

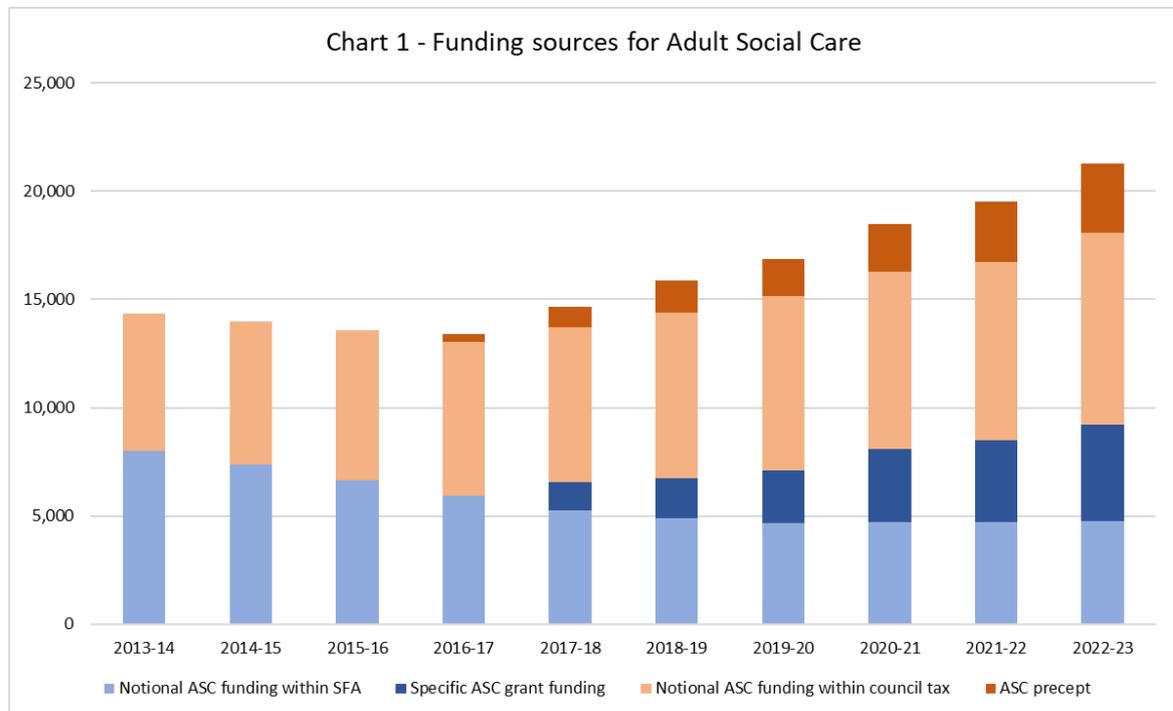
Written evidence submitted by Pixel Financial Management [ASC 077]

Funding for adult social care

1. Our analysis of the funding of adult social care (ASC) is based on estimates of the funding that is already received by local authorities. This gives some context to any debate about the adequacy of funding for social care – and the trends in funding that could influence thinking about levels of funding in future years.
2. Estimating funding is easier said than done: funding for adult social care is not transparent, and it partly comes from general rather than ringfenced resources. As a result, any estimates of the funding that is available has to be, in part, made on the basis of assumptions. Some of the funding for social care comes from central government grants and the remainder from locally-raised council tax.
3. These are the four main source of funding, together with our estimates of the resources that each generates for local government:
 - Social care grants (Improved Better Care Fund and Social Care Support grants within Core Spending Power) (£4.445bn in 2022-23)
 - Funding for social care within the Settlement Funding Assessment (SFA). We have assumed 32%¹ of SFA funding is for adult social care based on 2013-14 Relative Needs Formulas (RNF) (£4.47bn in 2022-23)
 - Adult Social Care Precept is worth about £3.2bn in 2022-23 (building up at around £400m per year since 2016-17)
 - Council tax funds adult social care, and if we assume 32% again, then this is worth £8.9bn in 2022-23
4. Chart 1 shows the amounts from each funding source between 2013-14 and 2022-23. Total resources for social care fell in cash terms from 2013-14 to 2016-17 (their lowest point in cash terms). From 2016-17 onwards, resources have increased significantly in cash terms, from both ASC precept (starting in 2016-17) and from the new social care grants (starting in 2017-18).

¹ 32% of the 2013-14 Relative Needs Formula (RNF) was allocated adult social care. We estimate the ASC currently accounts for around 32% of overall service expenditure (excluding schools and police).

- Our figures show a greater contribution to the increase in resources from council tax than from grant funding. Since 2016-17, around 59% of the increase in social care resources has come from council tax. In 2013-14, locally-raised council tax represented only 44% of social care funding – but that increased to 56% in 2016-17 and has remained at that level through to 2022-23. Even though funding within SFA fell in cash terms for most of this period, this was offset by the very large increases in specific grants in later

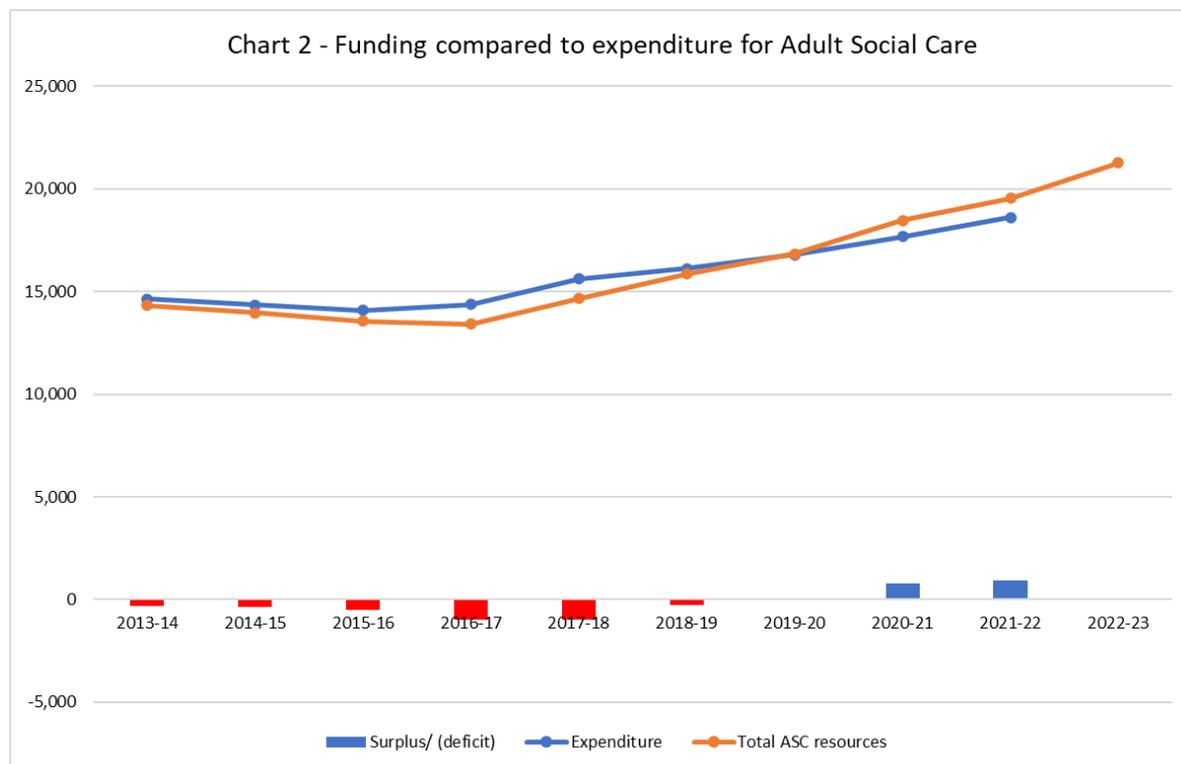


years. Nevertheless, the split shows how important council tax is to the local government funding system.

- Government funding for social care reduced in cash terms between 2013-14 and 2016-17 (a reduction of £2.3bn out of total funding of only £8.3bn). However, over the whole period to 2022-23, government funding has actually increased in cash terms (up £900m to £9.2bn).² A real turnaround from the severe cuts in funding up to 2016-17.
- In Chart 2 we have then added expenditure on adult social care (from the RA Forms) to compare with funding. Before drawing any conclusions, we should add a note of caution. The allocation of SFA and council tax is based on assumptions and is notional. The similarity of resources and spending is a coincidence but not unreasonable. The pace of change is probably more important than the absolute amounts.
- Local authorities cut spending on social care in cash terms between 2013-14 and 2015-16 in response to the squeeze on both specific social care funding and on local government funding more generally. Spending did start increasing again in 2016-17, and

² This represented a reduction of around 3.7% in real terms.

did so before the increase in grant funding (in 2017-18). The new ASC precept gave local authorities some additional (ringfenced) funds for social care. At that point, though,

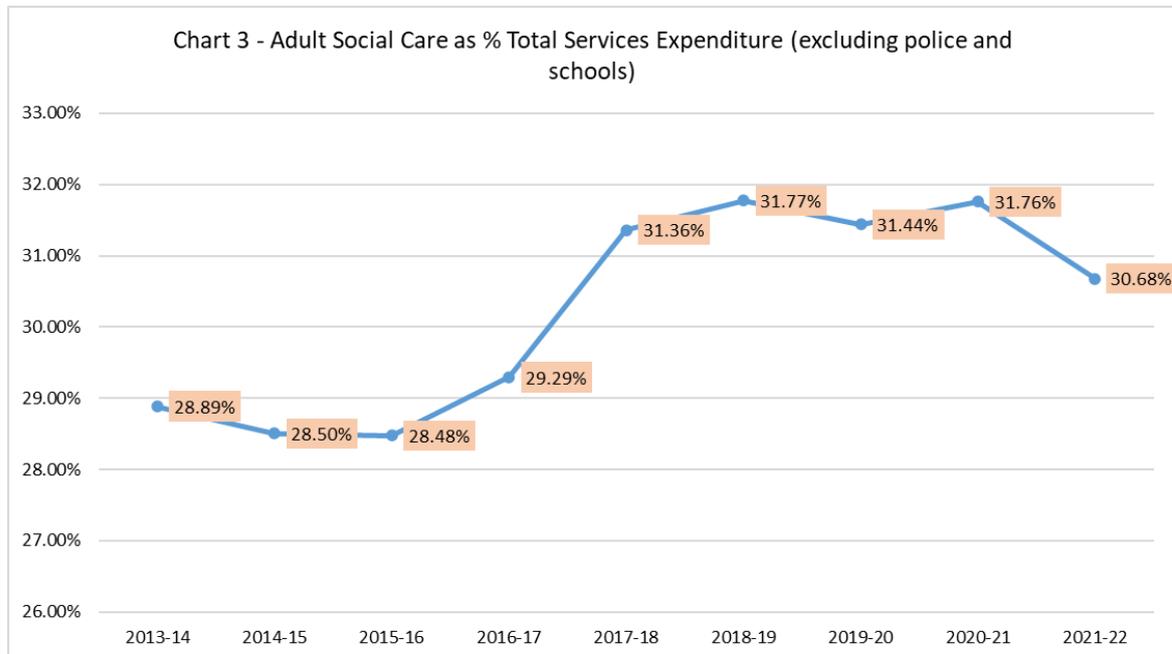


social care was in a very real crisis and an increase in spending was inevitable, even without additional resources from the ASC precept.

9. Resources from both central government and council tax did start to increase rapidly from 2016-17, and, in 2020-21 and 2021-22, overall ASC resources have increased more rapidly than expenditure. Social care grant increased by £700m in 2022-23 – but there is no further increase in grant funding from within SR21 for either 2023-24 and 2024-25. Without further increases in ASC grants in 2023-24, it is likely that the spending will once again start to increase more rapidly than funding.
10. This analysis does not show that social care is fully funded, or that the effects of austerity and cuts in funding over past decade or so have been removed. It simply shows that there was a severe funding crisis – particularly in social care – in 2015-16 to 2016-17, and that the increase grant funding and council tax has addressed the immediate financial strain that was evident in the middle of the decade.
11. A different set of metrics would be required to judge what social care needs to provide for local communities – and how much that would cost. There are clearly still strains on social care which mean that people are not getting the care and support they need – and at a system level, local authorities cannot provide sufficient capacity to allow the NHS to discharge patients in a timely manner. The level of resourcing that is required to deliver these outcomes is unknown (at least to us) but is certainly greater than the

current level of funding, even given its current trajectory. Local councils would be looking for a step-change in the funding available.

12. Another reason for social care spending increasing less quickly than funding/ resources is that these services are competing for resources within local authority budgets. Local councils have to take a balanced approach to their use of funding. Social care is not the only service under pressure, and resources need to be managed across a range of



competing services and functions. In previous years, local authorities have been cutting other services and using short-term resources to fund social care (e.g. reserves).

13. Chart 3 shows that adult social care consumed an increasingly large share of total local government financial resources since 2015-16. The main driver for the increase in the share of funding consumed by ASC is clearly the very severe pressures in the service in the middle part of the decade. The increase in social care funding, some of which was ringfenced, allowed ASC spending to increase relative to other services.
14. It might also suggest that ASC was consuming resource at the expense of other services – certainly in 2016-17 through to 2019-20, when ASC spending was increasing more rapidly than ASC funding (chart 2). The data indicates that this process might have partially reversed in 2020-21 and 2021-22. ASC spending increased less quickly than funding in these years, and fell as a share of overall service expenditure in 2021-22. It is important to note that ASC spending is still increasing strongly, at about £900m per year (about 5.4% in cash terms) – so chart 3 does not show a diminution in the pressure on social care, just that it is consuming a marginally smaller share of overall resources.
15. Overall local government funding has increased strongly since 2020-21 (6.0% in 2020-21, 4.3% in 2021-22 and 5.1% in 2022-23). Again, this is a real turnaround from much of the last decade, when overall Core Spending Power was actually falling in cash terms. But

even with these very high increases in funding, local authorities have not been able to put social care on a firm footing.

16. 2015-16 does look like a crisis point in terms of funding.³ There were very real systemic concerns about the financial resilience of local authorities. At that time, concern was greatest in local authorities – like county councils – where social care consumed the largest share of overall resources. These types of council seem less vulnerable than they did, although some councils are certainly still at-risk.

How much additional funding does social care need every year, and how much can be funded locally?

17. Adult social care has been increasing by about £800-900m per year (about 4% to 5.5% annually). Some is clearly recovery from the severe funding shortfall in the earlier part of the decade, and growth would no doubt have been greater if there were no constraints on funding. But this gives us some idea of what a “steady state” increase is for social care. Importantly, increases in spending at this level do not deliver the improvements in social care the local communities, the NHS and other stakeholders want.
18. In real terms, this represents an increase of about 2-2.5% per year (if we assume inflation is around 2%). Higher levels of inflation (potentially 8.5% or more) indicate that cash-terms increases in funding ought to be higher in order to maintain the current level of service. We do not know the actual level of inflation within social care. A 10% cash-terms increase in funding seems unlikely though, so it is likely that current funding plans will result in more severe strain placed on social care services again. (There are no further planned increases in social care grant in 2023-24 or 2024-25.)
19. A 1% ASC precept will generate about £275m and council tax more generally about £200m (notional element for ASC). So about half of the increase in spending can be covered from council tax, leaving another £400m shortfall to be funded from grant (plus any additional funding for higher levels of inflation).⁴

Is the ASC precept a suitable source of funding?

20. There are three arguments in favour of using council tax to part-fund social care pressures. The first is that it is capable of generating significant amounts of additional resources. Council tax now represents just over half of total local government resources. The second reason is that it is a stable and predictable tax, with very high collection rates, and it is difficult to avoid. The third is that it is important to have a local

³ Local government’s usable revenue reserves also reached their lowest point in 2016-17, and have increased relative to Net Revenue Expenditure since then. Source: LGIImprove.

⁴ The increase in yield from ASC precept increases with taxbase as well as Band D increases. Growth is usually about 0.75%, although taxbase growth has been higher than this because the cost of Local Council Tax Support (CTS) schemes have been falling (this will not necessarily continue at the same pace or at all in the future).

source of funding, particularly if the sector wants social care to remain a locally-controlled service.

21. But there are also drawbacks:

- Council tax is desperately in need of reform (based on 1991 valuations, with bands that do not reflect real ability to pay, i.e. at the top-end).
- Authorities have very different abilities to generate council tax, both because of historic decisions on Band D and because of different levels of taxbase. Some attempts have been made to equalise present in the grant allocations since 2016-17. These attempts have their flaws: actual precept income is taken into account rather than notional (which benefits low Band D authorities); and the effects of equalisation on very high-taxbase authorities have been limited.
- There has been no equalisation of the council tax raising ability more generally, and will not be until there is a wider reset of funding (Fair Funding Review). Council tax has not been equalised since 2013-14. So for the whole period of this social care funding crisis, some authorities have been operating at a significant disadvantage because they are less able to generate council tax income – and there has been no equalisation to support them.
- Council tax income is not necessarily well matched to costs – but no taxation source is. It is the function of a tax-raising public body to manage this mismatch and to turn tax income into funding for services. Central government has a role in helping local authorities to manage the difference between local costs and local taxation income.

22. On balance, we would prefer council tax to remain an important element in funding social care. Whilst the downsides of council tax cannot be entirely avoided, it is possible to mitigate their worst effects and to create a more functional source of local taxation. Central government has to play its role consistently and predictably over time.

23. It is difficult to know how much more appetite there is amongst council leaders for further increases in Band D, both for the core increases and for ASC precept. To date, most authorities have used the maximum increase – and our instinct is that they would continue to do so. Some parts of the country have used council tax increases less than others (e.g. inner London) and there might be a maximum level for council tax increases, which is as yet unknown.

**Does the one-off nature of funding make it difficult to forecast and use effectively?
How many separate decisions and announcements have there been?**

24. The timing of grant announcements has improved over the years:

- Improved Better Care Fund. This was originally announced in Spending Review 2015, with a very back-ended profile of funding. A further announcement was made in Budget 2017 for a further tranche to start in 2017-18.

- Social care grant 2018-19 was announced in final settlement (February 2018).
- Winter pressures grant 2018-19 announced at Conservative Party conference (2 October 2018).
- Social care grant 2019-20 was announced in Autumn Budget (29 October 2018).
- Further increases in social care grants from 2020-21 onwards were announced in the spending reviews in 2019, 2020 and 2021 (September, November and October respectively).

25. Grant announcements were VERY late 4-5 years ago, in some cases half way through the financial year. They are now more timely and since 2019 have been announced in the spending review the year before. Whilst this is an improvement, it would be better still if ministers could give better signalling of the future grant increases, rather than the current ad hoc, year-to-year approach.

26. We are still in a similar situation for 2023-24. Although in theory SR21 has announced all the funding for 2023-24 and 2024-25, it is not entirely credible that there will be no further increase in social care funding in either year, particularly with the inflation pressures in social care.

Is the distribution methodology effective/ realistic?

27. Grant allocations use the 2013-14 Adult Social Care Relative Needs Formula (RNF) and an adjustment for each authority's ability to generate income from the ASC precept. In broad terms, the approach is reasonable and has been applied in a consistent way since 2016-17. We have some concerns about the adjustments made for high-taxbase authorities, but these concerns are really issues at the margins.

28. The main problem with the methodology is that the 2013-14 RNF is out-of-date. It uses data that is now over a decade old. The formula itself was introduced in 2005 and, in our view, is seriously flawed. The Department of Health (DHSC) commissioned revised formula in 2015 but has not yet implemented the new formula. In fact, the research papers have only been published by the academics themselves (University of Kent).

29. A new formula along the lines of the one developed by the University of Kent would change the distribution of the funding within the SFA and the social care grants. Our modelling indicates that many of the authorities losing from the new formula would be high-deprivation metropolitan districts and some London boroughs, with county authorities the main gainers. To mitigate the effects of these formula changes, council tax equalisation would have to be implemented at the same time.

30. This new formula ought to be implemented as soon as possible.

Recommendations

31. Funding formula should be updated. The latest data on demography and “needs” should be used, preferably using the research basis undertaken by the University of Kent. This formula is capable of reflecting the social care reforms and their impact on care contributions and needs assessments. Updating the ASC formula much be done alongside wider update to local government funding, particularly council tax equalisation.
32. Improved ability to forecast. There should be certainty about funding assumptions over at least the spending review period. For this SR period, there are no more increases in social care grant funding (£700m in 2022-23, out of £1.6bn increase in grant). There has also been a short term approach to ASC precept increases. Authorities often do not know until the October before their budget (when the budgeting process has already begun). Annual brinksmanship within Whitehall makes financial planning extremely difficult. Early – and credible – funding plans over the SR period would help local authorities to plan their budgets and services over the medium term.
33. Some longer-term guidelines about funding levels. It would also help local authorities if there were longer-term indications about how ASC will be funded. Will ASC funding (including council tax) keep pace with demographic changes (e.g. constant funding per head, in real terms)? Or should funding guidelines assume real-terms growth of, say, 2-3%? These are the type of funding guidelines that are given to the NHS, and it would be helpful if local government receives similar indications.
34. Improvement of council tax as source of income. We support using council tax as a continued source of income to fund social care – but it does need some fundamental improvements if it is going to perform its function effectively and maintain support from council leaders (and residents). Regular equalisation is probably the minimum requirement.
35. Increased funding for adult social care. At a minimum, local government needs an additional £900m every year to fund the current level of social care. Roughly half of this can come from increases in council tax. Further funding might have to be found in the short term to help local authorities manage inflation pressures. However, to deliver anything beyond the current level of service, central government will have to provide additional funding.