CIPFA The Chartered Institute of Public Finance & Accountancy

House of Lords, Economic Affairs Committee.

Social Care Funding in England.

A Submission by:

The Chartered Institute of Public Finance and Accountancy

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the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1. Executive Summary

1.1 CIPFA considers it critical that the challenges of funding social care are clear and understood in order to inform the development of strategic and sustainable solutions. Given the many years in which action has been restricted to short term fixes, such solutions are now more important than ever, and should lead to long term, strategically-informed, financially sustainable and equitable changes.

1.2 In making such recommendations it is essential to maintain a view of social care as part of the closely linked spending on the NHS, public health and adult's and children's social care in totality.

1.3 In this context, CIPFA sets out the issues we believe should be tackled and highlights the broad policy goals to be achieved. The key challenges are:

- Public funding has not kept pace with demographic demands
- The right long term investments are not being made, to the extent required
- Individuals face the possibility of severe financial impact and the market, unaided, cannot provide what is needed to guard against this.

1.4 There is a critical need to improve the long term financial sustainability of the health and social care system. This can be achieved either by adjusting funding, or by adjusting service expectations. Such a choice is a political and economic one – but if neither option is taken, as unsustainable position will result.

1.5 Having considered in this context, CIPFA recommends a five-point plan:

- Find a mechanism to provide a more stable and adequate means of long term planning for social care spending, within the context of the whole health and social care system.
- Reconsider all spending programmes supporting older people on a 'zero-based' perspective.
- Direct funding/introduce incentives/sharpen reporting arrangements to give headroom for preventative actions.
- Protect individuals from the possibility of extremely high social care costs by means of pooling risks.
- Reduce the sharpness of the differential between social care, as a largely paid for service, and health as an essentially free service.

2. Context

2.1 CIPFA sets out the challenges to be addressed with the aim of achieving a long-term settlement which is both sustainable and equitable.[1]

[1] This note represents CIPFA's views, as informed by its Health & Social Care Board, made up of financial management practitioners in health and social care. However, there have been many organisations and publications making related points which have fed into this submission: for example, there is much in common with views expressed by the Dilnot Commission, the Barker Commission, the King's Fund, the Health Foundation, the Nuffield Trust, the Local Government Association, the Association of Directors of Adult Social Services and Public Health England.

2.2 CIPFA considers that the limited coverage of the forthcoming Green Paper is a missed opportunity to consider social care issues as a whole. A wider scope would have allowed for the comparable financial pressures falling on services for children and younger adults, as well as older people – and the inter-dependencies between these three areas.[2] However, given that the Green Paper does have a narrow focus, our response focuses on this area.

3. **The Challenges**

3.1 CIPFA considers there are six key challenges which have recently made it difficult to respond appropriately to social care needs:

- public funding has not kept pace with demographic demands;
- the right long term investments are not being made, to the extent required;
- individuals face the possibility of severe financial impact
- the market, unaided, cannot provide what is needed;
- the health and care systems do not fit together as they should; and
- wider determinants of social care need are not sufficiently integrated into planning processes.

3.2 An adequate solution to the problems faced in providing social care would need to address each of these issues. Considerable effort on the part of government has already been applied towards the last two, in terms of integration of health and social care. CIPFA believes that the path of Sustainable Transformation Partnerships (STPs) and the potential migration towards Integrated Care Systems, as the place-based approach to bringing health and social care together has potential, and time is required to allow those initiatives to take root without further intervention. The practical scope of those initiatives should naturally extend over time, to cover the wider determinants of social care demand – not just community health, but also housing and the welfare system. If this programme succeeds it will aid in addressing other related problems.

3.3 In this context it would perhaps be unhelpful to introduce further changes in the development of place-based frameworks. Therefore, we take the view that the last two challenges referred to above are already in the process of being addressed, and concentrate only on the remaining four.

4. Public funding has not kept pace with demographic demand

4.1 There are now 1.6 million people over the age of 85 in the UK, and this is predicted to double by 2030.[3] Real terms funding for adult social care has not kept pace with demographic change.[4] Whilst efficiency measures are an

[2] See, for example, the concerns about Children's Services set out in CIPFA's Changing Children's Lives: assessing cost and demand for children's services, and the results of the ADASS Budget Survey 2017, which reports that 'for the first time, financial pressures due to the increasing care needs of younger adults with disabilities or mental health problems are greater than those due to supporting older people'.

[3] Office for National Statistics, Overview of the UK population: July 2017

[4] As set out in the ADASS Budget Survey 2017 'total cumulative savings in adult social care since 2010 will amount to over £6bn by the end of March 2018'

important part of the overall picture, and have enabled local authorities to keep services going, they will not solve the problem entirely.

4.2 Successive governments have recognised this problem and injection additional funding on an ad hoc basis – notably the transfer from CCG budgets vs the Better Care Fund, the facilitation of increased council tax for the purpose and the additional £2bn announced in 2017. However, what is needed is a long term view to enable planning to be more sensibly tied to real demographic pressures. This may sound challenging, but society has already absorbed the cost of a 25-fold increase in the over-85's population – from 65,000 in 1902 to 1.6 million in 2017. Social care for older people is only a small proportion of the non-pension spend on this age group: £8bn, again £80bn on benefits and £50bn on health.

4.3 It is clear that some reallocation would make good sense, but it is not evidence that we need to be spending more on older people in total.[5] Particularly when you consider that the biggest areas of spend – pensions, acute care and attendance allowance – do not contribute to reducing the long term demand for social care in the way that other spending might do. Thus, it is apparent that additional investment in social care will be needed, but this may be a matter of making choices within the spending envelope on older people, not necessarily spending more in total.

5. The right long term investments are not being made to the extent required

5.1 Investment decisions are critical. When budgets are tight, there is intense pressure to meet immediate need, but this approach squeezes out the preventative investments which would enable a more secure long term footing to be reached. This just accelerates the next crisis requiring a short tem fix. The cuts made to public health budgets are illustrative of this thinking.

5.2 We need to facilitate the progressing of business cases which cover repayment periods beyond the political cycle. The key is to measure the extent of preventative investment being made, and the future revenue obligations which will accumulate if no preventative action occurs.[6] CIPFA has partnered with Public Health England to develop such a methodology (the results of this are yet to be published).

6. Individuals face the possibility of severe financial impact

6.1 Although we clearly need to address the issue at the level of the whole population, this alone is not enough. While 20% of people will turn out to have no social care need, and the median total cost of social care is £20,000, a small number of individuals will incur over £250,000 in costs.[7] This suggests that

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[5] There is a growing view that older people need to contribute more to their care: see for example the comments made by Lord Willets in March 2018.
[6] Duncan Selbie (Chief Executive, Public Health England) outlines the key thinking in his article '*Far better than cure*' in the publication CIPFA Perspectives, Funding a healthy future, 2016.
[7] Pattern as per Dilnot Commission, Fairer Care Funding, 2011.

social care need follows a pattern for which risks should be pooled – as with the NHS (ill health risks fall similarly) or fire insurance.

6.2 The Dilnot Commission's research showed widespread dissatisfaction with the current position.[8] People feel it is unjust for two main reasons:

- It is a matter of chance whether an individual faces long term costs classifiable as health need or as social care (e.g. Alzheimer's disease). It might not be unreasonable for health and education to be free and social care chargeable, but the differential is too sharp. Moreover, this makes the process of deciding whether someone qualifies for continuing Health Care (CHC) cost-critical for both organisations and individuals. This causes unnecessary disputes, stress and gaming.
- Many people feel that, having saved throughout their lives to purchase a house, they should be able to pass this asset on to their children, subject only to the universally applicable rules of inheritance tax, However, the housing asset is run down to £23,250 under current tax rules.[9]

7. The market, unaided, cannot provide what is needed

7.1 The private sector does not provide an insurance product for social care costs: not because they are unwilling, but because they don't know what the cost curve will be for current insurance purchasers – costs may well be 40 years away, and further shifts in the patterns of old age spending could occur. The private sector cannot take on such a potential for 'aggregate shocks', so there is a complete market failure.

7.2 This is not to blame the private sector: the difficulties faced may be confirmed by the realisation that this is not a UK-specific problem – nowhere is there such a market. The key difference in covering this through the public purse is that the state can change the level of the cap in future in response to an aggregate shock, as the private sector could not.[10]

7.3 At present, people are forced to 'self-insure', which leads to strong incentives to 'cheat' by giving away assets. To illustrate, the proposals enacted (but not implemented) in the *Care Act 2014* would have addressed this and reduced the CHC boundary problem. The extra cost would, eventually, have been some £2 bn per annum. As explained above, that (or an alternative solution) could be afforded by reprioritisation of the overall spending envelope on older people.[11]

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[8] Summary of the Big Care Debate consultation, Department of Health, 2010 and Public Opinion Research on Social Care Funding: A literature review on behalf of the Commission on the Funding of Care and Support, Ipsos MORI Social Research Institute, 2011, as referenced in Dilnot Commission, Fairer Care Funding, 2011.

[9] '*When people then experience the system, many perceive it to be unfair. This is particularly the case when people have to sell their homes, or use up the majority of any assets they have, to pay for care. The current system does not encourage or reward saving, and is poorly understood. People are not prepared, which often leads to poor outcomes and considerable distress.'* Dilnot Commission, Fairer Care Funding, 2011. There is nothing to suggest that views have changed since.

[10] This was at the core of the Dilnot Commission's arguments in: Dilnot Commission, Fairer Care Funding, 2011.

[11] See the still-relevant publication, CIPFA, After the Downturn, 2009 for CIPFA's view of the principles of prioritisation in the current tough financial conditions.

8. Conclusions – sustainability and equity

8.1 There is a critical need to improve the long term financial sustainability of the health and social care system. This can be achieved either by adjusting funding, or by adjusting service expectations. Such a choice is a political and economic one – but if neither option is taken, as unsustainable position will result.

8.2 If services are not to be reduced, then sustainability requires enough headroom for investment in preventative measures, on a secure enough basis to facilitate long term planning. One way to approach this would be to set a minimum percentage of GDP or of tax take to be spent on health and social care.[12]

8.3 The UK spends 9.8% of GDP on health, as defined internationally, compared with 11% in the broadly comparable France and Germany. Current plans see the percentage of GDP on health declining, despite the demographic trends. It would make sense for spend on health, and the closely linked area of social care, to reflect both the national wealth and the political decisions around the tax burden affordable from that wealth. This suggests that a percentage of the tax take might be a more rounded measure than percentage of GDP. Such an approach would also ensure that health and social care – as a priority area of spend – received a proportion of any new taxes.

8.4 The current tax take is some £700bn, 22% of which is accounted for by the £155bn spending on the NHS (£125bn), public health (£4bn), social care for adults (£18bn) and children (£8bn). An extra 1% of tax take would be worth £7bn. For example, setting funding at 24% of tax take in 2018-19 (£169bn) and setting that as a minimum going forward could both solve the current problems, and provide a more buoyant and stable position on which to plan for the future.[13] Should such buoyancy lead to more funds being available than required in a given year, it would make sense either to set funds aside for future pressures, or to invest in additional preventative activity, both of which would increase long term sustainability.

8.5 Although it is a separate policy matter, it is also worth noting the importance of changes to arrangements for local government financing. The movement towards incentivising local raising of money through council tax and business

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[12] CIPFA has argued for this consistently for some years, as for example here: The government will fail to keep health and social care afloat without radical action, warns CIPFA, October 2016 and in CIPFA, More Medicine Needed: The health of health finances revisited, 2016. The Barker Commission (2014) recommended that '*the government should plan on the basis that public spending on health and social care will reach between 11 and 12% of GDP by 2025*' without recommending a 'golden ratio' as such.

[13] These figures are illustrative, but the additional £14bn would be in line with the assessment made in More Medicine Needed: The health of health finances revisited (£10bn for the NHS) and by the Local Government Association in their HoL briefing on local government finance and arrangements beyond 2020 on adults (£2bn) and children's (£2bn) social care.

rates, in itself ignores the question of relative need. Unless that is adjusted for adequately, the overall sustainability of social care will be fatally undermined.[14]

8.6 In terms of equity, the system needs to ensure fairness both within and between generations. That is not to say that older people shouldn't make a larger contribution overall to the costs they incur than they currently do, given that their wealth relative to younger generations has increased sharply in recent decades. However, the balance needs to protect individuals from very high social care costs by pooling risks.

9. Recommendations

9.1 CIPFA does not recommend any given level of spending, nor any particular system for organising the split between state and individual contributions to the costs of social care. However, CIPFA does believe it is vital to make a strategic change, not to defer a substantive decision as has already happened several times.

9.2 Considerable effort on the part of government has already been applied towards the integration of health and social care. CIPFA considers that the government should continue to progress STPs and related policy initiatives to give a more integrated health and social care system as the setting for these changes.

9.3 CIPFA recommends the following as a five point plan solution:

- Find a mechanism to provide a more stable and adequate means of long term planning for social care spending within the context of the whole health and social care system – such as setting a minimum percentage of tax take to be spent on health and social care.
- Reconsider all spending programmes supporting older people on a 'zero-based' perspective – with an expectation that some rebalancing between various programmes is likely to be appropriate.
- Direct funding/introduce incentives/sharpen reporting arrangements to give headroom for, and encourage, the preventative actions which will maximise longer term sustainability and value for money.
- Protect individuals from the possibility of extremely high social care costs by means of pooling risks.
- Reduce the sharpness of the differential between social care, as a largely paid for service, and health as an essentially free service.

[14] See CIPFA's response to the consultation on changes to business rates. CIPFA, Fairness and transparency are vital for 100% business rates retention success, September 2016.