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The impact of a tightening fiscal situation on social care for older people

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Introduction

Social care for older people – such as support for people in residential care or home care services – is mainly provided by local councils in England. Councils receive funding from central Government in the form of the Revenue Support Grant and supplement this funding with revenue from council tax and other local sources, and also from charges that individuals are asked to pay for services. In order to balance expenditure on care with the available funding, councils set 'eligibility thresholds' which limit publicly funded support for care to those who have care needs that exceed this threshold. By adjusting the threshold, up or down, the books can be balanced; if funding becomes more limited, for example, then the eligibility threshold can be raised to limit the councils' responsibility to provide financial support to a smaller number of the most needy older people in the population. Needs are assessed, broadly within a national framework of criteria, and from this assessment a determination can be made as to how much care and support a person needs and in what form.

Councils can also change the amount that they charge to individuals needing care. Under current arrangements, a complex set of means-testing rules apply that ensure that the amount individuals must pay is tied to their ability to pay (and only indirectly to the cost of care they need). Although the exact arrangements can vary by council, in most cases people with savings (eligible assets) above an asset ceiling (currently around £23,000) are asked to pay the full costs of care (or, of course, many of these people make private arrangements).

The main purpose of this paper is to assess the effects of a reduction in funding for care. In the current difficult fiscal climate, a cut in funding for social care seems likely. But what are the consequences for the numbers of people, according to the severity of their need, who would lose council funding support if budgets were cut?

We consider the impact of a reduction in the budget available to fund social care for older people. In particular, we look at the effects of a 6.7% per annum real terms reduction in the total budget available for social care in the two years after 2010/11: i.e. for the years 2011/12 and 2012/13. This reduction figure is taken from the projections made by the Institute of Fiscal Studies (IFS) in their January 2010 Green Budget (Chote, Emmerson and Shaw, 2010). Although we cannot be certain about the exact figure because it depends on a whole range of factors (e.g. whether non-departmental funding can be cut, how much councils can offset cuts to RSG using local sources or by re-prioritising), the aim here is to illustrate the consequences of cuts in this order of magnitude. This 6.7% p.a. cut is our 'reduced-budget' scenario.

As a counterfactual, we gauge the impact of this budget tightening relative to an alternative scenario where funding is assumed to increase sufficiently so that the need eligibility thresholds and the financial means test in the current social care system remain unchanged in the future. This is the 'demand-led' case.

The analysis in this report is based on the PSSRU dynamic micro-simulation model (Forder and Fernández, 2009). This model makes projections about the social care system for the future based on a number of assumptions concerning population, disability, pensioner income and

assets, service costs, informal care and so on. In what follows we use our central assumptions in this regard. Changes to the assumptions will lead to different results.

The base year for the model is 2007/08, for which we have the latest financial outturn data from the social care system in England (from the PSSEX1 returns).

Due to the ageing of the population and the increase in the costs of care, maintaining current levels of access to public support in the current system – the demand-led scenario – requires that funding increases at an average of nearly 3.5% per annum in real terms, according to our central projections, over the period to 2025/6. This figure is calculated using the micro-simulation model with central assumptions. Any shortfall in funding below this demand-led growth rate can only be managed by restricting access to support by either increasing the needs-eligibility thresholds that councils operate or by increasing the capital threshold for financial eligibility. Both these measures would reduce public expenditure requirements but would also mean fewer people were helped, with a consequent likely increase in the levels of 'unmet' need in society: i.e. a shortfall in the amount of care support people actually use compared to the amount of support they are assessed to need given their condition.

In this paper, we assume that expenditure is constrained to this new lower budget in the 'reduced budget' scenario by increasing the eligibility threshold for access to care. We take the financial means-test rules to be unchanged.

The main consequence of the tightening of need eligibility thresholds is a reduction in the numbers of people supported by the state. The reduction mostly affects people receiving home care services rather than residential care because they tend to have less severe needs and therefore are more likely to be affected by an increased needs eligibility threshold. While some of those people no longer supported by the state might be able to pay for care privately or to rely on informal care, many will have to make do with less social care support. This will increase levels of unmet need: i.e. have a direct negative consequence for people's health and well-being. Indirectly, there is evidence that such a reduction in social care funding will also have a knock-on effect of increasing demand for health services, especially emergency health care (Forder, 2009).

Expenditure targets

The IFS reports that government (DEL) expenditure will (after other commitments) have to fall by 6.7% from its level of 2010/11 for the years 2011/12 and 2012/13. In this analysis, we will assume that between the base year of the model – 2007/08, the latest year for which we have actual financial data – and 2010/11, budgets increased for social care to match demand. In other words, we only distinguish between the demand-led and reduced-budget scenarios from 2010/11 onwards. We focus on *care* expenditure for older people in England, i.e. including direct service costs and 'supporting people' expenditure but not including case management and strategic overhead costs.

Net public expenditure in 2007/08 (i.e. gross expenditure on services less user charges and other income) was £6.0bn according to the PSSEX1 returns. Our projections require that this net expenditure increases to £6.5bn by 2010/11 (in line with the demand-led scenario). This is the

figure on which we apply the successive 6.7% reductions in the reduced-budget scenario. For the financial year 2011/12 the provisions of the Free Personal Care at Home (FPCh) bill will also apply. In this analysis we assume that extra funds are available to cover the additional costs of FPCh, running to approximately £0.45bn p.a. The following table shows the net expenditure targets for 2011/12 and 2012/13.

Table 1. Expenditure targets

Year	Net public spending (£bn)				
	Before FPCh	% change p.a.	FPCh funding	Final budget	% change p.a.
2007/08	6.03			6.03	
2008/09	6.18			6.18	
2009/10	6.28			6.28	
2010/11	6.50	103.5		6.50	103.5
2011/12	6.06	93.3	0.45	6.51	100.2
2012/13	5.66	93.3	0.47	6.13	94.1

Table 2 shows the difference in the net public spending totals of the reduced budget scenario compared to the demand-led case. As expenditure needs to increase in the demand-led case, the constraints on funding in the reduced budget case mean that net expenditure is at 78% of the level required to stand still under the demand-led scenario in 2012/13. In other words, although the year-on-year reduction is less than 6.7% from the 2010/11 total,[1] because the underlying expenditure requirement is increasing, this reduced-budget scenario is equivalent to a 22% reduction in budget from trend by 2012/13.

Table 2. Expenditure differences

Year	Net public spending		
	Demand-led	Reduced budget	% of demand-led
2007/08	6.03	6.03	100
2008/09	6.18	6.18	100
2009/10	6.28	6.28	100
2010/11	6.5	6.50	100
2011/12	7.5	6.51	87
2012/13	7.85	6.13	78

In this analysis below, we assume that eligibility is tightened in 2011/12 and 2012/13 to reach the budget targets. Thereafter, until 2025/6 we assume that funding grows to accommodate demand-led expenditure from the 2012/13 baseline: i.e. with 2012/13 eligibility levels.

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[1] Less than 6.7% because the FPCh money is included.

Implications of reductions in state expenditure

We consider the impact of the assumed cuts in public expenditure on three key aspects of the care system:

- Changes in the balance of funding responsibilities between the state and private individuals
- Changes in the number of recipients receiving support
- Impact on levels of unmet need in the system

Public / private funding balance

Table 3 reports the total levels of social care expenditure in the period 2007/08 to 2012/13, for the two scenarios under consideration. The table breaks down financial contributions from the state and from private individuals. Private financial contributions are further broken down in terms of:

- user charges: charges for people receiving state support (people in the scheme) implied by the current means-testing rules
- top-ups: extra support purchased privately by people in the scheme
- private consumption of care among people who do not meet the current needs or financial eligibility criteria for state support (people not in the public scheme).

Finally, financial contributions from private individuals are broken down in terms of contributions to hotel costs, and contributions to care costs (care charges).

Not surprisingly, Table 3 shows that reducing state expenditure leads to an overall fall in consumption of social care services, and to a significant increase in the private-to-public social care funding ratio (the ratio increases by 11% by 2012/13). Table 3 suggests that a fall in net state expenditure of £0.99bn and £1.75 in 2011/12 and 2012/13 (column C1) leads to an increase of £0.11bn and £0.28bn in self-payer (i.e. non-scheme eligible) private expenditure (C10), and to a reduction in overall consumption of £0.88bn and £1.47bn.

Hence, in spite of an increase in private consumption, the reduction in state expenditure linked to the budget constraint still leads to a significant reduction overall in social care consumption.

Table 3 Public and private expenditure and charges under demand-led and budget constrained systems

Year	Net public SC cost	Scheme charges	People in public scheme ... Of which		Scheme top-up spend	Non scheme spend	People not in scheme ... Of which		All total SC spend by service users	total SC spend
			Scheme hotel costs	Scheme care charges			Non scheme hotel costs	Non scheme care charges		
	C1	C3	C4	C5	C6	C7	C8	C9	C10	C11
Demand led scenario										
2007/08	6.03	1.50	1.14	0.36	0.69	4.48	1.58	2.90	6.68	12.70
2008/09	6.18	1.58	1.18	0.41	0.71	4.49	1.62	2.87	6.78	12.96
2009/10	6.28	1.62	1.17	0.45	0.77	4.69	1.71	2.97	7.08	13.36
2010/11	6.50	1.64	1.21	0.43	0.81	4.84	1.74	3.11	7.29	13.79
2011/12	7.50	1.67	1.32	0.35	1.26	4.67	1.88	2.79	7.60	15.10
2012/13	7.88	1.70	1.35	0.34	1.33	4.79	1.90	2.89	7.81	15.69
Reduced budget scenario										
2007/08	6.03	1.50	1.14	0.36	0.69	4.48	1.58	2.90	6.68	12.70
2008/09	6.18	1.58	1.18	0.41	0.71	4.49	1.62	2.87	6.78	12.96
2009/10	6.28	1.62	1.17	0.45	0.77	4.69	1.71	2.97	7.08	13.36
2010/11	6.50	1.64	1.21	0.43	0.81	4.84	1.74	3.11	7.29	13.79
2011/12	6.51	1.48	1.31	0.18	0.87	5.35	1.90	3.46	7.71	14.22
2012/13	6.13	1.46	1.34	0.13	0.73	5.90	1.93	3.97	8.09	14.22
Differences in expenditure and charges										
2011/12	-0.99	-0.19	-0.01	-0.17	-0.39	0.68	0.02	0.67	0.11	-0.88
2012/13	-1.75	-0.24	-0.01	-0.21	-0.6	1.11	0.03	1.08	0.28	-1.47

Impact on the number of recipients

Table 4 illustrates the changes in the number of recipients resulting from a change in the state support eligibility criteria compatible with the reduced-budget scenario. The table reports figures for the total number of people receiving state support (scheme recipients), the number of those receiving support in residential care settings, an estimate of the number of social care users who purchase support independently, and the number of individuals with social care needs who do not receive any support from formal services. Finally, the table also provides as a reference point an estimate of the number of individuals with social care needs (defined in terms of the average current social care needs eligibility criteria in England). This number does not change with the level of state funding available.

Reflecting the findings from the precious section, the assumed reduction in state expenditure would lead to a very significant reduction in the number of people entitled to state support. Hence, in the year 2012/13, the analysis suggests that the number of state recipients under a budget constrained scenario would be approximately one half lower than the under the demand-led scenario.

Overall, this reduction is offset to some degree by an increase in the number of private users of social care. In 2012/13, we see an increase in self-payers of around 300,000, compared with the 490,000 fall in state-supported recipients.

The very small effect on state-funded residential care use shown in the above table is due to the fact that the analysis assumes that the reductions in state expenditure would be accommodated through restrictions in the needs eligibility rules, and that users in residential care tend to have the highest levels of dependency and thus are the ones least likely to be affected by changes in eligibility criteria.

Table 4 Number of social care recipients (millions)

Year	Scheme recipients (A)	Scheme residential care recipients	Non-scheme (private) recipients (B)	Non-service users with some need (C)	Number of people with some need (A + B + C)
Demand-led scenario					
2007/08	0.87	0.20	0.42	0.74	2.03
2008/09	0.88	0.20	0.41	0.75	2.05
2009/10	0.9	0.20	0.41	0.77	2.08
2010/11	0.9	0.20	0.43	0.8	2.13
2011/12	1.04	0.21	0.38	0.75	2.17
2012/13	1.05	0.22	0.39	0.79	2.22
Reduced budget scenario					
2007/08	0.87	0.20	0.42	0.74	2.03
2008/09	0.88	0.20	0.41	0.75	2.05
2009/10	0.9	0.20	0.41	0.77	2.08
2010/11	0.9	0.20	0.43	0.8	2.13
2011/12	0.66	0.21	0.61	0.9	2.17
2012/13	0.56	0.21	0.69	0.97	2.22
Changes in recipients					
2011/12	-0.38	0.00	0.23	0.15	
2012/13	-0.49	-0.01	0.30	0.18	

Impact on levels of unmet need

Table 5 shows the impact on 'unmet need' of the assumed changes in eligibility criteria for state support. Unmet need is defined in terms of the gap between levels of support received and the current average state-supported care packages for people in different circumstances (individuals receiving levels of support at or above such 'normative' care packages are thus assumed to have no unmet needs).

The table reports alternative unmet need figures, depending on whether support received from informal carers is taken into account.

Table 5 shows a significant increase in unmet need levels following the tightening in the needs eligibility criteria for state support. The increase in absolute terms is particularly significant if no account is taken of the support provided by informal carers. Proportionately, the reduction in expenditure is associated with a 56% and 90% increase in unmet need levels (including informal care) in the two financial years 2011/12 and 2012/13, respectively. Note that unmet need in the demand-led scenario falls after 2011/12 due to the implementation of free personal care at home.

By 2012/13, the results suggest an increase by approximately 170,000 people in the number of high needs individuals with some level of unmet needs.

Table 5 Levels of unmet need and numbers of people with unmet need – Millions of hours p.a. and millions of people

Year	Unmet need inc informal care (Millions of hours p.a.)	Number of high dependency people with unmet need (Millions of people)	Average unmet need - high need (Millions of hours p.a.)	Unmet need (no informal care) (Millions of hours p.a.)
Demand-led scenario				
2007/8	78.06	0.13	5.89	155.99
2008/9	83.8	0.13	5.91	163.64
2009/10	81.45	0.12	5.77	160.90
2010/11	88.14	0.14	5.79	172.15
2011/12	61.62	0.08	4.39	135.92
2012/13	62.56	0.09	4.32	142.77
Reduced budget scenario				
2007/8	78.06	0.13	5.89	155.99
2008/9	83.8	0.13	5.91	163.64
2009/10	81.45	0.12	5.77	160.90
2010/11	88.14	0.14	5.79	172.15
2011/12	96.31	0.21	4.29	189.54
2012/13	118.76	0.26	5.08	231.34
Difference b/w scenarios				
2011/12	34.69	0.13	-0.1	53.62
2012/13	56.2	0.17	0.76	88.57

Conclusions

The reduced-budget scenario results in net public expenditure falling to around 80% of the level required in the demand-led scenario in 2012/13. This could be achieved by restricting the need eligibility criteria governing access to state-funded care to a greater degree. Under such an assumption, in 2012/13 the total numbers of older people that would be state-supported would fall by nearly one half of the level of the demand-led case. Overall, the people no longer receiving state support would be those with lower needs receiving help in the demand-led case. The reduction in state expenditure would lead to an increase of 23% in the volume of people with social care needs but no services. Numbers of people supported in residential care would not reduce much because, as the most needy, these people are the last affected by an increase in eligibility thresholds. Unmet need as measured in the model would nearly double in the reduced budget case.

The modelling suggests that a reduction in public support would prompt more people to pay privately for care and/or seek more informal care. However, the substitution from public to private expenditure is limited because of the limited financial resources available to individuals with needs, who cannot always afford the high costs of care. As a result, the overall (state plus private) expenditure is lower when the level of public funding is reduced. There are also equity consequences – with more private funding required, the rich would do better and the poor would be the biggest losers.

We have assumed that expenditure is managed by raising eligibility thresholds (which is what councils have been doing in recent years). Public costs savings could be achieved through other means, and in particular by increasing capital thresholds in the means-test. It is likely that although such a policy would also result in increased unmet need, it would provide most protection to the poorest people (rather than to the neediest, as assumed in the present analysis).

A range of caveats apply to this analysis. The model makes projections, not predictions, on the basis of different assumptions, which constitute alternative scenarios. The results will be particularly sensitive to our assumptions about how quickly the unit costs of services will grow, and how wealthy future cohorts of older people will be in the years to come. Also, in the model we make assumptions about how sensitive people's demand for care is to the charges they face and these assumptions could be changed. Were people to be more sensitive to prices, for example, restrictions on funding in the future would result in even greater falls in the number of people consuming services, and in the overall volume of services consumed.

References

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