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DEMOGRAPHIC CHANGE AND ADULT SOCIAL CARE EXPENDITURE IN SCOTLAND

INTRODUCTION

This **submission to the Independent Review of Adult Social Care,** supplementing Social Work Scotland's main submission, aims to provide a brief analysis of the impact of demographic change on the need to spend on adult social care in Scotland.

In particular, it reviews the most recent work by the Scottish Government on this issue, in the *Health and Social Care Medium Term Financial Framework*[1] (HSCMTFF) published in October 2018, and also used subsequently in the Scottish Government's *Integrated Health and Social Care Workforce Plan for Scotland*[2] published in December 2019.

THE HEALTH AND SOCIAL CARE MEDIUM TERM FINANCIAL FRAMEWORK, 2018

The Scottish Government's *Health and Social Care Medium Term Financial Framework* is intended to assist health and social care partnerships to improve their strategic planning. It set out trends in expenditure and activity, estimates the impact of demographic change on the need for health and social care expenditure, and summarises government plans to "reshape expenditure patterns across the health and social care sector" alongside a programme of health and social care reform. The estimates provided for the additional expenditure required to meet demographic and other pressures are therefore set in a context of changes to current service delivery.

The Framework presents a lot of information within a short text, so while comprehensive it is somewhat compressed, particularly in relation to the estimates of the financial consequences of demographic pressures for Adult Social Care:

> Taking into consideration the various estimates of social care growth, pressures in the social care sector are likely to be slightly higher than in healthcare for various reasons, including pay[3] a strong focus on the very elderly, where demographic pressures are at their greatest. For the purposes of modelling, a rate of 4.0% has been used. (page 11)

There is no breakdown of the 4% per year additional expenditure requirements between demography, price effects, and "non-demographic growth" (eg changing expectations or policies) as there is for health on page 10 of the Framework. Information subsequently supplied by SG Health Finance (in response to a request by Social Work Scotland for further information) shows that demographic growth was estimated at 3.5% per year applied to 80% of the base year spend on total social work/care service net expenditure. The base year was 2016-17 when the LFR03 returns show total net social work/care expenditure of £3,136M, of which 80% is £2,509M -- which is a reasonable approximation of actual net expenditure on Adult Social Care (ASC)[4].

Estimates of pay and price increases for social care and health used by SG Health Finance for this work added 0.5% to their forward projections of the GDP deflator, a measure of price inflation for the economy as a whole, used widely in public expenditure analysis. (We assume the rationale for

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[1] https://www.gov.scot/publications/scottish-government-medium-term-health-social-care-financial-framework/

[2] https://www.gov.scot/publications/national-health-social-care-integrated-workforce-plan/

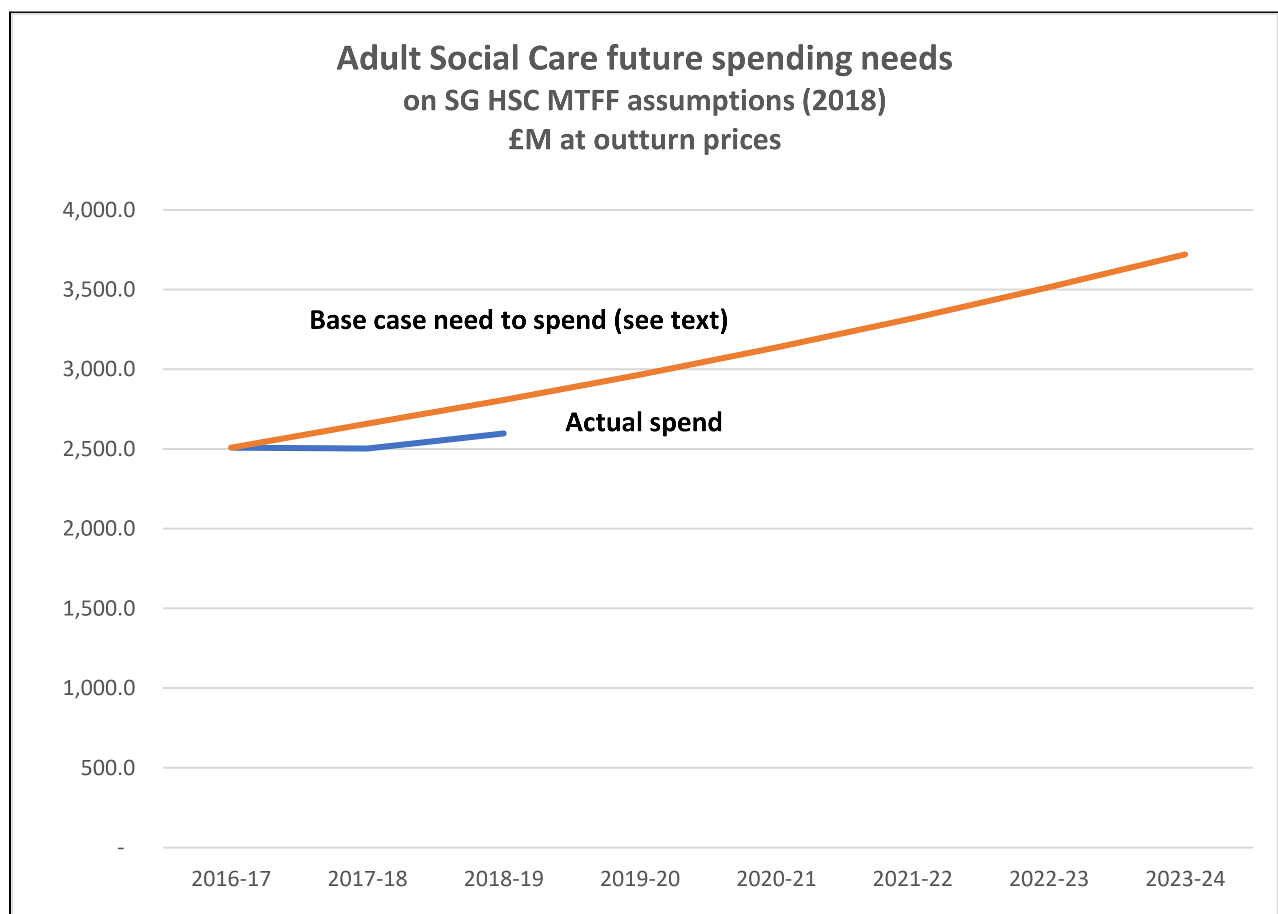
[3] Note: "pay" seems a typo for "*paying* a strong focus", as the other possible interpretation (missing text intended to include higher future pay inflation for adult social care than the NHS) is ruled out by the inflation indices used.

[4] In 2016-17, actual net spend allocated to the five ASC client-groups on the LFR03 returns totalled £2,226M, excluding any share of "net Service Strategy" (which in several councils was a negative amount, reflecting transfers to and from health boards). It also excludes services for children, including for children with disabilities, which in some partnerships have been delegated to the IJB. An 80% estimate simplifies the estimate for ASC spend, which otherwise would need bespoke treatment for each Integration Authority. (The Framework also uses 80% for the proportion of baseline NHS expenditure in scope of integration).

higher than average inflation for social care is that this would be needed to improve low pay within the social care workforce, and improve related recruitment and retention problems). The total of 4% per year additional financial pressures therefore covers demography (3.5%) and relative price effects (0.5%), but not general pay and price inflation.

For the NHS, the published Framework states that "demographic factors will on average increase the demand for healthcare by 1% year on year" and that "price effects will move in line with UK Government GDP deflator projections and will reflect the impact of the NHS pay deal (combined impact of 2.2-2.4% each year over the next five years)". In addition, "non-demographic growth will contribute 2-2.5% growth year on year within the healthcare sector" (p 11), although a spreadsheet received in response to the request for further information shows 2% per year. There is no "non-demographic" growth mentioned for Adult Social Care in either the report or in the spreadsheet we received.

The graph and table below show the additional need to spend on adult social care on the Framework's demography and inflation assumptions (base case, before any savings).



Additional need to spend on ASC from 2016-17, on SG H&SC Medium Term FF assumptions

£M at outturn prices	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Net actual expenditure at 80% of SW Total	2,508.6	2,503.0	2,597.5					
Required spend on MTFF assumptions	2,508.6	2,658.7	2,806.8	2,966.1	3,137.4	3,318.7	3,513.8	3,720.4
Annual Additions required	base year	150.1	148.1	159.2	171.3	181.2	195.2	206.6
Current shortfall	base year	-155.7	-209.3					

Notes: the first row is from the published LFR03 workbooks; data from the delayed (and much reduced) LFR03 for 2019-20 will not be available until 2021

The total additional adult social care investment required totals some £1.212bn by 2023-24, of which about half (£683M) is for the impact of demographic change, as stated in the published Framework. Actual spending is shown from the LFR03 returns (using the Framework's 80% of total social work expenditure) – by the last year available (2018-19) the spending shortfall was -£209M, only two years after the base year.

Unmet need arising from reductions in adult social care expenditure in real terms from the start of austerity to 2016-17 is not addressed in the Framework.

The table and graph only show the base case, which the Framework refers to as the "do nothing" option. In the published Framework, there are useful sections on *Reforming Health and Social Care* and *Bridging the Financial Challenge*, which briefly describe developments and opportunities for managing down some of the additional demand and cost. However, most of these relate to the NHS, and the only measure quantified for Adult Social care is an assumed 1% savings yielding £121M over the period, which brings the total investment required down to some £1.091bn.

In December 2019, the Scottish Government published *An Integrated Health and Social Care Workforce Plan for Scotland*. Page 8 of this plan stated that:

> The Scottish Government's Medium Term Financial Framework (MTFF) estimates that to address the effects of demand, we will require 1.3% per annum more NHS employees and 1.7% per annum more social care employees in the period to 2023/24".

For health, 1.3% per annum might be the 1% mentioned on page 10 for the Framework: "…demographic factors will on average increase the demand for healthcare by 1% year on year"; for 1.3% is actually the annual savings target ("to be retained locally) also mentioned on page 10 of the Framework for health services in scope of integration. But for Adult Social Care, the 1.7% growth required annually seems to have no clear basis in the Framework's estimates of 3.5% demographic growth (or 2.8% if applied to the larger social work/care total expenditure) [5].

SOURCES OF DEMOGRAPHIC GROWTH ESTIMATES

The Framework's estimate for the annual impact of demographic change is the key estimate for adult social care pressures, which the report indicates is in line with previous work in England:

> In May 2018, the Institute for Fiscal Studies and the Health Foundation reported that UK spending on healthcare would require to increase in real terms by an average of 3.3% per year over the next 15 years in order to maintain NHS provision at current levels, and that social care funding would require to increase by 3.9% per year to meet the needs of a population living longer and an increasing number of younger adults living with disabilities. Our analysis and assumptions are in line with these assessments … (page11)

The Framework's estimated impact of demographic factors on the need for health expenditure at **1%** year on year to 2023/24 is in line with our earlier calculations for ADSW in 2012[6], but is quite a bit lower compared to the 2018 IFS/ Health Foundation study[7] which projected the financial impact of annual increases for demography alone for the NHS in England at £15bn from 2018-19 to 2023/24 on a base spend of £128bn (excluding their estimate of underfunding of £6bn in demand pressures since 2016-17). We make that an average annual increase of **2.2%** year on year[8] in England).

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[5] Ie 80% of 3.5% is 2.8%. We have asked civil servants to clarify the basis for the workforce estimate, but due to Covid-pressures have not received a response.

[6] https://socialworkscotland.org/consultation/inquiry-impact-demographic-change-ageing-population-public-finances/

[7] Institute for Fiscal Studies/ Health Foundation *Securing the future – funding health and social care to the 2030s*, May 2018. Available at:https://www.ifs.org.uk/uploads/publications/comms/R143.pdf

[8] Using geometric means: ((128+15)/128)^(1/5)-1. The 3.3% pa figure quoted above includes estimates for pay rises, drug cost increases, increase prevalence of chronic illness, capital costs, etc – see page 71 of *Securing the future*.

Estimates for adult social care increases in the 2018 IFS/ Health Foundation study are based entirely on work in England by the Personal Social Services Research Unit (PSSRU):

> The PSSRU model[9] estimates that cost and demand pressures for publicly funded adult social care will rise by an average of 3.7% a year in real terms between 2015 and 2030. This is slightly lower for younger adults, at 3.6% a year, compared with 3.7% a year for people aged 65 and over.

The PSSRU research was subsequently published in November 2018[10], and the table below shows the results at constant 2015 prices (so without inflation) and without possible higher unit costs also modelled by PSSRU but not shown here:

PSSRU projected public net expenditure on social care for older people and younger adults, 2015-2040, England, base case in £bn at constant 2015 prices

	£ Billions			Annual % change		
	Older people	Younger adults	Total	Older people	Younger adults	Total
2015	7.2	8.9	16.1			
2020	8.5	10.9	19.4	3.4%	4.1%	3.8%
2025	10.2	12.7	22.9	3.7%	3.1%	3.4%
2030	12.2	15.1	27.3	3.6%	3.5%	3.6%
2035	15.6	18.0	33.6	5.0%	3.6%	4.2%
2040	18.7	21.2	39.9	3.7%	3.3%	3.5%

Note: Annual % changes calculated by author (geometric means)

The numbers indicate that the annual growth for adult social care due to demographic change in England would be 3.6% for the ten-year period 2015-2025, and 3.5% for the period 2020-2030. These annual growth rates in expenditure requirements are unlikely to be very different in Scotland, but might be a bit higher because, although we have lower longevity than England, we also have higher rates of chronic illness. We do not have the survey data [11]in Scotland with which to replicate the PSSRU micro-simulation modelling.

We therefore agree with the 3.5% estimate in the Scottish Government's 2018 *Health and Social Care Medium Term Financial Framework* for the additional annual funding required for adult social care to meet the additional needs from demographic growth to 2023-24.

COMPARING ACTUAL WITH REQUIRED SPEND IN SCOTLAND FROM 2010-11

In the graph that follows, we show actual spend[12] on adult social care at constant 2010-11 prices to show both the impact of the "decade of austerity" and what would have been required had expenditure rising in line with demographic pressures, modelled at 3.5% growth per year.

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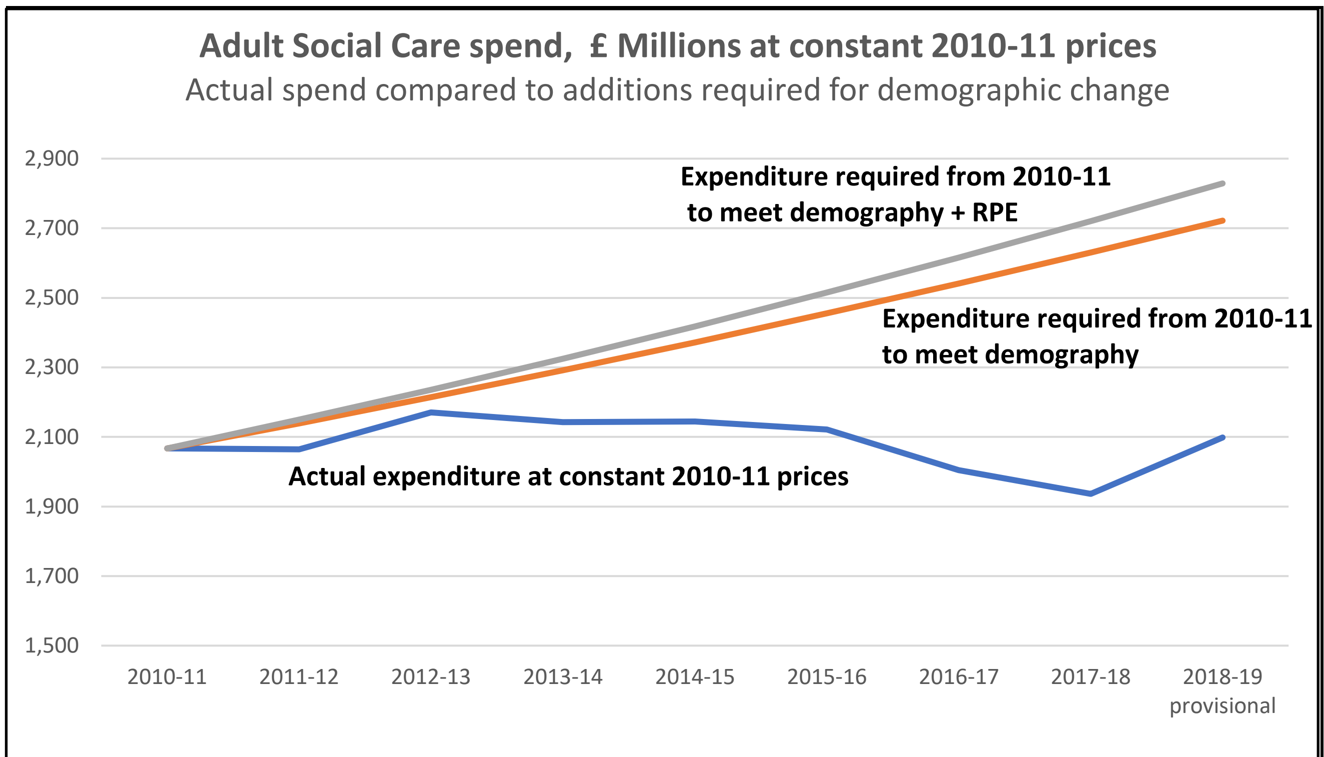
[9] "Researchers at the Personal Social Services Research Unit (PSSRU) have developed a cohort-based microsimulation model to project future social care activity and costs based on available data. This model is considered state-of-the-art in the analysis of social care in England, and is widely used in this area of research" *Securing the future,* page 107.

[10] Raphael Wittenberg, Bo Hu and Ruth Hancock (2018): *Projections of Demand and Expenditure on Adult Social Care 2015 to 2040.* Available at https://www.pssru.ac.uk/publications/pub-5421/

11 Some development work is being led by David Bell at Stirling University (the Healthy Ageing in Scotland project (HAGIS)), but the pilot survey used is small-scale. To undertake microsimulation work of the kind undertaken by PSSRU may require Scotland to fund much larger samples than are currently available from UK survey data used by PSSRU.

[12] For convenience, we use the PESA time-series for adult personal social services (PSS) published annually by HM Treasury in *Public Expenditure Statistical Analyses.* These are based on local government revenue and capital expenditure returns, but also include, we understand any other central government expenditures classified as PSS. We have an information requestion lodged with HM Treasury requesting



Notes: Actual expenditure at constant 2010-11 prices, from HM Treasury PESAs[13], with inflation based on GDP deflators in PESA 2020; Demography at additional spend of 3.5% per year, and Relative Price Effects (RPE) at 0.5% per year, as per Scottish Government's HSCMTFF (2018).

Actual expenditure will already include additional funding provided by the Scottish Government over the period for new legislation or policy initiatives. Some of these additions might explain increases in spend in certain years, or its maintenance in the face of austerity for much of the period 2012-2015. Certainly, without that funding actual expenditure would have been lower. But even with that funding, adult social care expenditure fell in real terms from 2012-2018.

The chart shows that by 2017-18 adult social care spending had fallen significantly below what was required to meet demographic pressures (by about £800M in 2018-19 prices), before improving[14] in 2018-19 to a gap of over £700M.

The increasing gap between actual expenditure and the needs of an ageing population and increased numbers of people with disabilities is bound to have increased the prevalence of unmet needs for social care, far above whatever levels already existed pre-austerity. Measures of unmet need have not been developed in Scotland[15] and would need to be based on surveys.

One potential indicator, pre-Covid, is the increase in premature death that has been noted in Scotland[16] and across the UK when improving longevity stalled from 2017, as many but not all academic studies have concluded. Scotland's Public Health Observatory has stated that:

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more information about the sources used. Figures for 2019-10 are provisional, and are likely to come from POBE returns and be either the provisional outturn or the budget estimate.

[13] *Public Expenditure Statistical Analyses,* 2016-2020 annual volumes, checked for consistency.

[14] But perhaps by not as much as is shown when the provisional figures used in PESA are revised

[15] See UK Office for Statistics Regulation (2020): *Adult Social Care Statistics in Scotland*: "There are gaps in the provision of statistics on social care – we don't know how many people currently need social care and whether those needs are being met, how many people might need care in future, and we don't know how well social care services achieve their goals of helping people to live independently and maintain a good quality of life". https://osr.statisticsauthority.gov.uk/publication/adult-social-care-statistics-in-scotland/

[16] http://www.healthscotland.scot/news/2019/february/stalling-life-expectancy-is-a-warning-light-for-public-health-in-scotland

The best evidence currently available suggests that the recent mortality trends are due to austerity and pressure on health and social care services are important in explaining the trends, with influenza also playing a role (see below). A wider range of factors have also been suggested as contributors …including obesity and mental health problems, which we are further investigating[17].

REMARKS ON WHAT SHOULD BE DONE

This brief review of the evidence for increased need to spend on adult social care finds that the annual growth requirements set out in the Scottish Government's *Health and Social Care Medium Term Financial Framework* are well founded[18]. Social Work Scotland, in common with many other organisations, believes that there is not enough funding in the care system.

We support the Scottish Government's reform agenda, including the introduction of Self Directed Support, the necessary integration of health and social care which is very much still work in progress, and the strengthening of carers' rights and support through the Carers (Scotland) Act 2016, which acknowledges that the largest volume of care is provided by family members and other unpaid carers, rather than by the State. Public support for care work remains high, and the introduction of Free Personal Care in Scotland for older people in 2002, and its extension from 2019 to younger people has been welcomed as reducing some of the inequities of charging for social care, when health services are free at the point of consumption.

Important though these measures are, a very large and increasing funding gap remains. Much more needs to be done to develop early intervention and prevention, to help people build on their capabilities, and to develop resources in the community that can help people who might otherwise need care services. But it is difficult for health and social care partners to fund such preventative and development work when funding is increasing short for people who already have high-level needs for care or support, and need that now.

The development of new models of care that work must continue, but that is not an honest alternative to increasing funding for social care: both are needed. Many reports over the last 20 years, particularly in England, have considered different funding options for health and social care, and a useful review is contained in the final section of the 2018 UK report, mentioned earlier, by the institute for Fiscal Studies and the Health Foundation: *Securing the future: funding health and social care to the 2030s*.

Their report considers but rejects the option of **switching money from other public services**, which are either under pressure themselves, such as welfare and pensions, or have already been cut over long periods, such as defence (p124), welfare, local government, or legal aid[19], or if reduced further would experience deteriorations in quality or access, "such as education and law and order" (page 168)[20].

Insurance is also rejected, as the market would require high premiums on their assumption that only high-risk persons would take out insurance. "There is therefore a case for the state to step in to correct the market failure by pooling risks and insuring people against the catastrophic costs against which they are unable to insure themselves" on the NHS model (p168).

Increased government borrowing is only supported in the short-term: "Borrowing can smooth a transition to a higher spending equilibrium. It cannot be the long-term solution" (p 153), and the

[17] See the discussion at: ".https://www.scotpho.org.uk/population-dynamics/recent-mortality-trends/

[18] For adult social care. We have already noted that the estimate of 1% per year for demographic pressures is well below the 2.2% used in the IFS/Health Foundation work in England.

[19] Our additions – not mentioned in *Securing the future.*

[20] One medium to longer term caveat here is that we understand Scotland has the highest prison population rate per head in Western Europe (Council of Europe Annual Penal Statistics 2019), and that community-based disposals are associated with lower re-offending rates, so there is scope for more humane, effective, and cheaper systems of punishment and rehabilitation. See: http://www.prisonreformtrust.org.uk/.

Institute for Fiscal Studies and Health Foundation lean heavily towards **increasing general taxation**:

> It is important to note that although the implied tax rises are large, the resulting increase in tax levels would still leave the UK with a relatively low tax burden relative to comparable European countries. Even if taxes were increased to fund health and social care under the modernised scenario[21], tax as a share of GDP would still be lower than it is today in France, Germany, the Netherlands and Scandinavia. However, the UK does spend a higher share of tax revenue on health and social care than these countries. Devoting additional tax revenue to health and social care would increase this share still further.

Social Work Scotland also notes that the UK is below most other Western European countries for general government spending, and for tax on personal income, as a % of GDP, according to OECD data[22]

While the report does include some discussion of implications for devolved administrations of **hypothecated tax increases** to fund the NHS, it does not address these issues more generally for taxation solutions to the present underfunding of social care – these are significant.

Social Work Scotland is clear that funding for adult social case is inadequate and must be increased significantly, but has not taken a position on these or other options for increasing funding. We are, of course, very aware of the pressures on Government borrowing during what may become protracted periods of Covid-19 crises, which have also put pressures on an increasingly fragile social care system. The increase in social solidarity associated with the pandemic, and the greater awareness of the pressures on social care, may also mean public opinion is more favourable for a new settlement for adult social care which is so badly needed.

Any questions on this submission should be sent to:

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[21] "Our modernised scenario sets out a projection of NHS funding over the next 15 years in which the health service meets rising expectations for the quality and range of care provided and in which services adopt new technological advances", page 68

[22] https://data.oecd.org/gga/general-government-spending.htm; https://data.oecd.org/tax/tax-on-personal-income.htm#indicator-chart