HOUSE OF LORDS

Select Committee on Economic Affairs

Uncorrected oral evidence: Social care funding in England

Tuesday 21 May 2019

3.35 pm

Watch the meeting

Members present: Lord Forsyth of Drumlean (The Chairman); Baroness Bowles of Berkhamsted; Lord Burns; Baroness Harding of Winscombe; Baroness Kingsmill; Lord Layard; Lord Sharkey; Lord Tugendhat; Lord Turnbull.

Evidence Session No. 11 Heard in Public Questions 104 - 114

Witness

I: Rt Hon Damian Green MP.

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Examination of witness

Damian Green MP.

Q104 **The Chairman:** Damian, welcome to the Economic Affairs Committee. We all enjoyed reading your report. I begin by asking you to explain briefly how your proposed universal care entitlement would work.

Damian Green MP: First, thank you for allowing me to give evidence. My thoughts are based very much on what I regard as the relative success of the pensions system and the combination of a state pension with a reasonably successful private pension system. On that analogy, the universal care entitlement is, as it were, the state pension and, just as the pension has been increased quite markedly in recent years to a level where anyone receiving a new state pension is out of poverty, which is clearly the basic aim of any pension system, so, clearly, the basic aim of any care system should be to provide a level of entitlement that people would feel was good care. I am conscious that we will come on to the detail of that.

Instead of the current provision, which I think everyone involved in the sector or who has had anything to do with it knows is unsatisfactory, I think we need a universal entitlement that would guarantee a good level of care either in domiciliary care or if someone has to go into a residential or even a nursing home. It would operate in a similar fashion to the NHS tariff: it would be delivered locally but funded nationally. The assessment would be done, I suggest, by local authorities, as it is at present: there is no point unnecessarily changing the system. Those who needed either domiciliary or residential care would be assessed for their level of need, and that level of funding would then be made available to them. Clearly, over time, that assessment might change.

In the paper, I have included some indicative figures, but I am very conscious that that would need consultation at the time and that, if one wanted to be precise, it may well be that different levels of funding would be required in different parts of the country. That kind of detail is well worth discussing. For example, you might receive £2,000 a month if you needed full-time residential care; nursing care would be more, maybe £2,500. You can imagine that a standard figure for domiciliary care might be £800 a month. That would be people's entitlement, and they would know that they are entitled to that in the same way that they are entitled to the state pension.

The Chairman: Can I explore some of the figures with you? The report stated that the policy would cost an additional £2.5 billion a year. That was calculating by extrapolating from the cost of care in Scotland. How confident are you that that is a robust approach, particularly for estimating the cost of providing basic accommodation in England?

Damian Green MP: It is the best analogy that I can come up with for the time being. I am conscious that subsequent to the publication of my report, other people have come out to say that it is much more expensive

than that and will take much more money, to which I make the point that what I was saying is that this is what we would need now—a figure for 2019. Of course, demographics dictate that that number would rise over the years but, as you say, Chairman, this is explicitly an extrapolation from the Scottish example, which is the nearest and best that we have.

The Chairman: I look at the statistics published by the Scottish Government on free personal and nursing care for 2016-17. I see that £123 million, the figure in your report, was only the cost of providing free care to people living in care homes. The cost of providing free care to those living in their own homes is excluded. The statistics show that that was £379 million. Why was the cost of providing free care to people in their own homes not included?

Damian Green MP: As I say, it was an attempt at an indicative figure of what scaling up would involve. It is a fairly rough and ready figure, I admit.

The Scottish analogy was one of the ways in which we calculated it, using what is inevitably the most expensive part of the system. As you know better than me, in parts of Scotland, domiciliary care is more difficult because it tends to be more expensive in rural areas. You can have tos and fros in parts of England as compared to parts of Scotland.

The Chairman: The report also assumes that the basic cost of accommodation is £123 million a year in Scotland—there is no source provided for that—but the census figures from the national statistics for Scotland state that there were 31,223 long-stay residents in care homes for older people in 2017, and the average weekly residential care home fee in Scotland was around £680. Those figures suggest an annual accommodation cost of £1 billion, as opposed to £123 million.

Damian Green MP: It depends on how you make the analogy. The £2.5 billion figure is, as I said in the report, partly based on the Scottish example but it is also a reasonably central forecast of the additional expenditure used by other people. As you know, the Government have contributed increased amounts in recent years, which the sector has welcomed, but which I think everyone agrees is not enough to meet current, let alone future, levels of demand. Many people I have spoken to in the sector would say that £2.5 billion is the sort of number that would get people on to a reasonable footing at this stage.

The Chairman: Okay. So you would accept that perhaps the Scottish costs of care are underestimated in the report.

Damian Green MP: No. I am not resiling from the report.

The Chairman: But if you assumed £123 million as the cost of accommodation, but 31,000 times 680 times 52 is 1 billion, that is a factor of nearly 10 times.

Damian Green MP: We are slightly in danger of comparing apples with pears. My overall point is that the evidence from the people that I have

spoken to inside the sector in England, in both local authorities and care providers, suggests that they would find a figure of around £2.5 billion satisfactory to get them to a reasonable baseline now.

Q105 **Lord Sharkey:** The report says that the universal care entitlement would provide for a good level of care. On page 19 of the report you go on to suggest that £24,000 would be sufficient to cover the core costs of residential care. However, the average annual cost of a residential care home in the UK in 2018 was £32,000—in other words, 25% more. Does that suggest that the basic universal care entitlement will be less good than the present system?

Damian Green MP: I would hope not. I took the definition of "good care" that I used from the Commons Select Committee report, which is that it should be, "sufficient to achieve the aims of social care, which are to promote a person's wellbeing, independence and their dignity and enable them to exercise choice and control over the way they live their life". I could read the rest of it if you like but it is in the report so that would be pointless. On the other point, I am not sure which page 19 you are looking at but there is not a figure of £24,000 on that page.

Lord Sharkey: The £2,000 figure is in the final paragraph.

Damian Green MP: I think I have a different page 19.

Lord Sharkey: It says: "If you needed full time residential care, you might receive £2,000 a month to cover the core costs", and then goes on to talk about nursing care. The point that I was trying to get at is that on average the current cost is £32,000, so £24,000 seems like a huge difference.

Damian Green MP: All the figures in this area are averages. Does that figure include nursing costs as well or is it purely for residential care? I think that in many care homes the average would be supplemented by the care supplement that I propose. What we get now is a very unfair cost subsidy from privately funded patients to state-funded patients. One things that surprised me when I looked into this area is that that fact has not caused more political controversy. Effectively, what would happen under my system is that some of the care supplement that people have paid for—in fact the bulk of it, because I think people should get something for something—would allow them to know that they could get extras. Inevitably, though, some of those extras would be built into the basic provision that would be available for all, so they would see something as a visible extra but in fact the fabric would be improved in an individual care home, when looked at as a unit, and therefore that £24,000 figure would be supplemented by the care supplement.

Lord Sharkey: Leaving aside the care supplement—I think I understand what you are saying—I am interested in the basic level of care that is being provided. I still cannot quite understand how it can currently cost £32,000 but you think it could be provided for £24,000.

Damian Green MP: The problem with that £32,000 figure is that it is a mishmash of what is provided through local authority funding, which is often much less than that, and through private funding. So, in a sense, for any individual it is a false figure, and it would be much better if people knew more honestly what they were getting. The £2,000 is an indicative figure. Obviously the Government would need to consult if they adopted this process, and they may decide that it is something that would add up to £32,000 a year, although, as I say, that ought to be unnecessary because some of the care supplement money would inevitably go into wider infrastructure that would benefit state-funded patients as well—although, as I also say, you have to have something so that people feel they are getting some benefit from the care supplement.

Lord Sharkey: I have a question about the general fairness of the proposed basic entitlement. As I understand it, it will be available only to new entrants into the social care system while those already in the system continue under the present arrangements. That is right, isn't it?

Damian Green MP: For the purposes of simplicity, I suggested that rather than rolling it into the current system, you would apply this to new people. Clearly, it would be open to a Government to say, "We're going to make this new entitlement open to everyone who is already in the system", but practicality, in terms of both implementation and expense, would suggest that no Government would want to do that.

Baroness Kingsmill: Because it would involve a cut?

Damian Green MP: No, because it would involve complication, expense and a backwards transformation. If you are introducing a new system, is it is sensible in practical terms to do it gradually—saying that from a certain date people have this entitlement, but not those already in the system. You can do some reasonable actuarial calculations that it would not take that long to make it universal because of the amount of time that people spend in residential care in particular; we know how long that is on average.

The Chairman: There would be lots of very angry people who had lost their houses or their savings.

Damian Green MP: Who would lose their house under this?

The Chairman: I am talking about the people who had gone into residential care previously, the ones that you are saying would not be within the new system.

Damian Green MP: I agree that it is always a problem that if you improve public policy, those who cannot benefit from the new policy complain about it. However, I am not aware that anyone is so happy with the current system that they would say, "No, don't improve it for future generations. Let's leave it as it is".

Q106 **Lord Layard:** We have been told that private expenditure on social care by people over 65 is in the order of £8 billion. As I understand it, you are

relieving £2.5 billion of the £8 billion but you are still leaving something like £5.5 billion for private individuals to cover. That is where your proposal for the insurance scheme comes in, which personally I find very attractive. However, that is not the most important part of what you are proposing. The other part seems to be quite minimal and maybe a bit of window dressing more than substance, relative to the size of the problem.

Damian Green MP: Only people used to dealing with public expenditure regard £2.5 billion as "quite minimal". It feels like quite a lot of money to me, and no doubt it would to any future Chief Secretary to the Treasury. However, I take your point: you need both. This should be regarded as a package. The capacity and ability to buy an insurance policy would be not only very welcome for people but not unfeasible.

To return to my pensions analogy, I am struck by the success of auto-enrolment where at every stage, not only at its introduction but during its expansion in terms of increasing the percentage that people pay, Ministers and officials—I know this because I was Secretary of State for Work and Pensions for a time—have held their breath and thought, "At this point people will stop doing it". In fact people have continued to do it and it continues to be very successful, which is why I am confident that people would find different ways to save for this insurance policy to raise the extra money on top, however much it turned out to be or however much they turned out to need, because they could choose to do it either during their working lives or as a lump sum.

As it happens, the generation who are coming into their 60s now are the generation with a huge amount of housing wealth. To return to your point, Mr Chairman, about people's genuine fear of having to sell their homes and having no inheritance left, this measure is precisely designed to address that by saying, "Here's a chunk of your housing wealth that you will have to give up, but in return for that you can be guaranteed peace of mind that, if you need it, you will get however much top-of-the-range social care you need, and that the rest of your inheritance is left". That ought to be an attractive offer to many people in that age group.

Talking of people from the Treasury…

Q107 **Lord Turnbull:** As Peter Cook said to Dudley Moore, "Your right leg, I like". On the supplement, I cannot really understand what is happening here. You are paying in a sum of money, which you may pay in over time or as a lump sum. The question is: is it in effect an annuity, so you get a sum of money from which you can meet the extra costs? In that case, as with an annuity, the insurer is bearing the investment risk and the longevity risk, along with the share of the cohort who get certified for this care. Then there is the risk that is left with the family: that the cost of care will probably rise faster than prices generally.

Let us say that we have three tiers of care: bronze, silver and gold. If I buy the gold standard, how do we define the benefit that I get? Is it a sum of money, or is it that on top of the basic sum—which I think you

have underestimated, but let us say that it is £2,000 or £3,000 a month—I get 10%, 20% or 30% more? In that case, the insurer has, in addition, the risk of care inflation. My observation is that the insurance industry is struggling even to make basic annuities work. This would be basic annuities plus two additional risks: how many people are going to come into the system and the inflation risk of costs. I do not think you can make this fly.

Damian Green MP: A lot of people in the insurance industry think they can make it fly. As I say in the report, actuarially they can calculate how many people are going to need residential care, and they say they worry only about the few very expensive ones: how many will be particularly expensive if the person has dementia and so on. That is a calculable risk; it is what we pay actuaries for. So they can price that product.

Lord Turnbull: So it is an annuity.

Damian Green MP: It is like an annuity, yes.

Lord Turnbull: It is a sum of money that you get, or it could be something that—

Damian Green MP: You could do it that way. You could guarantee a level of care, but in the end that is going to have to be turned into something financial, is it not?

Lord Turnbull: What kind of sum of money would you have to put into this pot to buy something realistic? For those people who need care—and some will need a lot of care—what sort of sums would you need to put in?

Damian Green MP: Some people need no care, of course. That is why there is a market here. We as customers, as it were, would take the risk, and the insurance industry would do the calculations and know what the pricing was to enable it to take the risk that it needed to take. It will know that 25% of people never need any care. Indeed, the bit of the report that I am conscious no one has read is the part about changing housing policy and other policies so that fewer people will need care. That will have to be an important part of the package as well. We may disagree about this, but I think, because insurance people tell me so, that this is a priceable risk, if that is not a horrible phrase.

Lord Sharkey: We have had evidence from the insurance industry, not precisely about this but about the equivalent of some kind of Dilnot scheme. With the exception of the Royal London Insurance Company, they were unanimous that they did not think there would be a market for this kind of product.

Damian Green MP: Then maybe Royal London will clean up.

Lord Sharkey: That was Steve Webb.

Damian Green MP: I will not repeat private conversations because we are in public, but others have said that they think this kind of risk is

priceable. Some will say it may be more expensive than £30,000, but to some extent it will be up to the market to decide that. Obviously you cannot dictate what the size of the packages would be; these were indicative figures.

I am quite confident that the industry as a whole will rise to the challenge of making this real. In fact, one of the first responses I had was someone saying, "This is an obvious employer perk". It would become like private healthcare; someone could buy you a care supplement as a job inducement. So there is genuine interest in this.

Q108 **Lord Burns:** You say in the report that, "a good level of care must be free to all at the point of use, regardless of circumstances". Does this mean that it is like a voucher? Are people who have been self-funding until now going to get a voucher that covers them for the cost of basic care, and therefore they will have to pay only the additional part and their costs are going to be lower than they previously would have been?

Damian Green MP: As I said, and as the Chairman has pointed out, there is a political risk. If you are in the system now, we cannot transfer you.

Lord Burns: I am thinking that those people who have been self-payers are now going to get a bonus the size of this voucher. My arithmetic suggests that the amount of private sector funding falls, and therefore the total amount of funding that we have to find for the scheme is not just your £2.5 billion but also the amount of money being given to the self-funders who are now going to get assistance. In other words, is it a voucher system or is it like private schools where, if you are out of the state system, you have to pay the whole of your costs?

Damian Green MP: As I say, the analogy that I would use is the pensions system—

Lord Burns: It is like pensions, which is a voucher system.

Damian Green MP: I suppose it is a voucher system. That would come in. The current system is unsustainable. I am genuinely surprised—

Lord Burns: There are a lot of people who self-fund and pay the whole lot.

Damian Green MP: And we see the consequences. I do not think the current system is sustainable, either in terms of the quality of care—and that problem is going to increase—or in terms of people accepting the unfairness in the current system.

Lord Burns: As you know, we have in these matters the concept of "deadweight costs". Those costs are now going to fall on us. It puts up the cost of this scheme considerably if a lot of people who have been self-funding, no doubt accounting for quite a lot of the £8 billion figure, are going to be relieved of £2,500 a year because they are now receiving a voucher.

Damian Green MP: I am sure that the same argument could be made about pension systems. If you just made everyone have a private pension and abolished the state pension, you would abolish a lot of dead weight. Rich people get the state pension as well. Sometimes, though, even the Treasury has to put up with dead weight in terms of social equity.

Lord Burns: I am not suggesting that it is not a good idea. I am suggesting that it puts up the costs of this considerably for the public purse because you are reducing the amount of personal funding that would be going into this compared to the base cuts.

Damian Green MP: I do not think it would. I suspect we are going to come on to the 50% or 80% assumption, but it would depend on how much extra funding you would get through the care supplement and whether the extra money that you would need would come from the taxpayer.

Lord Burns: Some individuals, those who had been self-funders, would be significantly better off.

Damian Green MP: For anyone who has been a self-funder, because they would not be in the system.

The Chairman: There is a lot of interest in this.

Q109 **Baroness Harding of Winscombe:** May I push a little more on whether there would be a market for a care supplement? We have talked about whether or not there would be sellers. I think there is a similar problem about whether there would be buyers, and that is where the analogy with pensions falls down. Some 47% of people already think that social care is free. If I already think it is free then I am not going to buy a supplement; and those who do not think it is free do not assume that it is going to affect them. While we all hope we will be of pensionable age, we all assume that we will not need this kind of care. In that sense, it is more like car insurance than pensions: we all assume that we are good drivers and we buy car insurance only because we have to, otherwise we cannot license our cars. What convinces you that there will actually be a market of people who want to buy the care supplement?

Damian Green MP: There are several points here. Sorry to keep returning to the pension analogy, but the fact is that the auto-enrolment scheme has been successful. The figures that you have quoted will go down quite markedly over time. One of the effects of an ageing population is that more people—these days, characteristically, those in their 50s and 60s—are having to confront the reality of care costs because of their parents. The baby-boomer generation of parents are now the ones who may well need care, so I think that 47% figure will go down. Even if people think it is free, the shock that they get when they discover it is not is such that it will influence them, so a public education campaign would be useful.

I think people are generally becoming more aware of the fact that this costs money. There may well be problems ahead for the system that will make it very obvious that people need to buy something like this. As it happens, the generation who are thinking about it now have the unique possibility of doing just that. Even if they have not been saving for it all their working lives, which I would hope that future generations would do, the property wealth inherent in the current generation of those in their 50s and 60s is such that they can afford to buy a controlled lump sum.

Baroness Kingsmill: Could you clarify a little more about the way in which this supplement is going to work? Could you also give some clarity on the relationship with local authority and NHS budgets? Could you contextualise it a little more? It is a different and difficult concept to get one's head around.

Damian Green MP: It is. The whole area is difficult, as successive Governments have found. One problem with the current system, and one of the reasons it is creaking so badly, is precisely that it comes out of local authority budgets. We are getting to the stage where well over 40% of the entire spending of my own local authority in Kent is on adult social care, and the demographics for many counties and unitary authorities show that this will only go up in future. In effect, it is already being squeezed a bit because of the many other demands. In the end, it will come to dominate; it will be what local government at that tier does, which seems to negate anyone's idea of what local government should be about. Already we are getting to the point of deciding whether we should close libraries or meet social care obligations. That is a wrong choice for local government to have to make.

That is why I think this should be funded nationally. That has an added advantage from the potential customer's point of view: one of the most common complaints I have heard is that, because the local authority is doing the assessment and stumping up the money, for some local authorities there is every incentive to decide that people do not meet the threshold for a particular type of care. People therefore feel—and in some cases rightly, no doubt—that they or their elderly relative are being denied the level of care that they think they are entitled to. That is why I think you should separate out the funding and treat it at the national level, otherwise local government will collapse under the weight of it and you will bake in what is already a strained and slightly unfair system.

Baroness Kingsmill: And what about the NHS?

Damian Green MP: I am conscious that one of the other proposals is that one should just put social care inside the NHS, which I think would be wrong for a number of reasons. First, if people of a Treasury cast of mind are worried about the dead weight in my proposals, just imagine if all of this were simply free at the point of use. That would be much more expensive, and the alternative of setting up a national care service would be another vast bureaucracy that we do not need.

Perhaps more subtly, I am absolutely sure that this would then become the new Cinderella service inside the NHS. A lot of people have spent 20 years or so trying to bring out mental health, the problem being that it was never central to the NHS's purpose, in some peculiar way. It ought to be, and we know that now. But it has taken a lot of effort over a long time to make it more than what my former coalition Government colleague Norman Lamb always said was a "National Physical Health Service". I can imagine any Health Secretary, under any Government of any type, feeling that there is more pressure on services such as A&E, cancer or neonatal than on care homes. The more that you try to bring the two together—although clearly for the individual there will be some overlap—the more likely you are to continue with a rather unsatisfactory provision of service.

Baroness Kingsmill: Many feel that there is not much of a distinction, or only a very narrow one, between what constitutes medical care and social care. It all rather depends on what you get: if you have Alzheimer's then you need social care but if you have heart disease then you need medical care. There is an argument for suggesting that there should be a close correlation, and perhaps even a close funding relationship.

Damian Green MP: It is possible. One of the advantages of a universal entitlement is that it gives you universal entitlement whether you have cancer or dementia. I absolutely take the point about any type of change to the system, particularly given what happened in 2017, when it suddenly became the political issue of the day; the phrase "the dementia tax" is extremely resonant and proved very politically effective. I have deliberately tried to frame a system that does not discriminate between different conditions, in order to avoid that, but also, the supplement is not a tax. We have not discussed this, but what I am proposing—

Baroness Kingsmill: I was about to ask you whether you think it should be compulsory.

Damian Green MP: I do not, partly because I am working within the realms of political possibility. It seems much more sensible to make it a voluntary system with a large amount of nudge that the Government would absolutely have to provide. In answer to Baroness Harding's point about whether there is going to be a market, people should be very heavily encouraged to do this. But once you introduce a new tax, political realism suggests that it is much less likely to happen. Apart from anything else, there will be people at the bottom who will never have enough resources to pay that tax.

Baroness Kingsmill: But they will still get basic care.

Damian Green MP: They will absolutely get basic care; that is the point. And that care has to be decent. Also, there may be people who are so affluent that they decide to take the risk and say, "I might be one of the 25% who never needs a day's care in my life, so why should I spend £30,000 or whatever on this?" They do that knowing that, if the worst happens, they can afford it and it will not affect them very much. Giving

people that freedom will make it more realistic that you could end up with a system that puts more money into social care, whereas any Government would find it very difficult to introduce a whole new tax just for social care.

Lord Turnbull: I have one little observation on this issue. On the point about not bringing this in for people who are already in the system, you ought to look at the case of someone who has already been in this system for 10 years. They should be got out of the system at the earliest possible opportunity. We should not just say, "You just have to carry on paying it for as long as the condition arises", because that is the point at which the greatest suffering takes place; people are in it for a long time. Are you saying that if you have already been paying for and getting care for two years, you will come under the new arrangement straight away? That would not cost very much.

Damian Green MP: There will be very few who are in it for 10 years.

Lord Turnbull: Presumably you will be watching the "Panorama" programmes. Some of us have seen the first episode. It is harrowing; it is really good. It tells you where the pinch points are in the system.

Damian Green MP: I agree that there are some really grim stories.

The Chairman: Did you have a question?

Lord Turnbull: No, it was just a point.

Q110 **Lord Burns:** As we understand it, many care homes are present rely on self-funders to be viable. To what extent under this system do you think that people who are taking the care supplement will end up subsidising those who are on basic entitlement?

Damian Green MP: That does seem to be one of the central points—my "something for something" point—tries to address that. People might say, I have this, so I might be entitled to a bigger room, more trips or some other extras. It also seems inevitable, being realistic about this, that some of the money will go into central funding of an individual care home, so it will raise the level for everyone. As long as there is something visible that you are getting for your care supplement, people will not think that it is just a cross-subsidy. Candidly, even if it were just a cross-subsidy, which it should not be, that is what we do now, but we will be doing it at a higher level.

I would not want it to be as bad as it is now. One thing it would do in practical terms is improve the care home estate. The "Panorama" programmes show that one problem is that some of these buildings are not fit for purpose.

Lord Burns: On the issue of central versus local funding, were you surprised that Matt Hancock told the Committee that the Government were not looking at doing this?

Damian Green MP: I am never surprised when a spending Minister, with a spending review coming up, is wary of any suggestion to increase his budget, because he will know the pressures from those people at the Treasury, so I was not surprised. But this is a really serious part of the debate. At the moment, funding through local taxation is evidently not working, not least because, regularly, the Government have to inject more money. That alone tells you that the current system of funding is unsustainable.

Q111 **Baroness Harding of Winscombe:** First, Lord Chairman, I should have declared my interest earlier as the chair of NHS Improvement, which has obvious overlap here.

Why do you think that social care has been such a difficult issue politically for successive Governments, not just here but in almost all developed nations? What we have to do to get to political consensus?

Damian Green MP: It is a complex set of issues around the world, many of which are hidden inside the home. In a sense, it is a problem that has crept up on policymakers because of demographic changes. When people around the world used to lead unhealthier lives, they did not need social care because they died before they needed it. It is a huge thing to celebrate: the fact that we all live that much longer. The next phase must be to have a longer period of health rather than just a longer lifespan, but that is for a different day.

Governments found that quite difficult. Around the world, they have tried to graft a social care system on to their existing healthcare or other parts of their social services, which has been done unsatisfactorily. As Governments try to grasp this nettle, they discover that it is essentially a new demand on public spending that, particularly in this country but in other countries as well, people have assumed will be covered.

It is an unusual, perhaps unique combination of political factors that means that it is extremely easy to oppose any change, because any change is expensive. That is why it has been difficult to achieve political consensus.

Two things are notable here. First, all those who have surveyed every system around the world—people look at the Japanese and German systems and rather admire them—have said that there is no system that can be simply transferred to this country. Nobody has got it absolutely right with an off-the-shelf position. The other thing—I regret to have to say this—is that, frankly, both major parties have played politics with this over time. The "death tax" was an extremely powerful and effective political tool to operate in the run-up to the 2010 election; ditto the "dementia tax". That is the two sides doing it to each other when they are in government.

One reason why it is only from the Back-Benches that I can write reports gaily saying, "Let's increase national insurance", is that you get the standard response, which I had, slightly depressingly—the Labour Party was off the blocks immediately saying, "This is a new tax on growing

old". I think that was the phrase. That is the kind of conventional, depressing response that means that Governments of all types back away from solving the problem. If we keep backing away from trying to solve it, people's lives will continue to be unnecessarily miserable.

Baroness Harding of Winscombe: So what do we need to change politically so that we can start to have a proper debate?

Damian Green MP: We need a long debate, so that we can have at least part of it in times when we are not at peak political intensity. Trying to come up with new ideas during a general election campaign is brave, and I do not think anyone will do that again. Hoping and assuming that we are three years away from the next general election, I would hope that we can have an intelligent debate for some time about this once the Government produce their Green Paper.

I promise that this is my final use of the pensions analogy but, actually, as a piece of public policy-making, it is instructive and reassuring that when we say that politics is too short-termist, the Turner report, commissioned by Tony Blair, started us on what has become the auto-enrolment system, which was eventually implemented by the coalition Government and then extended by a Conservative Government. Across the political field, Governments have committed themselves to a reform that does not benefit anyone for 30 years, so there is no immediate political payback. All that happens is that people get a bit more money taken out of their pay packet every month, so it is a brave reform to introduce, but we have done it.

It has been successful. It is voluntary. I know, because I have been Secretary of State for the DWP, that every time you put up the percentage that people are saving, everyone holds their breath and thinks, "Is this the point at which you suddenly start getting 30% of people opting out?", but they have not, so it is a tick to the governmental system that we have done it. It is also a tick to the population at large that they have been prepared to have some deferred gratification in return for a long-term benefit to them. That is the way that I hope that this debate would go as well.

The Chairman: But it is not the same thing, is it, because they are not certain that they will require that benefit? That is a clear distinction, is it not? Everyone knows that at some stage they will become too decrepit to work. I also wonder why you rejected the idea of making people in work pay national insurance who were beyond the state pension age.

Damian Green MP: For two reasons. First, it does not raise very much money, although I agree that it will raise increasing amounts. Also, in a different part of my attempt to think about longevity—I have just set up an all-party group on it—I think one of the best things you can do for people beyond the state pension age is to encourage them to keep working. I think it is the best thing for their health, wealth and sense of belonging. Taking measures that, at the margin, make it less attractive to

work seems to me counterintuitive. It would not raise significant sums anyway.

The Chairman: Including employers' contributions?

Damian Green MP: If you include that, it is would roughly double the amount, but we are only talking about hundreds of millions of pounds, not huge numbers of billions of pounds.

Baroness Harding of Winscombe: Why do you think the Green Paper has been delayed so many times?

Damian Green MP: I do not know; I am not responsible for the Government any more.

The Chairman: But when you were in government, you were.

Damian Green MP: I was. I was responsible for the Green Paper.

The Chairman: Why was it delayed so often?

Damian Green MP: It was not delayed under me. I had promised it by the summer of 2018, last summer, and I like to think that, had I stayed in government, it would have been produced by then. I genuinely cannot speak for my successors.

The Chairman: Right. Lucky escape.

Lord Tugendhat: I come back to the question that Baroness Harding asked. You have explained the political difficulties and she asked what could be done about them. You will remember that the Labour Government were talking about putting up the pension age and we had Adair Turner's commission. I thought that was a very successful operation in that it moulded opinion so that when eventually pensions had to go up, everyone realised that that had to happen. It depoliticised the problem very well. Is there scope for an exercise of that kind—some kind of committee that moulds public opinion?

Damian Green MP: There is always scope for another committee but I am slightly conscious that in this field we are not short of authoritative reports, going back to the Wanless report in the 1990s. I cannot remember who did the next one but then there was Andrew Dilnot's report. So there is masses of reading out there to be done about this, some of which has got as far as legislation, but not legislation that has ever been implemented; it has always fallen on the rocks of political controversy and expense.

We all know that something needs to be done and we can have energetic debates about what that needs to be, but in the end it boils down to the fact that the system needs more money. That money needs to be injected in different ways. Allowing people some control about the amount of extra spending that they are going to have to do for this will make it more palatable than any of the previous attempts with caps and

floors, all of which were extremely sensible but were clearly too complex for many people to grasp, so they assumed the worst and that their homes were going to be taken away. That is part of the problem. Much greater brains than mine have applied themselves to these problems, but have applied solutions that are too complex to sell to the public.

Q112 **Baroness Bowles of Berkhamsted:** I am not sure what happens at the catastrophic end of things. I understand having what has been called the voucher or the annuity that covers the enhanced costs of a given range, but if you are one of those very unlucky people who need more than whatever it is that you get in your voucher, you are still going to find that your home is consumed. Is that not the case?

Damian Green MP: Well, no, because you will have bought a policy. It would be a risk. In fact, at the catastrophic end of things, as you put it, that would end up being covered by the universal care entitlement. If you have that entitlement then you are entitled to a level of care that, for a small number of people, will be much higher than the average. In as much as you could benefit from what your care supplement was buying then you could do that. You would have taken out an insurance policy that guaranteed you a certain amount, but the extra money would come from the universal care entitlement.

Baroness Bowles of Berkhamsted: I am not doubting you, in a sense, but when we have discussed this with insurers we have talked about the state insuring the top end. Up to a certain amount, it becomes easier to do the risk calculation. If the state takes on everything over X thousand pounds, whether that be £200,000 or whatever, then the number that is at risk for the insurers is known and it is easier. The number requiring it is still out there. Insurers have always said that it is the people who require very high levels of care for very long periods that mean that they cannot quote for these things. Surely they would not be saying that if universal care covered it all.

Damian Green MP: No, indeed. That has been part of the problem. This is a point that Andrew Dilnot makes very strongly: there are a small number of people who, if you try to put their costs on the insurance industry, skew the calculations, and at that point it all becomes absolutely uninsurable. As I say, I would wrap that up in the universal care entitlement. There are other ways of doing it but everyone I know who has looked at this, and I agree, thinks that there are a small number of cases that are so expensive that in the end the state is going to have to pick up that tab, otherwise you do not have an insurance market because actuarially you cannot calculate it. As I say, that would be covered by the universal care entitlement.

Lord Turnbull: There is something called Pool Re, is there not? Is that the kind of thing that you are talking about?

Damian Green MP: That would be an insurance solution rather than a state solution.

Lord Turnbull: It is an insurance solution in which, right at the top end, the insurer is then going to come to the Government. I would say that the cases that last a very long time are highly correlated with the cases that become very expensive. If there were something in the insurance market that said those cases could be hived off into this central government pool, I think you could get nearer quoting a standard actuarial rate.

Lord Sharkey: As they do for terrorism risks.

Damian Green MP: That is certainly one way of doing it.

Q113 **Lord Layard:** I want to ask a bit more about the insurance concept. You say it is important that it should be flexible, but one of the basic principles of nudge—if that is something that you want to be embedded in it—is that it has to be simple and easily understood. That would apply both to the benefits that you were entitled to and to the manner of the contribution. What do you think of the following? Suppose that the entitlement is simply up to a certain sum. We are concerned with the Dilnot problem of people having their wealth eliminated. Why could they not just insure up to a certain level of cover against their costs? When it comes to the contribution, if you want auto-enrolment, does there not have to be some moment when the opt-out is either exercised or not? Does it not have to kick in at some stage in your life—at 50, 55 or whatever—so that you start contributing, if you want to, to the scheme? I am not quite sure how you have auto-enrolment in a very flexible scheme. Those concepts do not quite go together.

Damian Green MP: I was using auto-enrolment as an analogy, rather than saying that you would have an exactly similar system. If you contribute X amount to buy an insurance policy which will provide Y amount of funds to go eventually towards your care, the flexibility I should like is for people to say, "Okay, I will save 1% of my salary every year for 20 years and that will buy it for me", or, "I am not going to do that, but at the age of 70", or whatever, "I will take £30,000 of equity from my home and buy the policy that way". That is what I mean by flexibility

I did not put this in the report because I did not want to overcomplicate it, but I am sure that there will be those who ask what incentives can be given to encourage people to take out this voluntary policy and whether, if you never use any of it, it could be part of your inheritance, with tax advantages to that. As I said, I think this is a second-order question of how you make the nudge effective and turn it into a shove. I am conscious that various people with agile financial brains are thinking of ways to do that.

Lord Layard: But the success of the pensions is that it assumes you are contributing unless you say that you do not want to, and that applies at all points. Presumably, we would not want this to apply to people aged 20, but if we had a system where you had to opt out, would it not have to apply from some age?

Damian Green MP: As I said, I am using auto-enrolment as an analogy of how to successfully encourage people to do the right thing. I agree that it would have to be a different type of nudge, because it is not the same, but you can apply various forms of nudge. It may be that you run the "Panorama" programmes by them and they will think, "I don't want to be in this position and I don't want my parents to be in this position".

A lot of it is about public education: this is a potential catastrophe; how do I avoid it? It will be different. Auto-enrolment is a relatively simple nudge: it happens unless you take the conscious decision not to, which I know is very effective as a form of behavioural encouragement. There will need to be different forms of behavioural encouragement for this.

As I say in the report, there are certain powerful times of life when it is worth doing this, perhaps most of all when people start receiving their state pension. At that point, they realise that they are old and therefore might need to start worrying about what might happen to them. Psychologically, it is very difficult. Nobody wants to think of themselves as being old or infirm, so it is a difficult nudge to make, but there are times in life when it is possible to do it.

Lord Sharkey: Is it not the case that the basic care entitlement would have to be needs based: it could not simply be uniform?

Damian Green MP: Yes, there would be assessment, as there is now. We all hope that our basic care needs are zero.

Lord Sharkey: Yes, but to take account of catastrophic care needs, it is clear that there would have to be a needs-based assessment across the board.

Damian Green MP: Yes, I am not proposing to change that. That happens now and is obviously a sensible part of the system.

Q114 **The Chairman:** Perhaps we could have one final comment or question. Your report is very much focused on elderly people and their care, but one thing that surprised us, with which you will be familiar given your former ministerial responsibilities, is that half the budget goes on people of working age. Have you any thoughts on how that system could be improved, or is it just about resource?

Damian Green MP: I am absolutely sure that it can be improved, but I took the conscious decision that I would not try to take on the entire social care system at once. It struck me, and still strikes me, that it is elderly social care where the really urgent problems apply. Working-age social care budgets, which are now half the budget, will continue to rise because, for all the demographic changes, our capacity is now, thankfully, to keep people alive for longer so that they can live with disabilities for decades longer than they used to, which is hugely welcome. As I said, I took the conscious decision to try to reduce this immense problem to reasonably bite-sized chunks.

The Chairman: On behalf of the Committee, I thank you for your

evidence, which was very clear and comprehensive, and clearly benefited from not having a load of civil servants telling you what to say. Thank you very much. That concludes this sitting.