complex individuals are being placed in residential care facilities that were not designed or resourced for this level of clinical need. This shift has fundamentally reshaped the acuity profile of long-term care homes, which are now expected to manage intensive medical oversight and rehabilitation.

Care Quality Commission Inspection delays

Delays in Care Quality Commission (CQC) inspections are presenting operational challenges for adult social care providers. Services that have made significant improvements since their last CQC assessment face extended waits for reinspection, limiting their ability to restore occupancy levels and rebuild public trust. These delays, largely driven by staffing shortages within the CQC, have left many providers in a prolonged state of uncertainty—hindering strategic planning, service development and reputation management.



³⁷. Accelerating reform in adult social care in England: priorities for innovation and scaling, Department of Health and Social Care, 2023

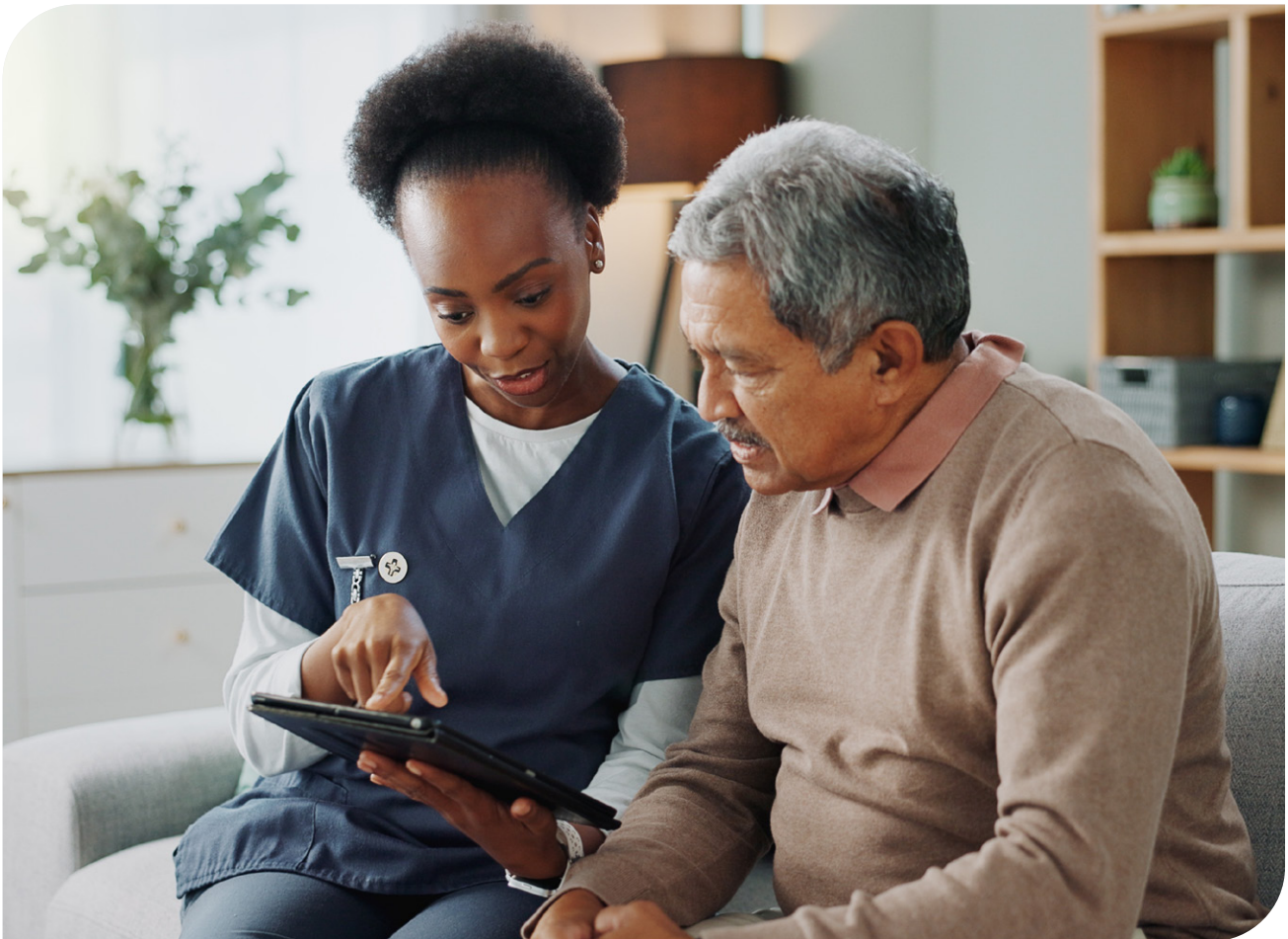
³⁸. Fingertips | Learning Disability Profiles, Department of Health and Social Care

³⁹. Discharging patients, Care Quality Commission, 2022

Focus on Digitalisation

Amid mounting operational and workforce challenges, adult social care providers are also needing to accelerate their digital transformation to enhance efficiency, improve care delivery and remain compliant. The CQC is placing greater emphasis on digitalisation, particularly the implementation of digital social care records, which are now being incorporated into quality assessments.⁴⁰ In line with this, the Department of Health and Social Care (DHSC) set a target for 80% of CQC-registered social care providers to have electronic records by March 2025, up from 63% in 2024.⁴¹ With new technology standards and greater integration between health and care services on the horizon, further digital requirements are expected.⁴² This underscores the need for providers to make substantial investments in digitalising their care models—especially as the social care sector remains less digitally mature than its healthcare counterpart.

Therefore, prioritising digital investment is essential to meeting CQC expectations and staying ahead of evolving standards. While digitalisation offers long-term efficiency benefits, the transition poses immediate challenges. Moving from long-established paper-based processes to digital systems requires significant capital investment, staff retraining and operational adjustments—all while needing to maintain high-quality care and prevent workforce disengagement. Thus, providers will need to navigate short-term challenges to unlock the long-term efficiencies of a tech-enabled care system—essential for staying competitive and future-proofing their services.



⁴⁰. People at the Heart of Care: adult social care reform, Department of Health and Social Care, 2022

⁴¹. Social Services: Digital Technology, UK Parliament, 2024

⁴². What next for the digital transformation of adult social care?, Peter Skinner, 2025

Ways to Address Market Headwinds and Examples of Market Success Stories

Providers have a number of levers available to them to protect margins and ensure sustainable long-term growth as outlined below.

Example activities to protect margins and ensure long-term growth



Revenue growth / optimisation

1. **Optimise mix / portfolio review:** Develop a portfolio strategy that maximises EBITDA by assessing the optimal mix based on competition, local need / demographics, LA fees, commissioning behaviour / preferences (e.g. residential vs. supported living) and existing service-line profitability.
 - A leading elderly care provider has increased its private pay revenue from approximately 5% to 50% between 2010 and 2024, driving significant margin growth.
 - A leading specialist care provider has invested significantly in its Brain Injury Rehabilitation (BIR) services and plans to materially grow its BIR bed capacity over five years through in-house development and acquisitions to capitalise on strong market demand.
2. **Refurbishing existing facilities:** To improve service quality and increase occupancy rates.
 - A leading elderly care provider is executing a £93m refurbishment programme to modernise over 200 care homes in its portfolio, with 116 renovations already completed.
 - A luxury elderly care provider committed £7.5m in 2025 to refurbish several care homes, adding amenities such as dementia wing extensions, rehab suites and cafés to enhance resident experience and command premium fees.
3. **New service development:** Develop solutions for underserved / financially attractive market segments.
 - In 2021, a leading elderly care provider announced it would sell 52 care homes (approximately one-sixth of its portfolio) to focus on more specialised care (e.g. complex dementia), aligning with local commissioning needs and improving margins.
4. **Fee negotiation / pricing optimisation:** Support LA fee negotiations with local analysis (e.g. LA financial health, demand dynamics) and optimise self-pay pricing to maximise occupancy and EBITDA.
5. **M&A:** Acquire assets to grow existing service lines or introduce new complementary service lines in attractive geographies.
 - A care home provider with 10 newly developed homes (c.800 beds) in the Midlands, East and Southwest England was acquired by a competitor in 2025. Several larger providers are leveraging the challenging operating environment to make targeted acquisitions of smaller, underperforming players.



Cost Optimisation

1. **Digitalisation:** Invest in clinical (e.g. care management software) and HR systems to improve care quality, operational efficiency and analytics capabilities to support regulatory and stakeholder needs.
 - By 2024, over 70% of adult social care providers in England had moved from paper to digital care records (up from just 41% in 2021).
2. **Workforce efficiencies:** Optimise workforce through improved task allocation, staff upskilling, process optimisation and new staffing models (e.g. shared staffing).
 - A Northeast England care provider pioneered a nursing associate apprenticeship programme, creating a “junior” nurse tier from care staff to ease reliance on expensive agency nurses.
3. **Employee Value Proposition (EVP) – reduction in agency spend:** Improve EVP to reduce churn and vacancy rates, improve care quality and cut agency spend.
 - A specialist care provider that significantly invested in its EVP was featured on the Sunday Times Best Places to Work list, reducing turnover by 14% between FY23 and FY24.
4. **Property cost review / rent negotiations:** Benchmark property costs, identify inefficiencies, exit underperforming assets and negotiate rents.
 - A leading social care provider’s 2023 restructuring plan reduced rent payments to market levels on over-rented leases and removed lease liabilities from vacant sites.
5. **Energy efficiency:** Assess and benchmark the portfolio for energy improvements, conduct cost-benefit analysis for insulation, alternative energy, waste reduction, etc.
6. **Procurement / supplier negotiations:** Centralise and consolidate procurement, and negotiate fixed-rate utility contracts.





Intervention (For Providers in Distress):

- 1. Short-term cash flow review:** Review and test short-term forecasts to assess strategic feasibility and likely creditor impacts.
- 2. Covenant reset:** Agree on a lender base case against which covenants can be reset.
- 3. Financial restructuring / reorganisation:** Explore options such as new funding, debt restructuring, creditor compromises, disposals and insolvency planning.
- 4. Asset disposal:** Use accelerated M&A to dispose of non-core assets or portfolios, maximising value realised from disposals.

➤ In 2021, a leading care provider secured a £540m long-term debt facility at a sustainable interest rate after a major refinancing. Its owner injected fresh equity to take majority control, allowing it to pay down £66m of debt and fund strategic initiatives.

4. **Asset disposal:** Use accelerated M&A to dispose of non-core assets or portfolios, maximising value realised from disposals.



How Teneo Can Support

Our Health and Social Care practice delivers a range of project types for our clients.

Our multidisciplinary team works across a wide range of subsectors within the UK, European and U.S. health and social care industries. Our work typically encompasses the following areas:



Designing & Deploying Strategies for Long-Term Growth

- **Commercial strategy design:** Identifying attractive market entry points (e.g. new service offerings or geographies) and portfolio optimisation opportunities, and modelling demand across service types and geographies.
- **Clinical strategy design:** Reviewing service portfolios and designing new clinical strategies, care models and governance structures to improve quality and outcomes, ensuring alignment with local and national commissioning priorities and population needs.
- **Due diligence and transaction support:** Advising clients through the end-to-end M&A cycle to ensure that value is fully realised, including acquisition target identification, buy-side and sell-side due diligence and transaction support, carve-out planning, post-merger integration and exit support.
- **Strategy implementation:** Collaborating closely with executive teams to develop implementation plans and deliver strategic PMO and programme delivery support, ensuring that strategies are well-executed.



Driving Value Creation and Improving Business Performance

- **Pricing and packaging:** Developing pricing and service packaging strategies to support top-line growth.
- **Cost optimisation:** Supporting clients in evaluating their cost base to identify savings that do not compromise service quality and protect the bottom line.

- **Operating model and organisation design:** Providing hands-on support to unlock efficiencies and productivity, including through digital roadmap design, process redesign and clinical and non-clinical workforce optimisation.



Navigating Financial Distress and Providing Assurance

- **Financial analysis and advisory:** Preparing short-term cash flow and independent business reviews, assisting in covenant negotiations and advising executives, boards, lenders and investors through times of challenge and distress.
- **Restructuring:** Developing restructuring options and analysis, implementing financial restructuring and providing disposal support and delivery capacity to ensure a smooth transition.
- **Financial advisory services:** Offering broader financial advisory capabilities including valuation, modelling, pensions advisory, capital advisory and forensics.



Shaping Policy and Building Reputation

- **Government affairs:** Working with providers to make the case for policy change while building national and local political support.
- **Media relations:** Supporting providers in proactively engaging with the media to build reputation across key audiences, while being prepared to respond to crises.

Why Work With Us?

- **Deep social care expertise across both the elderly and specialist care markets:** Teneo has worked extensively in the health and social care sector advising a wide range of providers. This includes leading organisations in both elderly and specialist adult social care, where we have developed a strong understanding of key sector trends and value drivers.
- **Collaborative and effective engagement model, focused on pragmatic advice to deliver value:** We have developed a best-in-class approach to project delivery that engages in-house teams and stakeholders to ensure buy-in, while minimising disruption to day-to-day operations.
- **Rigorous analytical approach:** Our recommendations are grounded in robust data analysis, supported by powerful benchmarking tools and a deep financial skill set. We are backed by specialist data analysts for complex quantitative work.
- **Best-in-class cross-sector and function teams:** Our health and social care experts collaborate with functional specialists across Teneo to deliver integrated solutions. Our capabilities span market entry, revenue growth, performance improvement, organisation design, financial recovery and restructuring, and the full communications toolkit.

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Teneo is the global CEO advisory firm.

We partner with our clients globally to do great things for a better future.

Drawing upon our global team and expansive network of senior advisors, we provide advisory services across our five business segments on a stand-alone or fully integrated basis to help our clients solve complex business challenges. Our clients include a significant number of the Fortune 100 and FTSE 100, as well as other corporations, financial institutions and organizations.

Our full range of advisory services includes strategic communications, investor relations, financial transactions and restructuring, management consulting, physical and cyber risk, organizational design, board and executive search, geopolitics and government affairs, corporate governance and ESG.

The firm has more than 1,700 employees located in 45+ offices around the world.

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