

Executive summary

Adult social care policy is devolved to the nations of the UK. This report considers the organisation of public funding for adult social care services in England. While the NHS provides some social care services to those with significant health-related care needs, most publicly funded care in England is organised and paid for by local councils.

Local government finance and adult social care policies are changing

- Adult social care spending accounts for more than one-third of councils' overall spending on local services (excluding education). To fund this spending, councils rely on a combination of council tax and business rates revenues and grant funding from central government. Historically, these grants were allocated in a way designed to compensate councils for the negative correlation between local tax bases and local spending needs.
- Recent years have seen big cuts to these general-purpose grants, resulting in a 21% reduction in councils' overall revenues between 2009–10 and 2016–17. Furthermore, grant allocations have not been updated to reflect changes in the assessed spending needs of different councils since 2013–14.
- This reflects a more general trend with government policy on local government finance pointing towards each council having more responsibility for raising its own revenues, and less equalisation of resources between councils with different tax bases and spending needs. The business rates retention scheme (BRRS), for instance, means councils' budgets will depend to an increasing extent on local business rates revenue performance. And general grant funding is set to be abolished from 2020.
- The aim of these changes is to provide councils with stronger financial incentives to grow their local economies and tackle underlying spending needs. However, if tax bases and spending needs evolve in different ways, the ability of councils to fund services – including adult social care services – could diverge over time.
- At the same time, government policy towards adult social care is pointing in the opposite direction. Central government appears to want a more consistent quality of service across the country. Social care needs assessment processes have been standardised and national minimum eligibility criteria introduced, where previously councils had more flexibility to determine who was in need of social care services.
- Westminster is also increasing its influence over the level of social care spending through a growing pot of ring-fenced grant funding and council tax (the 'Social Care Precept') specifically for adult social care services. Broadly speaking, this pot is allocated according to central government's assessment of councils' adult social care spending needs. Including this ring-fenced pot, adult social care spending fell 6% between 2009–10 and 2016–17, a much smaller cut than for local government as a whole.

There are tensions between these changes, with a risk of divergences in funding availability at a local level ...

- Current policy is therefore pulling in different directions. On the one hand, the government is trying to create a more consistent quality of adult social care services across the country, thereby limiting councils' flexibility over what they provide. On the other hand, it now tries less to ensure that councils each have the money the government thinks they need to deliver services of an equivalent quality, because it wants to give them stronger incentives for revenue growth and the control of spending needs. How problematic this will be will depend both on the specific design of the local government finance system in future – which is not yet clear – and on how local tax revenues, other revenues and spending needs evolve over time.
- We do not know how local tax revenues and spending needs will evolve in future, but to see how things might change, we can look at how they evolved in the past.
- Key determinants of adult social care spending need can and do evolve differently around the country. Take disability rates: whilst patterns of disability benefit receipt by residents of different councils are highly persistent over time, they are not static. For example, between 2006 and 2016, one in ten councils saw the share of the population getting disability benefits increase by 1.5 percentage points or more, while another one in ten saw an increase of 0.1 percentage points or less.
- What really matters, though, is whether the spending needs and revenues of councils move in tandem or in opposite directions. In fact, between 2006–07 and 2013–14, there was a slight positive correlation between increases in the relative need for adult social care spending and growth in local tax-raising capacity (from council tax and business rates) at a council level.
- This weak positive correlation implies less risk of funding divergence across councils than if these variables were negatively correlated. But for individual councils, assessed needs and revenue-raising capacity still evolved in quite different ways. For example, 33 out of 151 councils saw their assessed relative spending need for adult social care spending *increase* and their relative tax-raising capacity *fall*, while 35 councils saw the opposite.
- With councils bearing more of the change in local tax revenues and spending needs in future than in the past, if these trends continued, it could be hard to deliver a consistent standard of adult social care services across the country.
- We do not have council-level projections for revenue-raising capacity and spending needs. But one factor driving spending needs, at least, is likely to evolve quite differently in different council areas in coming years: the ageing of the population. In one in ten council areas, the fraction of the population aged 75 or over is set to increase by 6.0 percentage points or more by 2035; in another one in ten areas, it is set to increase by 1.7 percentage points or less. This pattern is repeated when focusing on the very oldest people aged 85 or older, who are most likely to require care services.

... and an overall shortfall in funding at a national level

- Changes in councils' *relative* spending needs and *relative* tax-raising capacity are informative about the scope for divergences between councils in their ability to fund services. But even if these variables moved together one-for-one, that does not mean all councils would be able to fund the quality of services expected of them. It also matters how *absolute* spending needs and revenues evolve. It could be the case that all councils struggle to meet their spending needs if the growth in absolute spending needs outpaces the growth in absolute revenues.
- Previous projections suggest the absolute need for adult social care spending could rise substantially over the next two decades: perhaps 4.4% a year in real terms. It is highly unlikely that revenues from business rates and council tax will keep pace with this. Increases in average business rates bills are capped at inflation and recently there has been little growth in the underlying tax base (0.3% a year). Councils have more discretion over council tax, but increases of the scale required may be unpopular and politically unsustainable.
- If, for instance, business rates and council tax revenues were to grow by 0.3% and 2.5% a year, respectively, in real terms over the next 20 years, delivering 4.4% real-terms annual increases to adult social care spending would see spending on it rise to half of overall revenues from these taxes by 2035–36. This would be up from less than one-third in 2016–17. It would also imply that the rates and council tax revenues available for other services would have to *fall* by an average of 0.3% a year in real terms over the same period.
- Even if ongoing large increases in council tax were possible, the resulting revenues would be distributed unevenly across councils. This is because council tax bases vary substantially across councils and there is a negative correlation between tax revenue capacity and relative spending needs for social care and other services. Thus a reliance on large increases in council tax could increase divergences in funding availability between councils even if, at the national level, it allowed sufficient revenues to be raised to meet rising spending needs.

Topping up local tax funding with ring-fenced grants would not guarantee all the extra money goes to adult social care

- Thus, while the government plans to abolish the existing general grant given to councils in 2020, it is highly likely that it will need to provide a growing top-up to the revenues that councils can obtain from council tax and business rates over the coming decades.
- It could continue to provide these in the form of ring-fenced grants to partially fund adult social care services. Such grants would also, in principle, reduce the risk to adult social care spending from changes in local tax bases and needs for other services: this component of funding would not be directly exposed to such risks.
- However, if ring-fenced grants only partially fund adult social care services, councils can implicitly divert part of the funding from these grants to other purposes. This is because they could reduce the amount of their own revenues they allocate to adult social care. This means that, despite the formal ring fence, councils keep a degree of flexibility over

how to allocate their budgets – which can be advantageous. But it does mean the extent to which central government can actually target this money at adult social care is more limited than it may initially seem.

Fully ring-fenced funding would significantly reduce local discretion ...

- If the government wanted to ensure ring-fenced funding was used in full for adult social care services, such funding would need to cover all spending on adult social care services. This would be akin to the funding of schools, which since 2006–07 has been provided in the form of a ring-fenced grant from the Department for Education.
- Such fully ring-fenced funding would also insulate social care spending from changes in local tax bases. But it would have drawbacks. In particular, it would reduce councils' discretion to vary spending on the basis of local preferences and their view of the need for spending (which could be more accurate than a centralised needs assessment).
- If the government wanted to allocate these grants on the basis of assessed needs, it would run into the fact that there are big differences between councils' assessed needs and what they actually spend on adult social care. In 2015–16, for instance, the latest needs assessment only explained 13% of the variation in actual spending per adult resident. 44 councils had adult social care spending that was at least 10% higher than implied by the relative needs formula. Of these, in 13 councils it was at least 20% higher. Conversely, in 35 it was at least 10% lower and in 19 at least 20% lower than implied by the relative needs formula.
- Moving to needs-based ring-fenced grant funding would therefore imply a big redistribution of spending around the country. It would be impractical to do this overnight; transitional arrangements would have to be made, with grants initially based on current spending levels.

... and could have knock-on effects for other local services

- A ring-fenced grant covering the whole of social care spending would take around £15 billion of spending out of local government control. If central government wanted the introduction of such a ring-fenced grant to be revenue neutral, it would have two options: it could devolve additional responsibilities for councils to fund out of their council tax and business rates revenues; and/or it could extract a proportion of councils' tax revenues and use these to (part-)fund the ring-fenced grant.
- Finding responsibilities of this scale to devolve could be difficult. For instance, the total spending on police and fire services is forecast to amount to around £13 billion in the current financial year. Councils might also face challenges in taking on the role of funding such significant new responsibilities. And it would be important for the government to consider whether it was willing to subject these newly devolved services to the potential funding risk associated with changes in councils' tax bases.
- The government could extract revenues from local taxes by imposing a 'tariff' on councils' tax revenues. This 'tariff' would then pay for (part of) the ring-fenced adult social care grants. Councils' remaining revenues from council tax and business rates would pay for their other service responsibilities.

- If this were the case, local government would be left with a much smaller portfolio of funding responsibilities, of which children's social care and public health would account for around 40%. The remaining 60% would be a wide range of services which each have much smaller annual budgets, from highway maintenance to bin collection.
- Such a system could increase the risk of funding diverging from needs for these other services. This is because spending on them would have to bear the risk associated with changes in local tax systems. In contrast, if adult social care remains at least partly funded from a council's own tax revenues, there is the possibility of sharing that risk with adult social care services.
- However, if councils do not feel able to make adult social care services share in these risks, centralising funding for these services could actually reduce financial risks for other services. This is because the other services would already be bearing the full risk associated with changes in local tax revenues. And centralised funding of adult social care via 'tariffs' could insulate funding for other services from risks associated with changes in adult social care spending needs (e.g. because the local population becomes poorer and/or sicker): councils would just pay their fixed 'adult social care tariffs', whatever happens to these needs.
- So would fully centralising responsibility for funding adult social care increase or reduce funding risks for other services? It depends on whether we think councils would otherwise be able to allow spending on adult social care to share in the adjustments required when local tax revenues fall. And it depends on the scale of revenue and spending needs risks for different services and how these are correlated.

So the upshot is ...

- Government therefore faces tricky choices. It could keep adult social care at least part-funded by councils' general (business rates and council tax) revenues and accept that this means (a) it cannot guarantee that ring-fenced additional funding actually gets spent on adult social care and (b) councils could use their discretion to offer different levels of service provision. Adult social care spending would therefore be at least partially exposed to changes in local tax revenues and spending needs and to differences in councils' spending priorities. This could make it difficult to achieve a consistent standard of care across the country.
- Instead, fully centralising the funding of adult social care would allow the government to (eventually) allocate spending across the country according to assessed needs. And it would fully insulate adult social care from changes in local tax revenues. If the government could accurately assess spending needs, it would also be easier to achieve a consistent standard of care across England. But such a policy would imply a significant reduction in local discretion, could involve significant redistributions of spending across the country and would have knock-on effects for the funding risks faced by other services.