

Estimate of future social care funding gap following Spending Review 2010

**Note prepared for the Health Select Committee inquiry into public expenditure
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The estimates of the gap in funding - actual spending minus that required to meet demographic needs and some increases in unit costs - we report in Table 1 and Figure 1 need to be interpreted with caution. The estimates depend on various assumptions - not least future decisions by councils on their spending priorities following their allocations to be announced next month and the impact of the government's public sector pay freeze policy on councils' social care wage bills.

Table 1 (and Figure 1) provides an illustration of the possible gap between future social care spending following the Department for Communities and Local Government (CLG) local authority settlement plus other changes announced in the 2010 spending review, for example, moving the Personal Social Services (PSS) grant currently administered by the Department of Health to the general local government formula grant, real increases in the PSS grant and the earmarking of part of the NHS settlement for social care.

The estimates of the funding gap are based on three scenarios arising from the 27 per cent real reduction in the central government grant to local authorities (Her Majesty's Treasury 2010) - that between 2011/12 and 2014/15 social care spending will be fully protected by all councils ie, real terms cut of 0 per cent; some protection, a real terms cut of 7 per cent; and no protection, a real terms cut of 14 per cent.

The estimates assume that a 4 per cent real increase each year in the social care budget will be needed to meet growing care needs due to changes in demography and a rise in unit costs (around 2 per cent) (ADASS 2010²) *without any improvements in quality or coverage ie, existing eligibility criteria remain unchanged*. Given the government's two-year pay freeze to 2012/13, the 4 per cent increase has been reduced to 2.5 per cent for the period of the freeze.

The funding 'gap' (columns 7-9) is the difference between estimated actual funding (column 5) and that required to meet increased demographic demand and some increase in unit costs (column 6). On the assumption of average reductions in baseline spending (not including the PSS grant) of 7 per cent over four years, by 2014/15, the funding 'gap' will be around £1.23 billion - about 8 per cent of estimated spend in that year. Over the whole four-year period, the gap is equivalent to around 2 per cent on average per year.

The last two columns vary the baseline assumption concerning real changes in social care spending. On the assumption that there is no real cut (that is, spending increased in line with the gross domestic product (GDP) deflator), then increasing demographic needs and rising costs are more than

¹ This note has been revised to correct an arithmetical error in calculations of the impact of efficiency gains on the funding gap and also to allow for government policy on public sector pay over the two years from 2011/12.

² The financial impact of this demographic growth will be significant. In the impact assessment to the Green Paper it is stated that the funding for the social care system needs to increase by 3.7 per cent to 'maintain the current support offer to all people with needs above the current eligibility threshold into the future', assuming that unit costs increase in real terms by 2 per cent a year. The 3.7 per cent increase also assumes no productivity gains and is for spend on older people only.

For the purposes of this submission a working figure of a 4 per cent increase per annum has been assumed. We believe that this understates the likely pressures on local authorities over the medium term.

covered over the first three years, but leaves a shortfall of around £270 million in 2014/15. However, it is unlikely that most councils could afford to completely protect adult social care spending in this way given that it is the largest area of their controllable spending. The worst case scenario is no protection at all – with a 14 per cent real cut in spending. On this basis, by 2014/15, the funding gap widens to around £2.2 billion – about 15 per cent of the actual spend in that year.

Table 1: Estimate of social care funding ‘gap’: 2011/12 to 2014/15

Social care spending		Middle scenario 7% real cut by 2014/15	Plus PSS real growth above 2010/11	Plus NHS transfer to social care	Required funding to meet needs	Funding 'gap'		
						7% real cut (col 5- col 6)	0% real cut	14% real cut
Cash (£m)	2010/11 prices (£m)	2010/11 prices (£m)	2010/11 prices (£m)	2010/11 prices (£m)	2010/11 prices (£m)	2010/1 prices (£m)	2010/1 prices (£m)	2010/1 prices (£m)
col 1	col 2	col 3	col 4	col 5	col 6	col 7	col 8	col 9
2004/5	11,530	13,403						
2005/6	12,330	13,945						
2006/7	12,810	14,230						
2007/8	13,130	14,111						
2008/9	13,850	14,470						
2009/10	14,489 ^a	14,731						
2010/11	15,072 ^a	15,072						
2011/12		14,831	15,389	16,174	15,449	725	966	484
2012/13		14,590	15,490	16,353	15,835	518	1,000	36
2013/14		14,349	15,286	16,315	16,468	-154	569	-876
2014/15		14,108	14,986	15,897	17,127	-1,230	-267	-2,194

Notes: a: Spending estimated as average growth over 2004/5 to 2008/9: 3.8% pa.

Data sources/definitions/assumptions

Col 1. Net social care expenditure, including Supporting People grant and Personal Social Services grant
The Health and Social Care Information Centre (2010) *Personal Social Services Expenditure and Unit Costs England, 2008-09* Table 3.1.

Personal Social Services grant: Department of Health (2009) Department Annual Report

http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_100667

Col 2. Social care spending at 2010/11 prices, deflated using GDP deflator

Col 3. Estimated future social care spending assuming 7 per cent real cut by 2014/15 (assumes PSS grant element *not* subject to 7 per cent cut)

Col 4. as above plus real growth in PSS grant over and above 2010/11 level

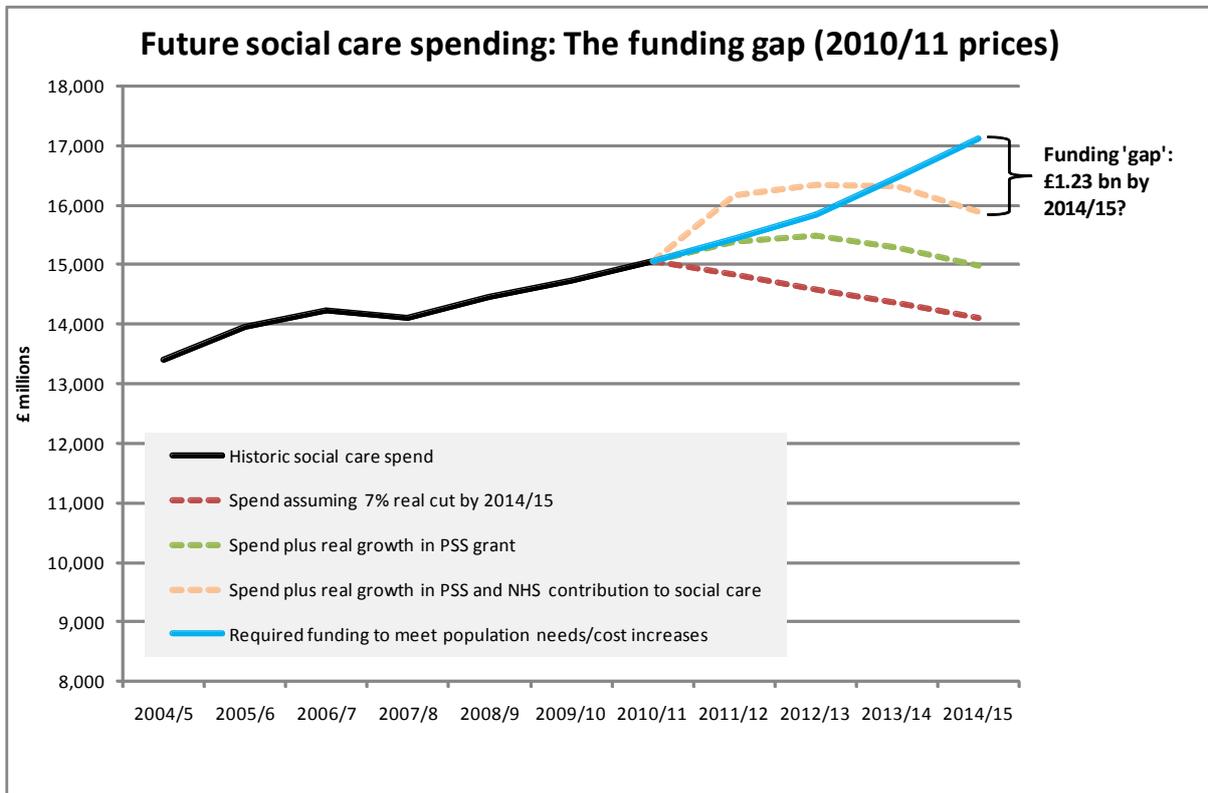
Col 5. as above plus NHS contribution to social care

Col 6. Estimated future social care spend required to cover growth in needs and unit costs (Adass/LGA, assumes 4 per cent real growth per annum for 2013/14 and 2014/15, but for 2011/12 and 2012/13 2.5 per cent on assumption of the impact of public sector pay freeze)

Col 8/9. Funding gaps calculated on alternative assumptions about future social care funding.

Spending figures not presented in the table, but are based on: no real cut (0 per cent) and 14 per cent real cuts over four years

Figure 1: Estimate of social care funding ‘gap’: 2011/12 to 2014/15



Closing the gap?

The aggregate average national picture presented above suggests that the outcome of the spending review (coupled with public sector pay freeze) should ensure sufficient funding to more than cover assumed funding needs in 2011/12 and 2012/13. However, under an assumed 7 per cent real cut in social care spending over the spending review period, in 2013/14 a gap starts to open, reaching an estimated £1.23 billion in 2014/15.

Clearly, the scale of the potential funding gap at local level and hence options for addressing this will depend on local circumstances, history and priorities. One option is to use resources more productively. Efficiency savings of around 2 per cent a year each year for the period of the spending review would be enough to close the estimated funding gap under the 7 per cent scenario. If the baseline scenario is closer to a real cut of 14 per cent, however, then efficiency gains of around 3.5 per cent per year would be required.

References

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