ADULT SOCIAL CARE SECTOR SIGNIFICANTLY UNDER-ESTIMATES CURRENT UNDERFUNDING GAP TO FILL, AND ACTIONS REQUIRED TO SUPPORT SUSTAINABILITY - David Roe, Better Care Outcomes Ltd.

The Community and Local Government (C&LG) Committee Report on Adult Social Care recently released goes a long way to identifying many of the funding and financial viability issues giving rise to increasing unmet needs and consequential deterioration in the quality of care and support being provided. It also makes a wide range of important recommendations. This is very much to be welcomed, complementing C&LG's earlier pre Budget report.

However, because all previous estimates of adult social care underfunding substantially understate the current funding shortfall, both C&LG's reports cannot fully recognise the significance of the shortfall which will remain, even after the supplementary £2bn to be injected through the Budget. So they cannot fully highlight either the likelihood that the extra money will be insufficient to address the major challenges facing the sector successfully, in the short-term, or that the extra funding cannot be deployed sufficiently quickly to prevent many more care homes and other care services from going out of business shortly.

If the limited new funding is simply shared right across social care, as would seem equitable and is proposed, then it is unlikely that some of the key strategic objectives can be fully met; in particular, those relating to reducing the need for older people to remain in hospital beds unnecessarily, when they could be supported in the community; and ensuring that there is sufficient remaining capacity and new care services opened, across services for younger adults, as well as those for older people, in the short to medium term, as demand continues to rise.

These conclusions are drawn, and many more of the key issues are highlighted in a new paper produced by David Roe, an experienced, specialist adult social care advisor, from Better Care Outcomes Ltd, who previously led the ground-breaking study 'Market Sustainability and the Care Act', for the County Councils Network and 12 Counties, conducted by LaingBuisson, in 2015. The new paper draws on the results of that study, in particular, in reaching conclusions on the importance of local authority fees paying broadly the true cost of care in full, and of specifically addressing the widely varying levels of market sustainability risks which exist in different parts of the country.

This paper has been produced in parallel with the latest C&LG reports and contains many similar conclusions, but its particular importance lies in the complementary evidence it provides in quantifying the scale of underfunding more realistically, and more fully explaining the nature of the market sustainability challenges to be addressed. It also makes specific, new recommendations on priorities for addressing the sustainability risks and on a wide range of actions which should be considered to improve the way social care is managed from financial and economic perspectives.

The key additional points made in the paper are highlighted below:

Underfunding

- The paper estimates that the current (2016/17) 'true cost of care' shortfall in funding required, to enable providers to stay in and continue investing in their businesses is at least **£3.0bn**, in England, and if a further estimate is included to address unmet, eligible needs, this would rise to at least **£3.7bn**

- Both the latest C&LG report and an even more recent report from the IFS (Institute of Fiscal Studies), entitled 'National standards, local risks' emphasise the shortfall in local authorities paying the full cost of care and the increasing scale of unmet needs (reinforcing the findings of an earlier report from Age UK on unmet needs)

- The IFS analysis includes a major finding that 6 in every 7 councils have recently reduced the financial value of care packages they are commissioning (which often affects both costs paid for and needs met); these reports strongly reinforce the nature and significance of the key elements of funding shortfall which this paper aims to quantify

- The new estimate of the current (2016/17) funding shortfall is almost double the highest of the previous estimates of at least **£1.9bn** (from the Local Government Association (LGA), the Association of Directors of Adult Social Services (ADASS), a combination of The Kings Fund, the Health Foundation and Nuffield Trust, as well as the IFS)

- Crucially, none of those estimates took full account of the accumulated current shortfall in paying the true cost of care for people of working age with learning disabilities, mental health and physical disabilities, before introduction of the national living wage (NLW) in 2016/17; other estimates are updated and many additional costs also quantified and included in the new paper

- **£3.7bn** should also be considered to be very much a minimum estimate of current underfunding, for a variety of reasons: firstly, it does not include any allowance for an increase in demand in 2016/17, in relation to specialist services for younger adults; the London School of Economics through the PSSRU unit (Personal Social Services Research Unit) estimate that demand is increasing by around 3% per annum overall; if this is applicable to services for younger adults services specifically, then this would add another **£200m**, approximately; it is also unclear whether a full year of demand increases has been included in other estimates for funding requirements for services for older people; if £200m is added in as a minimum adjustment across adult social care, then the current shortfall estimate increases to nearly **£4bn** (rounded up from £3.9bn), as a broad estimate; please note that this extra demand element has not been added in, in the previously completed Main Paper

- The fact that the **£17bn** gross current adult social care expenditure for 2015/16 also includes **£3.36bn** (20%) spent on 'other social care spending' also needs to be considered. This is not a direct cost to be taken account of in the cost of care to be paid to providers, but represents indirect costs paid for by the local authorities which, nevertheless make an important contribution to meeting needs, the sufficiency of care provided and sustainability

- The bulk of this is spent on 'social care activities', which cover assessment and care management processes (£1.57bn) and 'commissioning and service delivery processes' (£1.04bn); this category also includes money spent on support for carers, social isolation, information and early intervention (which covers other spending on prevention), assistive technology (AT) and support for asylum seekers; spending on all these important areas has been severely constrained in recent years, relative to increasing needs; greater investment in some of them could provide considerable payback in reducing spending in other key areas of social care and healthcare (e.g. prevention, AT, carers, social isolation); no estimate has been included for any possible underfunding to cover any of these areas; this point is also not covered in the Main Paper

- The paper also seriously questions whether even this greater level of extra funding will be sufficient to ensure sustainability of the market, given the need to pay competitive wage rates sufficient to attract, recruit, train and retain anywhere near enough extra nurses and care staff to meet increasing demand; a broad estimate of a potential, 'indicative' further **£1bn** is thought might be needed to have a much better chance of achieving this

- Nor do these estimates make any allowance for bringing people with only moderate needs back within the funding umbrella; this is seen as very important by many, in promoting and supporting the prevention agenda within social care and healthcare (a broad estimate of a further **£3bn** per annum being estimated as required)

- Finally, the question of how much people should have to pay towards the costs of their own care has still not been addressed, through initiatives to implement revised proposals for raising the wealth threshold and introducing a more effective care cap; these would be likely to require even more funding, though, admittedly only by 2020, in line with revised government commitments, not currently, as had previously been promised.

Continuing market sustainability risks and concern about further closures

- CQC (the Care Quality Commission) recently correctly argued that social care was now '*at a tipping point'; s*ince then, considerable new evidence, including from the latest C&LG report, indicates that the market has already gone beyond this point and is now, possibly, in some parts of the country, in 'free fall'

- The previous LaingBuisson analysis provided strong evidence that market sustainability risks vary significantly around the country, depending particularly on both the relative ability of local authorities to pay the cost of care in full and the state of relative affluence of older people living locally (in the markets for homecare and care homes supporting older people)

- The existence of a high proportion of self-funders is critical in supporting the ongoing financial viability of care operators; self-funders are often being asked to pay premium level fees above the cost of care, to cross-subsidise fees paid below the cost of care by local authorities; the highest sustainability risks tend to be in areas of lower average affluence around the country

- The firm recommendation in the paper is, nevertheless, that the 'true cost of care' funding gap should be fully met, throughout the country, in order to pave the way for a more sustainable adult social care service, everywhere; this is regardless of whether, in the care market for older people, sustainability in some more affluent parts of the country is largely supported and currently assured by the existence of large numbers of self-funders

- Only by providing funding for the cost of care to be paid in full (subject to special arrangements such as block contracts/ volume discounts, and local shortages or surpluses in supply), will councils be able to have any chance of obtaining placements for all those they do need to fund, including those at typically much higher prices, in more affluent areas as well

- Only then will it also be possible to start trying to bring 'like for like' self-funder fees down, through a series of challenging actions, to minimise the premiums which those paying for their care are continuing to have to pay

- The paper has also illustrated the rapidly accelerating deterioration in provider financial viability over time which will occur, if providers already experiencing low profitability/ deficits then face a continuing shortfall in local authority fee increases to meet increasing costs (drawing especially on the results of the 12 Counties study)

- Dynamic market demand and supply models were developed in the LaingBuisson study which showed graphically to what extent and when care services would be likely to fail, as well as what adverse effect this would have on new services opening, and the overall impact on market supply

- This new paper calculates that, despite the availability of the social care precept, councils have only covered around half of the increase in costs due to introduction of the NLW in 2016/17, with a further NLW increase imminent; it concludes that in this environment, if increasing divergence between cost and fee increases is allowed to continue, then the closure of care services is also likely to continue to accelerate, especially in high risk areas of the country

- This is unless (still likely to be limited) extra funding, over and above the £2bn can be allocated in priority to high risk areas of the country, where more closures are imminent

- If all the £2bn was assigned to older peoples services, and allocation prioritised based on risk, then this might go a long way to meeting the requirement to stabilise these services, including, importantly, in reducing numbers of older people unnecessarily in hospitals, but this would leave no extra money to support specialist services for younger adults; equally, this same amount might help stabilise specialist services for younger adults, but not both; spreading the money across all adult social cares services will prove to be too little to solve the problem in any one area

- It has not been the purpose of this paper to estimate the effect of the further imminent increases in costs beyond 2016/17, the offsetting effect of extra sources of funding and net impact on increasing funding shortfalls; that would require much more detailed study; however, it is worth pointing out that extra funding will need to cover 'inter alia', in 2017/18 alone, the further increase in costs, including the NLW uplift in particular, of at least 4% for care workers affected (with the NLW increasing from £7.20 to £7.50), as well as many other cost increases to address inflation, and procure and retain a sustainable workforce

- An overall cost increase of 4%, across social care, if fully funded, would mean extra funding of **£0.74bn** on direct total adult social care expenditure of £18.54bn in 2015/16 (before adding in other social care spending of £3.36bn); this is also calculated before increases in spending allowed by the social care precept and other sources of extra funding are added in for 2016/17)

- An increase in demand of 3% would require a further **£0.57bn**,on the same basis of conservative calculation, so together around an extra **£1.3bn** to raise, probably with limited prospects of recouping much of this through increased client contributions and payments from the NHS; note that these estimates are illustrative rather than estimated in detail, but both percentage increases are considered to be realistic minimums, based on other estimates available; (these points are also not covered in the previous Main Paper)

- The £1bn supplementary funding through the Budget could cover much of this, if it was only a question of addressing the extra cost of care for 2017/18; however, this would not even start to make headway into covering the £4bn true cost of care shortfall also expected to exist in 2017/18, before these cost increases; this is, admittedly without taking into account extra funding available through the social care precept and other additional sources (though all of this is modest relative to the gap to be filled)

- The cumulative effect of nowhere near paying for the full cost of care in 2016/17, as well as any further net shortfall in 2017/18 will be likely to have a further adverse impact on provider profitability/ surpluses, which will then lead to a severe knock-on effect on market sustainability

- The paper therefore concludes that not only will the £2bn supplementary funding fall a long way short of the emergency funding needed, but warns of the criticality of plugging the remaining shortfall in funding gap very quickly , in the areas of high local authority sustainability risk

- While it has been a major aim of the paper to explain again, in detail, the nature of the much greater market sustainability risks which exist in some local authority areas, the C&LG and IFS reports have both now majored on this variation, agreeing with and reinforcing the original LaingBuisson analysis; the C&LG report highlights the problem of cross-subsidies being paid by self-funders, to help support ongoing financial survival of providers, and the IFS report has provided more wide-ranging analysis of some of the significant differences in local authority finances and environments around the country, which impact on variation in market sustainability risks

- This detailed paper was completed before publication of those two important reports, and has not been updated to recognise them, but the analysis is entirely consistent with the new findings, and the conclusions complementary, as well as mutually reinforcing.

Allocation of the supplementary Budget

- The government will be making up relative shortfalls in local authorities being able to raise more money through increasing council tax (the social care precept); however, this still means that 90% of the total funds available (from the supplementary £2bn plus the extra council tax combined), which will be available to councils will have been calculated in proportion to the relative needs formula; so, adding in the 10% directly calculated on that basis, this means that, effectively, all the funding available (including the extra council tax), will be shared on the basis of the relative needs formula

- This approach has the dual benefits of recognising different volumes of needs, around the country, and relative abilities of councils to raise more money through council tax but, crucially, takes no further account of relative market sustainability risks

- The major, unresolved problem is that individual local authorities (and central government) are not aware of either the full extent of the current shortfall in funding facing them, in relation to the deficit in paying the true cost of care, across all their adult social care services locally, or of the full extent of the market sustainability risks they are facing, locally; nor are they aware of the full extent and impact of the additional future costs as a result of the further increases in NLW, and other cost increases required to promote market sustainability, locally

- It is therefore likely to prove to be very difficult for local authorities to deploy the limited extra money through the supplementary Budget to best effect, in reducing market risk

- It is difficult not to conclude, from all of the above, that the social care market is out of control, with no effective forward planning, and insufficient consideration for the provision and sustainability of support for all those who need it; this is coupled with the un-addressed issue that many of those who need to pay for themselves are paying more than they should be, as a result of the local authorities paying less than they should be; so that many older people, in particular, are not receiving value for money in relation to their care

- This conclusion simply echoes and reinforces the consensus which has already been reached concerning the necessity for fundamental reform of the funding for adult social care, as well as the way in which it is organized and needs to be more effectively managed.

Action needed

In the meantime, the paper suggests that there would therefore seem to be three pressing imperatives:

1) Gain such further reassurance as is necessary, if any, to confirm that, broadly speaking, nationally, the current underfunding, after allocation of the extra £2bn and social care precept remains substantial (as indicated in the paper)
2) Initiate a more detailed nationwide exercise to estimate the local true cost of care, across all the main adult social care services, for each local authority, and the remaining gaps in funding, based on fees local authorities are now able to pay, for 2017/18, given all the increases in funding now available to them; these estimates should then be extended for the rest of this parliament, given consistent assumptions about increases in demand, higher costs and further funding available
3) Review the provider financial viability and market sustainability risks by local authority, given remaining shortfalls in fees, and consider the priority requirements for additional emergency funding and its deployment, taking account of the relative risks of further closure of care services around the country; this will necessitate consideration of the impact of self-funder fees in maintaining the sustainability of individual markets for older peoples services.

Note that if it can be accepted that all local authorities need to receive sufficient funding to pay the true cost of care in full, across adult social care, then there would not be the need to wait until relative market sustainability risks are fully assessed by council, before deploying the extra true cost of care funding required. It is if extra funding is still significantly constrained that it will be necessary to prioritise the use of this limited funding to areas of greatest risk.

In undertaking market sustainability risk analysis, it is very important to be able to look at the impact of changes in demand and financial variables over time, on the adequacy of future supply. It is now suggested that consideration be given to further deployment of an approach which can achieve this, in considering the impact of increasing demand, and especially the effect of increased costs, relating to the NLW and the need to improve sustainability of the workforce, over the next few years.

LaingBuisson's CareSustain service, which builds on the earlier work and is to be launched very shortly, can be used to identify true cost of care shortfalls locally, as well as the local market sustainability risks over time, by council (using further enhanced dynamic market models), across the whole of England. This only addresses care homes for older people currently, but could be extended to homecare and specialist services.

UKHCA (the UK Homecare Association) may already have some of the information needed to identify the highest risk areas of greatest funding shortfalls for homecare locally, across the country. Relative levels of risk will probably be similar for homecare to those in care homes, so LaingBuisson's analysis may also be useful here. For specialist services, it will probably be necessary to draw on a combination of information sources, from care providers and councils, on fee levels and costs, to identify highest risk areas. The iESE (Improvement and Efficiency Social Enterprise) care funding calculator results should at least provide a consistent basis for cost comparison, where used by councils, together with results of local costing exercises and contract tendering.

Such an approach would also pave the way for CQC to obtain the additional data they will need to better monitor market shaping and ongoing sustainability risks right across the adult social care market.

Conclusion

So overall, the risks of major further fall-out in the adult social care sector have not gone away, just been reduced, but probably not substantially, as these are highest in discrete areas. There is an imperative to act fast now, to find ways of making further funding available to support the sustainability of adult social care, and to then distribute the extra money to best effect, probably, if still limited, in line with greatest risk and need. This is in parallel with proceeding to formulate a much better national strategy for funding and managing social care for the future, better integrated with healthcare, as input to an action-oriented green paper.

The paper addresses many of these areas, discussed above, in more detail and finally, makes a wide range of suggestions as to how social care might be better managed for the future, from a financial perspective. These are summarised, in more detail than here, in the Executive Summary to the paper. They include the need to:

- Establish a common assessment framework and standard costing approach, across social care and with healthcare

- Set up a central '**Ofcare'**, or similar expert regulatory body, which can determine return levels required and oversee establishment and updating of reliable care cost benchmarks, locally, thereby substantially reducing the ongoing confrontation between commissioners, their procurement teams and providers relating to care package and fee negotiations.

- Through this, enable and encourage local authorities, the NHS and providers to work more cohesively together to achieve better care outcomes, more cost-effectively, for all individuals needing social care support

- Following establishing a mechanism for paying the true cost of care, develop and implement approaches to limit the total care costs which individuals will need to pay for, as well as strategies for bringing down the fees which self-funders are expected to pay, where these exceed fair care cost benchmark levels.

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