OakNorth Sector Pulse
January 2026

CARE

OakNorth

Industry overview

The UK care sector has continued to navigate an exceptionally challenging operating environment in the second half of 2025, characterised by acute workforce shortages, rising operating costs, tightening regulatory scrutiny, and an intensifying funding gap in adult social care. These pressures have amplified long-standing issues with financial sustainability, particularly among smaller, locally owned operators.

Demand for care home places, however, remains structurally strong. Occupancy levels have held broadly in line with or slightly above pre-pandemic norms, underpinned by the UK's ageing population and increasing clinical acuity. Local authority fee uplifts for FY2025/26 averaged 5.3%, with NHS-funded nursing care rates rising 7.7%, offering modest support to trading conditions. Yet these uplifts remain insufficient to offset the escalating cost base, especially for operators reliant on local authority funding.

From April 2025, labour costs increased sharply due to a 6.7% rise in the National Living Wage, a higher 15% employer National Insurance contribution, and a substantial reduction in the NIC threshold—together absorbing nearly all annual fee uplifts and keeping margins under sustained pressure. Care homes also remain locked into high commercial energy contracts, unlike households who benefit from regulated caps, with water bills rising 30%–50% in 2025. Smaller operators, lacking capital for energy-efficiency upgrades, are increasingly vulnerable.

Adult social care funding pressures remain acute. Local authorities' net spending on adult social care reached £23.3bn in 2023/24, yet 81% of councils forecast overspends in 2024/25. Even with additional grant support announced for 2025/26, sector bodies estimate a funding gap exceeding £1bn, with long-range forecasts indicating a requirement of £8.3bn more per year by 2032/33 simply to keep pace with demographic pressures.

Key trends of the last six months

Resilient demand supported by steady occupancy and fee growth

Despite the challenging trading environment, underlying demand for residential and nursing care remains robust. Average occupancy remains at or above pre-pandemic trends, sustained by continued growth in the over-85 population, rising dementia prevalence, and hospital discharge pressures. Fee uplifts from local authorities and the NHS have helped support income levels, with NHS-funded nursing care increasing by 7.7%.

Care demand stays strong, driven by ageing populations and funding.

Cost pressures intensify as wage and utility inflation outpace income growth

Labour and utility cost escalation remains the primary challenge. The April 2025 National Living Wage increase (+6.7%), higher employer NI, and the lower threshold absorbed nearly all FY25/26 fee uplifts. Energy costs remain elevated for care homes due to commercial tariffs, while water bills increased 30%–50% depending on location and usage. Operators report that these pressures are constraining reinvestment, compressing margins, and threatening long-term sustainability.

Rising labour and utility costs are squeezing margins and sustainability.

Funding pressures persist despite additional government support

The 2025/26 finance settlement added resources to the Social Care Grant, the Better Care Fund, and the Market Sustainability and Improvement Fund. Yet ADASS and the Health Foundation warn that the settlement leaves a £1bn+ shortfall for 2025/26 and a widening gap thereafter, intensifying pressures on commissioning rates and local authority purchasing power.

£1bn+

Despite added funding, a £1bn+ social care shortfall persists.

Regulatory uncertainty and inspection reform reshape provider priorities

Regulatory change has become an increasingly prominent theme across the sector. Following widespread criticism of the Single Assessment Framework, the CQC's consultation on a revised, clearer inspection model has created uncertainty for providers who must continue operating under the current system while preparing for future reforms. Expanded CQC oversight of local authority commissioning practices has also raised expectations around governance and quality assurance. Together, these developments are prompting operators to strengthen compliance processes, invest in digital recordkeeping, and focus more heavily on evidencing care quality and workforce management—particularly as inspection outcomes increasingly influence both investor confidence and lender appetite.

Regulatory reforms increase uncertainty and push providers to enhance compliance.

Sector spotlight

A Nottingham-headquartered home care

In November, we provided a £5.5m loan to Care Santé, a Nottingham-headquartered home care provider delivering domiciliary and extra care services across the UK, to accelerate future growth of its nationwide home care services.

The Birmingham-based care home provider

Also in November, we provided a co-loan alongside, Ortus Secured Finance, to returning customer, Macc Care, the Birmingham-based care home provider, to refinance existing debt and support the group's future growth.

The specialist retirement living developer and operator

In October, we provided a £87.6m property investment facility to Elysian Residences, the specialist retirement living developer and operator, to refinance two of its recently completed schemes – The Denton in Berkhamsted and The Beckett in Tunbridge Wells.

A specialist care provider

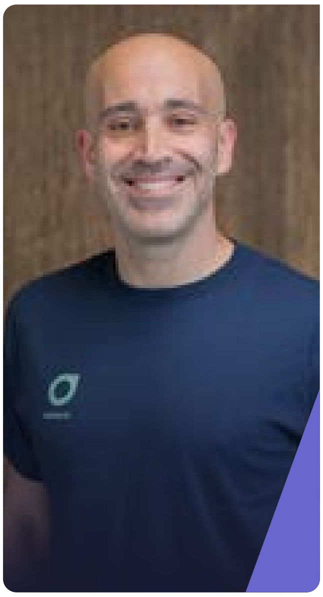
Also in October, we participated in a club loan to specialist care provider, Kisimul Group, to support its development of new supported living sites, as well as help increase capacity across its existing portfolio.

Returning customer and award-winning care provider

In September, we provided a bespoke loan to returning customer and award-winning care provider, Lovett Care, to help it acquire a 84-bed purpose-built care home in Lancashire.

Leading addiction treatment provider

In July, we provided financing to leading addiction treatment provider, UKAT, to support its acquisition of Bournemouth-based 44 bed, private, residential rehab centre, Providence Projects.



"The care sector has shown remarkable resilience despite one of its toughest operating environments in years. Providers continue to grapple with acute staffing shortages, rising costs and growing regulatory pressures, all while caring for an ageing population and managing sustained demand. These pressures are driving more closures, reducing capacity at a time when it is most needed.

At the same time, we're seeing operators adapt through digital transformation, investment in modern, sustainable facilities and proactive steps to strengthen service quality. These shifts are essential for long-term stability.

At OakNorth, we remain committed to backing ambitious operators navigating this landscape. Recent transactions — supporting Care Santé's expansion, Macc Care's refinancing, Lovett Care's latest acquisition, Elysian Residences' retirement schemes, Kisimul Group's supported living growth, and UKAT's expansion — demonstrate the sector's resilience and continued investor appetite. Despite near-term challenges, strong demographic drivers reinforce our confidence in the sector's long-term outlook."

Ben Barbanel
Chief Lending Officer at OakNorth

Outlook for the next six months

Demographic shifts will continue to fuel long-term demand

By 2040, around one in four UK residents will be aged 65+, with the 85+ population nearly doubling to 3.3 million by 2047. Dementia prevalence is projected to rise to 1.4 million by 2040. With 45% of NHS delayed discharges linked to shortages in care home placements, the pressure on residential capacity will remain acute. Demand fundamentals therefore remain exceptionally strong.

Ageing demographics and rising dementia will sharply intensify care demand.

Autumn Budget 2025: Unfunded wage increases heighten financial instability

The Autumn Budget confirmed significant further increases to the National Living Wage without providing corresponding support for providers. Industry estimates suggest these changes will add £1.2bn annually to sector costs. Without targeted relief, reforms designed to support workforce improvement—such as career development pathways and recruitment initiatives—risk being delayed or abandoned.

Rising wage mandates add £1.2bn costs, threatening workforce reforms.

Fair Pay Agreement consultation signals long-term workforce reform

DHSC's consultation on a Fair Pay Agreement (FPA), closing January 2026, marks a major step toward sector-wide minimum standards for pay and conditions. However, implementation is unlikely before 2028 and will require new funding to avoid destabilising providers. Over the next six months, providers and sector bodies will likely engage heavily in shaping the scope, modelling impacts, and advocating for interim support measures.

FairPay

Fair Pay Agreement plans advance, but funding gaps risk disruption.

Digital transformation and telecare acceleration

With the UK's analogue phone network set to be fully retired by January 2027, providers must upgrade telecare, warden-call and alarm systems to digital networks. Many are already integrating AI-enabled monitoring, sensor-based fall detection and remote clinical oversight. These technologies offer opportunities to reduce hospital admissions and support more efficient staffing models.

Digital telecare upgrades and AI monitoring reshape care delivery efficiency.

Planning delays and construction costs will continue to stall new development

Under-resourced planning departments, labour shortages in construction, and tightening environmental rules are slowing the pipeline of new care home development. Despite demographic pressure, the sector continues to see limited net new capacity—raising long-term concerns about meeting demand.

Planning and labour constraints are slowing essential care home development.

Get in touch with the team at questions@oaknorth.co.uk or visit oaknorth.co.uk for more information.