Submission

The King's Fund submission to the call for evidence on the future funding of care and support

Introduction and background

The King's Fund seeks to understand how the health system in England can be improved. Using that insight, we help to shape policy, transform services and bring about behaviour change. Our work includes research, analysis, leadership and service improvement. We also offer a wide range of resources to help everyone working in health to share knowledge, learning and ideas.

The King's Fund has a longstanding commitment to helping to secure the reform of adult social care funding. This recognises that many people have needs that straddle the responsibilities of the NHS and the care and support system and that a partnership between both systems is required to achieve the right outcomes for people.

In 2005 we responded to growing concerns about the future funding of care services by commissioning Sir Derek Wanless to conduct a major review of social care for older people – *Securing Good Care for Older People: taking a long term view* (Wanless 2006). Subsequently, our participation in the 'Caring Choices' coalition helped to generate momentum for reform, culminating in the previous government's commitment in the 2007 Spending Review to act. In 2010 we refreshed and updated the original Wanless Review to take account of policy changes, demographic developments and the fundamentally changed fiscal environment. This report – *Securing Good Care for More People: options for reform* – re-modelled the costs and outcomes of some of the principal options, including reform of attendance allowance.

We continue to provide independent commentary and analysis of various proposals, which have included the previous government's Green and White Papers, the Personal Care at Home Bill and the Conservative Party's proposals for home insurance protection.

In the light of the government's proposals to reform the NHS and the challenging financial settlement for local government and the NHS, the need to secure a sustainable funding settlement for adult social care has never been greater. We welcome the opportunity to contribute to the Commission's work and thinking in helping to secure this.

The Commission's call for evidence poses three questions. These are set out below with our comments.

1. Do you agree with the Commission's description of the main challenges and opportunities facing the future funding of care and support?

1.1 The analysis is fundamentally sound and identifies the same major issues as our own reports. Three further areas could have had stronger emphasis. The first is that the traditional expectations of the current cohort of older people tend to be characterised by gratitude and relief, reflecting a passive, paternalistic and professionally dominated model of welfare. Social and demographic change will

see this gradually replaced by a more consumerist outlook, involving aspirations for greater choice, information and quality. This is evident already in the way that younger disabled people have successfully challenged conventional service models and funding and have become the driving force behind direct payments and personal budgets. The independent living and disability rights movements have had a powerful impact on public policy. Potentially the very significant income and wealth profile of the so-called ' baby boomers' mean they will have not only higher expectations but in many cases financial power. It is uncertain whether this will stimulate new personalised responses or whether an unresponsive market will see people simply buying more of the same. This suggests that market development and supply-side reform should go hand-in-hand with funding reform. This has been an important element of our recommendations.

1.2 A second area that could receive further attention is the role of technology. The call for evidence recognises the potential of assistive technology in the delivery of care, but it also has power to give people new tools for information, choice and control. The internet has transformed the way we procure private goods and services, and the growth of social networking has made possible new forms of interaction. The world of care and support has no equivalent to Ebay or TripAdvisor and has been slow in harnessing the use of technology. This may offer opportunities to create new forms of social capital and new personalised market places for care and support.

1.3 A third area for attention is the long-term impact of developments in medical science and health care, and, in the short to medium term, the extent to which changes in NHS expenditure, activity and outcomes might affect the need for care and support and therefore the resources required. Over the next four years the social care system and the NHS will face unprecedented financial pressures, and closer integration can help to make best of use of restricted resources. An imperative for both systems will be to avoid people being drawn in to high-cost services. Although this may exceed the scope of the Commission's remit, the interaction between investment in social care and in the NHS is crucial in achieving a high-performing health, care and support system. In a forthcoming paper we identify substantial opportunities to achieve better outcomes and to prevent or delay the need for use of formal services – social care as well as NHS – through appropriate investment in the right preventive and support services. For example, ill-health and co-morbidity is a major contributory factor in admissions to permanent residential care; there is emerging evidence that investment in basic primary and community health services may reduce the demand for social care as well as for secondary health care. This is a further argument for achieving the right interface between health and social care resources and should be an important principle in designing new arrangements.

2. Do you agree with the Commission's description of the strengths of the current funding system, and its potential shortcomings? Do you think there are any gaps?

2.2 The Commission's assessment of the strengths and potential shortcomings of the current system is broadly similar to our own.

2.3 We welcome the Commission's view that any reformed system should continue to be a partnership in its broadest sense, but question whether current arrangements could be described in this way. A genuine partnership should rest on an explicit and transparent framework setting out the respective responsibilities of the state, the individual and their carers in relation to how care and support is assessed, arranged, delivered and paid for. Existing arrangements fall well short of this, as we set out below.

2.4 The most recent estimates suggest that almost half of all places in care homes are funded privately, a proportion that is set to grow due to housing wealth and occupational pensions (IPC 2011). The default trajectory of the current system takes us towards a system in which responsibility for care costs falls wholly on the individual; except for the very poorest who would receive their care free; , the richest would be able to afford it – the substantial numbers of people in the middle are unlikely to regard the current system as a 'partnership'.

2.5 This was borne out also in our work as part of the Caring Choices coalition in 2007, involving engagement with more than 700 older people, carers and other stakeholders. Ninety per cent of participants at the events disagreed with the use of a means test to determine whether or not an individual receives any state-funded care. In other words, they supported a stronger universal element, determined by need rather than by people's income or wealth. There was widespread confusion over how the current system works, due to the complexity of the rules and the interaction between the social care, health care and benefits systems. There was a resounding message that the current system fails to ensure sufficient support for carers. The majority of participants saw partnership as a desired feature of a redesigned system, not a characteristic of the current one.

2.6 We agree that other strengths identified by the Commission – the drive towards personalisation and focusing on prevention – should be supported and maintained in any reforms. We have consistently argued that reform of funding without reform of service delivery will simply result in pouring more money into a broken system (see para 1.1). It is instructive to compare the experience of the social care system with that of the NHS, where there have been substantial improvements in access to services – for example, with falls in waiting times (Thorlby and Maybin 2010). In contrast, tightening access to publicly funded social care has restricted help to those with substantial or critical needs in nearly three-quarters of councils. Increases in social care funding appear to have barely kept pace with demography. Over the past five years the number of older people using publicly funded social care services has fallen by almost 7 per cent – while the older population in England increased by almost 6 per cent and the population over 85 years old by nearly 24 per cent. International comparisons suggest that England is relatively unique in restricting publicly funded care to those with low

levels of assets and high levels of need; most countries adopt a universal approach across age and income groups (Glendinning 2008).

2.7 We have estimated the social care funding gap following the 2010 spending review in our evidence to the recent Health Select Committee Inquiry into public expenditure. This is attached as an appendix to this submission. The scale of the gap between now and 2014 will depend on the individual circumstances of each council and the extent to which they can achieve further efficiency savings which are higher than those they have made in recent years. This underlines the relative fragility of current funding despite the increases announced in the Spending Review and confirms the urgency of achieving a longer term solution beyond the current spending review period.

3. Given the problem we have articulated what are your suggestions for how the funding system should be reformed? How would these suggestions perform against our criteria that any system should be sustainable and resilient, fair, offer value for money, be easy to use and understand and offer choice ? Please also take into account the impact that your suggestions will have on different groups.

3.1 Our approach to reform has been set out in our original Review (Wanless 2006) and updated and refreshed last year (Humphries *et al* 2010). This considered not only the costs of different funding models but the numbers of people receiving help, the amount of unmet need, the extent to which people have to draw on their savings and assets to pay for their care, and who gains and loses under each option.

3.2 The core idea underpinning our proposals – that the funding of long-term care should involve a partnership between the state and the individual and their families – is now widely accepted as a founding principle of reform and is reflected in the Commission's terms of reference. The key decisions are about the relative contribution of the state and the individual and the extent to which the state's responsibility is to offer a basic safety net or a more universal and guaranteed entitlement of publicly funded care for all, irrespective of means. These decisions will be influenced in part by affordability – for both the public purse and private individuals – but ultimately it is a political judgement for the government and cannot be resolved through technical assessment alone. Engagement with people through the Caring Choices initiative indicated majority support for a clear entitlement to some level of state-supported care regardless of income or wealth.

3.3 All of the options modelled and costed in our 2010 report would produce better outcomes but cost substantially more than the existing system. This raises the question of how these costs should be shared between the individual and the state in a way that is fair and produces the best outcomes. Under both the partnership and free personal care options, almost two-thirds more people would receive publicly funded help, and this accounts for much of the higher cost of these options compared to the existing system.

3.4 Although we found that free personal care was the simplest option and one that will be most clearly understood by the public, it would involve the highest cost to

the public purse, with a greater burden falling on working-age taxpayers. This could fuel potential unfairness between the generations. It would also serve to relieve the very wealthiest of all of their personal care costs, especially those needing residential care. It would cost £1.3 billion more than the partnership option and very few additional people would be helped.

3.5 Under the partnership model, while everyone benefits from 50 per cent of their costs being met by the state, people with modest means would benefit particularly, as they would no longer face the 'cliff-edge' of the current means-tested system if they have savings or assets of £23,250 or more. The matched-funding component of the model would incentivise people to make a further private contribution from their own means; those who could not afford to do so would have their contributions covered through Pension Credit. And the partnership option would require wealthier people to continue to make some contribution to the costs of their care. People with significant means could still face substantial personal charges under this model, and there is scope here for better financial products to cover the cost of the individual's contribution – for example, through some kind of home or asset protection insurance, or products that enable people to draw down income from property, such as equity release, or from pension funds or other wealth. These options could form part of a new architecture of choice about how individuals fund their proportion of the costs of their care and support.

3.6 It is likely that the majority of working-age people with care and support needs will not have had the opportunity to accumulate savings and assets or be in a position to insure themselves against care costs that have already arisen. It is important that their circumstances and aspirations are central to the design of a new funding system – the challenge is not simply about long-term care in old age. As the Commission has noted, numbers in this group are growing and this suggests that significant additional public funding will need to be found, whatever other funding options are considered.

3.7 A reformed system is likely to involve a mixture of funding sources – including general taxation, specific taxation – for example, inheritance tax - social insurance, individual user charges and private insurance. Particular mechanisms include the idea of a care duty or charge on people's estates or through existing inheritance tax arrangements (see, for example, Lloyd 2011). Most of these funding sources are not mutually exclusive, and the selection of which options to pursue will involve a delicate balancing of political, economic and administrative criteria.

3.8 For all of these reasons we do not believe there is one single funding mechanism that will achieve fairness, affordability and is sustainable in the long term, or that it is possible to design a 'perfect' funding system in an imperfect world. Previous attempts to reform the system may have been impeded by unrealistic expectations of what can be achieved.

3.9 On balance, our view is that a revised version of the original partnership model offers the best outcomes in relation to costs, and one that can be blended with other funding options to reflect the changing nature of trade-offs between costs,

affordability and simplicity. On this basis we continue to recommend a staged approach to funding reform with three elements:

- implementing a partnership model founded on a clear national entitlement based on need and funded through a mix of state and private contributions that could be adjusted over time to reflect changes in economic circumstances and in the distribution of income and wealth; this flexibility would avoid the need to redesign the system again later on
- considering a compulsory charge or contribution, based on means, as a one-generation mechanism to attract immediate additional resources from the relatively wealthy cohorts of older people with high levels of housing wealth, working with the financial services industry to develop products that would give them more choice and control over the funding of their care and support.
- reviewing the contribution from taxation towards care costs as the economy and the public finances recover, as part of future spending reviews.

3.10 Our 2010 report signalled the real opportunity to use a reform of attendance allowance, and possibly other universal benefits, to help achieve a more coherent, sustainable and simplified means of funding care and support that would rationalise disconnected funding streams into a more coherent and understandable system. Public expenditure on attendance allowance is significant and growing – modelling suggests that this could release as much as £3 billion by 2026; alongside the policy shift towards personal budgets as the default operating model for adult social care this creates a compelling argument for the inclusion of attendance allowance reform in the redesign of care and support funding. Assurances would be required that the level of resource commitment by the Department for Work and Pensions is maintained and channelled into a genuinely person-centred funding stream so that it is a demonstrably better system. This could form part of a strategic review of public spending on older people, including universal benefits such as winter heating allowances that collectively amount to approximately £3.5 billion of public resources in England. In the context of people living longer, healthier lives and of broader policies on retirement, pensions and other entitlements, this might lead to a new settlement for older people.

3.11 Finally, the central challenge in securing long-term reform of care and support funding is not only a matter of policy design but political commitment to making it happen. It is inevitable that as a nation we will have to devote an increasing proportion of our national wealth towards the costs of longevity resulting from social and economic progress. What is affordable in this context is ultimately a matter of political judgement about the competing demands of different spending. The current pressures on public spending serve to reinforce the case for reform rather than being a reason to postpone it. Failure to achieve this will impose escalating costs on other public services, particularly the NHS. If the social care system was not sustainable during the years of plenty, the prospects for the lean years ahead look bleak as the pressures of demography take further hold. Although the timing could not be worse, the need for reform has never been greater. This supports our argument for establishing a taking a strategic, long-term framework for change.

References

Caring Choices Coalition (2008). The *Future of Care Funding: Time for a change*. London: The King's Fund

Glasby J, Ham C, Littlechild R, McKay S (2010). *The Case for Social Care Reform: The wider economic and social benefits*. Birmingham: University of Birmingham.

Glendinning C, Bell D (2008). *Rethinking social care and support: What can England learn from other countries?* York: Joseph Rowntree Foundation.

Glendinning C, Moran N (2009). *Reforming Long-term Care: Recent lessons from other countries.* York: York University Social Policy Research Unit.

Institute of Public Care (2011). *People who pay for care: quantitative and qualitative analysis of self-funders in the social care market* . London: LGA, ADASS. Available at: www.puttingpeoplefirst.org.uk/Browse/Self-funders/?parent=8609&child=8647 (accessed on 27 January 2011).

Humphries R, Forder J, Fernandez JL (2010) *Securing Good Care for More People: Pptions for reform.* London: The King's Fund.

Lloyd J (2011). *Inheritance Tax: Could it be used to fund long term care ?* London: The Strategic Society Centre.

Thorlby R, Maybin J, eds (2010). *A High- performing NHS? A review of the evidence 1997-2010.* London: The King's Fund.

Wanless D (2006). *Securing Good Care for Older People: Taking a long-term view*. London: The King's Fund.

Appendix

Estimate of future social care funding gap following Spending Review 2010

Note prepared for the Health Select Committee inquiry into public expenditure Prof John Appleby and Richard Humphries, The King's Fund, 24 November 2010

(Published by Health Select Committee as part of their public expenditure report. Available at: www.publications.parliament.uk/pa/cm201011/cmselect/cmhealth/512/512we13.htm)

The estimates of the gap in funding – actual spending minus that required to meet demographic needs and some increases in unit costs – that we report in Table 1 and Figure 1 need to be interpreted with caution. The estimates depend on various assumptions – not least the decisions councils will make 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 CLG local authority settlement plus other changes announced in the 2010 spending review; for example, moving the Personal Social Services 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 (HMT 2010):

- that between 2011/12 and 2014/15 social care spending will be fully protected by all councils – ie, a real terms cut of 0 per cent
- some protection – a real terms cut of 7 per cent
- no protection, a real 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 2010[1]) *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 period 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 GDP deflator), then increasing demographic needs and rising costs are

more than 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 (col5-col6)	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)	2010/11 prices (£m)	2010/11 prices (£m)	2010/11 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% real cut by 2014/15 (assumes PSS grant element *not* subject to 7% cut)

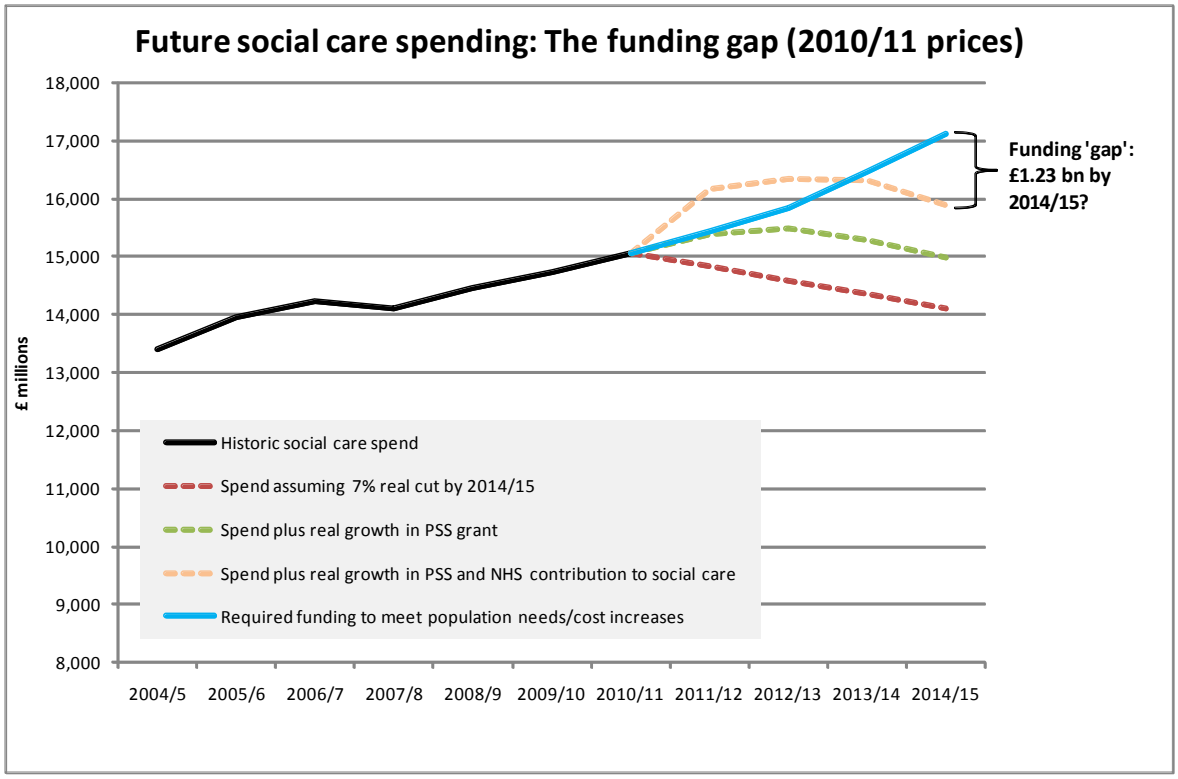
Col 4. as above plus real growth in PSS grant over and above 2010/11 level

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% real growth per annum for 2013/14 and 2014/15, but for 2011/12 and 2012/13 2.5% 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%) and 14% 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

Association of Directors of Adult Social Services (2010). Adass submission to Health Select Committee
Available at:
www.publications.parliament.uk/pa/cm201011/cmselect/cmhealth/512/512we09.htm
(accessed on 27 January 2011).

HM Treasury (2010). *Spending Review* 2010. Cm 7942. London: The Stationery Office.
Available at:
http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf (accessed on 27 January 2011).