Adult Social Care: Corporate Financial Issues

1. This note sets out some corporate financial issues that relate to adult social care. My work as the national Care & Health Improvement Adviser Finance and Risks has identified that there are a variety of approaches to these issues. All of them will be material for local authorities who are responsible for adult social care.
2. The three[1] issues are:

    a. Demography;
    b. Inflationary pressures on adult social care including the impact of the National Living Wage
    c. Adult Social Care Precept
3. The first two issues are likely to be the most complex for each authority to estimate. If estimates of those cost pressures are too high, this will overstate the financial pressures on the authority; if they are understated then there is a significant risk that adult social care will overspend its budget which will impact on the council's position overall.

Demography

4. My advice to Directors of Adult Social Services has been clear that they must calculate the impact of demography in preparing their service plans. This is a clear cost pressure that will impact on their services. This has been repeated in advice that ADASS has issued to Directors.
5. However, the calculations vary considerably from authority to authority. In one case, the assumptions looked high; in several other authorities, the assumptions looked low.
6. National information is available from the ADASS Budget Survey. The 2017 Survey reported that the estimated cost of demography was £400m. It was £413m in the previous year and has been broadly around that £400m throughout the decade – 3% of the net adult social care budget. This was split 1.1% older people (1.3% in 2016); 1.2% people with learning disabilities (1.1% in 2016); 0.2% people with mental health needs (0.3% 2016); 0.3% people with physical disabilities (same as 2016). There is no other reliable source of national information about demography. ADASS quote the £400m figure in its representations to central government. My assessment is that it is broadly reasonable with some of the over-estimates compensating for the under-estimates. It is a useful benchmark for local authorities to use to test out the reasonableness of their assumptions locally.
7. Calculating the cost of **older people** demography should not necessarily be that complicated. Good quality population projections at a local authority level are provided by the Office for National Statistics and these are broken down into 5-year age ranges.
8. This detail is important because the driver is not particularly the fact that there are more people aged over 65 but the fact that this older population is also getting

[1] An earlier draft of this paper produced in March 2017 included a short section on the Better Care Fund. However, given the increasing complexity of the arrangements this issue has been excluded to focus on the three remaining issues. Authorities should seek advice on Better Care Fund issues from the LGA and/or ADASS.

older. In simple terms, 75 is a rough trigger when people may start to struggle so might benefit from low level forms of help (information and advice, day services; Reablement); 80 – 85 is approximately the time when people start to need help with activities of daily living (home care) and 90 plus is when they may need sufficient care to require 24-hour care (often delivered in care homes).

9. Whilst the numbers receiving support from the council may not increase significantly (reflecting the impact of early intervention), the cost of care packages is likely to increase reflecting more complex needs even if individuals continue to be supported at home. The population increases of those aged over 85 and over 90 are particularly crucial factors. It is important to note that it is those population groups which are increasing most quickly and will continue to do so for the next 15 years at least.
10. It is likely that different authorities have different approaches. It might be useful to bring together a small group of performance experts and accountants to set out possible methods of calculating the likely impact.
11. Different approaches are likely to estimate the impact of increasing needs of people with **learning disabilities**. This is the other big cost driver which is now at least as big a financial pressure as that arising from older people. There are two dimensions to this pressure.
12. Firstly, there are increasing numbers of adults with a learning disability. This reflects the fact that more babies are born with significant learning disabilities and most of them are living to become adults. This creates a pressure for adult social care when they transition from children's services to adults. There is no reduction in the pressures on children's due to increasing numbers of births.
13. The second aspect is that most people with a learning disability now have a life expectancy which is not particularly shorter than the general population. However, their personal care needs will increase over time partly because they age like everyone else but also because they may have additional needs because they have a learning disability (early onset dementia is more prevalent).
14. The biggest financial challenge as they age is that their informal care arrangements can break down when their parents die or become incapable of continuing to provide informal care. The financial implications can be very significant. Someone who is predominantly supported by their parents may have a residual care package of £200 or £300 a week (some time at a day centre to provide respite for the carers plus a limited amount of home care). If the parents cannot support them any longer they made need to go into supported living or even residential care at a cost much closer to £1000 a week.
15. Local authorities need to try and have some understanding of the cost pressures they face for people with learning disabilities. This may be based on what has happened in previous years. There is a danger of building in over prescription – providing more care than is necessary for someone to be supported to live independently but my advice would be that this should be tackled through the work to make savings within learning disabilities.
16. I'm not planning to comment on the demographic pressures for people with **mental health problems** or **physical disabilities**. This is partly because they are less significant financially (and the numbers of service users much smaller).

It also reflects the fact that at Oxfordshire we didn't include annual provision for them. Extra resources were put in the physical disabilities budget to reflect demography from time to time (quite a significant uplift over time). However, there are no obvious pressures driving extra spend each year on that budget. The same is broadly true for the mental health budget (assuming that it does not pay for people with dementia). Examples of what other authorities do would be much appreciated.

17. The final issue relating to demography is the question of whether the pressure is funded. The ADASS Budget Survey 2017 reports that of the £400m demographic pressure, 81% has been funded (the same proportion as in 2017). It is of course a matter for a local authority to decide whether this pressure should be funded. However, my view is that if it is not funded then it must be acknowledged as a pressure which must be met by adult social care and they need to come up with proposals how to meet it. Unless this happens, there is an unidentified savings target within that budget which is likely to lead to financial pressures in year.

Inflationary pressures on adult social care

18. In the first half of this decade this was not necessarily a major issue (and a source of potential savings). This reflected the fact that most – if not all – local authorities held down prices they paid to adult social care providers to help keep down (or reduce spending) on adult social care.
19. The situation is now very different. There is clear evidence that the adult social care sector is under significant financial pressures. This partly reflects the loss of care providers from the sector (or from local authority funded work). It also reflects the increased demands for care (from self-funders as well as from health and care).
20. Local authorities have legal obligations under the Care Act 2014 to manage the adult social care market. This is a reasonable expectation: care needs cannot be met unless there are providers who will meet those needs and provide acceptable quality.
21. Over this decade, there has been increasing debate about the costs of providing adult social care. Various judicial reviews have forced local authorities to have a much better understanding of the costs of providing residential (and nursing care). More recently, there has been increased focus on the costs of home care partly through the representations of UKHCA but also because of the introduction of the National Living Wage and clear legal directions that minimum wage requirements impact on both travelling time and sleep in pay.
22. These changes mean that this particularly pressure is potentially the greatest single risk for Councils but also the ability of a local authority to meet all its obligations under the Care Act.
23. The complexity is enhanced by the fact that there is not a single adult social care market. Providers include major national providers (some of whom are governed by the corporate financial rules applicable to the stock exchange); many small and medium private enterprises and the not for profit scale sector (some operating on a large scale either nationally or regionally). The market is

segmented so the type of provider will vary between care homes, home care and learning disabilities. It is also clear that the situation varies from area to area.

24. From an economic development point of view, this is a low value-added sector so providers are financially sustainable in the light of demand changes and sudden changes in their management. Providers get into financial problems all the time. If they are small this can normally be managed. However, if this happens at scale then there is a huge risk to the future delivery of care which ultimately will leave vulnerable people at risk. In extremis, this can lead to local authorities chasing scarce care at an escalating price. Interventions by parts of the NHS make this problem more challenging.
25. I should stress that this is not a question of simply paying more to providers. It requires a careful analysis of the cost of care in different settings and taking this into account when deciding on fee levels. This requires a complex set of skills: understanding adult social care; management accounting; business development including the issues of running different forms of businesses. It will require close working between those commissioning the service, operational colleagues including the safeguarding team, finance and (potentially) input by economic development. Some authorities have moved to a corporate model for commissioning. This is their choice but if this is the model then there must be close working across all the different sections. If this does not happen, then there is a significant risk that the authority will get this badly wrong with huge financial, performance and reputational risks.
26. My personal view is that there is a lot more we need to do in the area of understanding the inflationary pressures we face.

Adult Social Care Precept

27. The financial issues are much more straightforward. Nearly every authority is making use of this. The choice between 2% and 3% is not material in financial terms.
28. The financial risks are about the longer term. Will local authorities be prepared to carry on with well above average council tax increases year on year? Is it appropriate for local people to have to pay more for a national problem? What will the arrangements be beyond 2019/20?
29. There is a major distributive issue – the precept is worth much more proportionately in Oxfordshire than it is in Middlesbrough.

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