

# **Finance Committee: Written Evidence submitted by the Cabinet Secretary for Finance**

## **Introduction**

1. The Finance Committee has invited me to give oral evidence on 9 May as part of its inquiry into the cost of caring for an ageing population. This written evidence paper sets the scale of the challenge by providing a brief overview of policy efforts to address the challenge of paying for care and then focuses on those aspects of the terms of reference for the inquiry, which relate most closely to my responsibilities.
2. The paper includes discussion about:
  - The current and recent levels of funding for social care in Wales, including comparisons to England;
  - Likely demand pressures for older people's care over the medium to long term;
  - Possible approaches to funding additional demand for care in Wales;
  - International examples of social care funding systems.

## **The challenge of paying for care**

3. Paying for the long-term care of an ageing population remains an important policy challenge across the UK and one which we have consistently sought to address in Wales by making the best use of the resources and powers that we have had at any given time. In 1999, the Royal Commission on Long-term Care led by Lord Sutherland made a number of recommendations, including that personal care should be funded by the state. Although endorsed in principle, action was constrained as Wales was still governed by UK Government legislation on health and social care. Developing any Wales-only proposals for reform remains complicated today by the impact on non-devolved matters such as welfare benefits and pensions. Nevertheless, we have continued to make progress by making full use of our legislative powers to implement the Social Services and Well-being (Wales) Act 2014. This Act has resulted in a renewed focus on prevention and early intervention; together with greater emphasis on collaboration and partnership working to achieve stronger well-being outcomes for care recipients.
4. In successive Assembly terms, we have continued to consider both Wales-only and UK level proposals for reform in the context of funding implications and effects on Barnett consequentials. In 2008, a major consultation and engagement programme was conducted to explore people's views on the general direction for reform of the social care system in Wales. The results of this consultation led to the 2009 Green Paper on Paying for Care and the establishment of the former Wales Stakeholder Advisory Group on Paying for Care.
5. The Advisory Group was instrumental in supporting the development of our response to the UK Government's 2010 commission led by Sir Andrew Dilnot on funding care and support. The Dilnot commission made a number of recommendations on paying

for social care including a lifetime cap on contributions and a proposal to increase the amount of capital those in residential care could retain without using this to pay for their care. The UK Government originally intended to begin implementing some of the Dilnot proposals from April 2016, following consultation on draft regulations under the Care Act 2014 by the then Minister of State for Care and Support, Norman Lamb MP, but no UK government response to this consultation was published. In 2015 the then Parliamentary Under Secretary of State at the Department of Health, Lord Prior of Brampton, announced the reforms would be delayed until 2020. It still remains unclear what reforms, if any, will be implemented by the UK Government, particularly given its intention to now issue a new Green Paper on the future of social care for older people in England by the Summer recess.

6. Despite limited progress at a UK-level, in 2011 the Welsh Government introduced a weekly maximum charge for non-residential care and remains committed to increasing to £50,000 the capital people in residential care can retain without using this to pay for their care before the end of this Assembly term. This capital limit was increased to £40,000 on 9 April this year and remains the highest of any of the UK countries (in England it is £23,250).
7. In going forward and building on the progress we have made in Wales in this area, we will continue to make use of the LE Wales research reports commissioned in 2013 and published in 2014. These reports provide a useful evidence base on population trends and projections of current and future demand for social care services and consider other international models for paying for care.

### **Funding for social care in Wales and England**

8. Table one shows the most recent statistics, produced by HM Treasury, for spending per person on social services for older people in England and Wales. Spending per head of the population in Wales increased by 5% in cash terms between 2010-11 and 2016-17, while it fell by 10% over the same period in England. As a result, spending per person in Wales in 2016-17 was more than 40% higher than in England, up from 20% higher in 2010-11.
9. Wales has a higher proportion of older people than England but even allowing for that, spending per person over 65 in 2016-17 was 25% higher in Wales than in England, up from around 8% higher in 2010-11.

**Table one: Public spending on social services for older people (£ per person)**

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	<i>Change from 10-11 to 16-17</i>
Wales	190	191	197	204	208	199	200	5%
England	156	148	144	145	148	138	140	-10%
Difference	33	44	53	59	60	61	60	

Source: HM Treasury, Country and Regional Analyses

10. Spending in Wales on social services for older people has been protected relative to the Welsh Government's overall budget. There was an 8% increase in cash terms between 2010-11 and 2016-17 compared to a 3% increase in the Welsh Government's overall resource budget.

### Recent budget measures

11. Alongside the protection the Welsh Government has provided to the NHS in Wales, we have also ensured the funding for local government reflects the priority we place on high-quality social services. As evidenced above, since the UK Government's policy of austerity began, spending on social services for older people has been maintained in Wales, in line with the Welsh Government's priorities.
12. In more recent budgets, the Welsh Government has continued to take steps to mitigate the impact of reductions on the local government settlement. In the 2018-19 Budget we allocated an extra £115m over two years (£42m in 2018-19 and £73m in 2019-20) to maintain social services spending at 2017-18 levels.
13. Funding for the Integrated Care Fund (ICF) – previously known as the Intermediate Care Fund – has also been maintained cash flat at 2017-18 levels with £60m (£10m capital and £50m revenue) available in each of the next two years.
14. In addition to the health settlement, we have allocated an extra £100m over two years (£50m in 2018-19 and £50m in 2019-20) for a transformation fund in response to the Parliamentary Review for Health and Social Care. It was envisaged that some of the funding would support the Integrated Care Fund, as well as the development of other models of provision with local authorities and third sector partners, such as a social value organisation and to target support for carers.
15. As part of the 2018-19 Budget we allocated an extra £15m capital over two years – £5m in 2019-20 and £10m in 2020-21 – in housing, health and social care capital programmes.

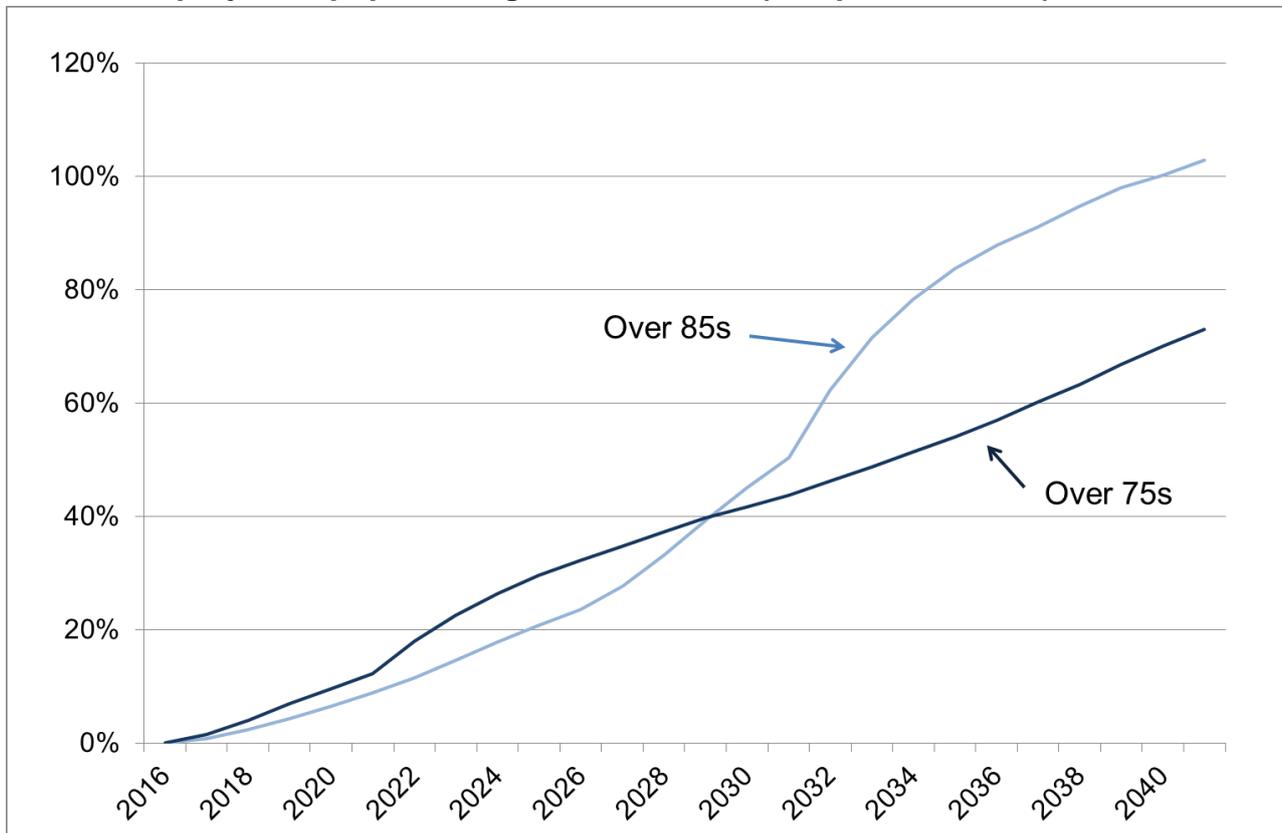
### Future pressures

16. Local authority settlements and social care spending have received substantial protections since the UK Government's policy of austerity began. As a result, social services spending per person in Wales is substantially higher than in England. However, a range of evidence suggests pressures on social care budgets for older people are likely to increase over the next 10 to 15 years and beyond.
17. The over-75 population is projected to increase by nearly 120,000 – more than 40% - between 2016 and 2030. This rapid increase is expected to continue throughout the following decade, reaching an overall increase of more than 70% by 2040 (see chart

one). The over-85 population is projected to see the same percentage increase by 2030 but experience more rapid growth in the 2030s and more than double by 2040.

18. To put this in context, the overall Welsh population is projected to increase by 4% between 2016 and 2030 and 5% by 2040.

**Chart one: projected population growth in Wales (compared to 2016)**



Source: ONS principal 2016 based population projections

19. The Health Foundation has used work by the London School of Economics to project the cost of publicly-funded adult social care in Wales. This shows costs could increase by 80% in real terms between 2015 and 2030. These estimates complement shorter-term analysis by Wales Public Services 2025.
20. It should be noted that England is facing the same demographic and cost pressures as Wales. The Office for National Statistics projections for England show the same percentage increases in the over-75 and over-85 populations by 2030 as in Wales. Beyond that, the projections for England grow faster than in Wales.
21. The work by the London School of Economics, as used by the Health Foundation to produce the cost projections for Wales, show the cost of publicly-funded adult social care in England could increase by 90% between 2015 and 2030.
22. All cost projections for social care are sensitive to assumptions about future trends in mortality, disability rates, the unit cost of care, and care recipients' preferences. However, it is clear there is likely to be a significant increase in demand for publicly-funded social care provision as the baby boom generation ages.

## **Approaches to funding additional demand for social care in Wales**

23. Paying for the long-term care of an ageing population is an important policy challenge across the UK. This is an extremely complex area with some people paying more than others and others not paying at all for the care they receive. We have used our legislative powers to bring some consistency to the charging arrangements across Wales, however, complexities remain and there are significant differences in the arrangements between the UK countries. For example, in Scotland personal care is free; in England the capital limit before a person's residence is taken into account is set at £23,250, whereas in Wales this is now £40,000 and set to rise to £50,000 by 2021.
24. Taxation could play a role in meeting the challenge of paying for the care of an ageing population in Wales over the medium to longer term. The Welsh Government is committed to carrying out further work on the possibility of introducing a devolved tax designed to support this challenge as part of its work on four new tax ideas. This is in line with our commitment in *Prosperity for All* to develop innovative funding models to ensure funding is available to help meet future demand for social care.

### **Professor Holtham's social care levy model**

25. Professor Gerald Holtham and Tegid Roberts have proposed a particular model for addressing this challenge in the form of a social care levy. This would be paid on income and could be set at a fixed rate throughout an individual's lifetime of making contributions. Under this model, rates would be higher for older age cohorts when the fund is first established. This would maintain an element of inter-generational fairness, as older cohorts would pay in for a shorter period when the levy was first introduced. However, the longer-term assumption is that the rate paid would equalise across contributors as the system matures. The suggested levy rates vary between 1% and 3% with the higher rates applying to older age cohorts.
26. The proceeds from the levy would be paid into a ring-fenced fund. This could be used to provide additional help for the immediate care needs of the population as well as resourcing a longer-term fund to cover expected increases in the demand for care from future generations. Professor Holtham anticipates the tendency to an ageing population will peak in 2035. However, as proposed, it is likely that the fund would not remove the need for those with financial means to pay towards the cost of their care and so some element of means-testing would still be required.

### **International evidence**

27. The challenge of paying for the care needs of an ageing population is not unique to Wales or the UK. Research by LE Wales, commissioned by the Welsh Government in 2013, outlines some of the alternative funding approaches which have been adopted in other countries.

28. Germany and Japan operate systems, which have similarities to Professor Holtham's model, with a specific revenue-raising vehicle to fund social care. Both examples aim to provide a more universal offer of care, implying a high-degree of risk pooling. Non-universal systems on the other hand – also known as safety net systems – only address the risk of care needs beyond what is individually affordable.
29. Compulsory long-term care insurance has been in place in Germany since 1995. It is essentially a compulsory pay-as-you-go system, with contributions based on salary, split equally between the employer and employee. More recently, the retired have been required to make full contributions as well. The contribution rate was initially set at 1% of salary in 1995 but has now reached 2.55%. All those over 23 without children pay a 0.25% surcharge, bringing their rate up to 2.8%. Eligibility is determined via a graded system used to determine an individual's need for care. The system is not intended to cover all costs, just basic needs. The federal government has substantial regulatory and cost-controlling powers over the system, with the overall budget, contribution rates, ceilings, benefit levels and eligibility criteria fixed by federal law. The fund operated with an annual deficit during the early to mid-2000s but is currently in good health.
30. The Japanese Long-Term Care Insurance (LTCI) was introduced in 2000. It is a form of social insurance and premiums are compulsory for anyone in employment, aged 40 and above. The scheme mixes these specific age-related premiums with contributions from general taxation (both national and local). Roughly half of revenues are from general taxation; a third from premiums from people aged 40 to 64 (at a rate of 1% of income) and a sixth from people over 65 (according to a fixed tariff of premium rates). Those receiving care are required to make a 10% co-payment and contribute to the costs of residence and meals. Payments are capped at £75 per month for low earners. The system was originally established as a universally-available needs-based system but some means-testing has had to be introduced to help contain costs.
31. In both the German and Japanese cases, expenditure has increased at a faster rate than was expected, requiring a number of responsive policy adjustments to limit cost growth (including additional charging in Japan and the freezing of benefits in cash terms in Germany). However, the experience in both cases suggests that costs have not increased uncontrollably, despite care recipient numbers growing rapidly after implementation.

### **Next steps**

32. We will consider how to address the issues posed by anticipated future pressures in Wales using the powers currently at our disposal in light of the international examples, current research, and following further engagement with key stakeholders in this area. In particular, we will consider whether Welsh rates of income tax, which will be collected from April 2019, could play a role, or alternatively, whether the tax-

raising powers conferred by the Wales Act 2014 could be used to propose an entirely new devolved tax.

33. To assist with this work, the Welsh Government has commissioned further research from Professor Holtham to further investigate the issues raised by his social care levy model and the economic case for the creation of a social care fund. It will also consider how a fund could operate; what advantages and disadvantages it might have relative to alternative options, including a more traditional pay-as-you-go system; and the key risks surrounding a fund. Overall, it will offer an indicative economic analysis of the concept that can be considered as part of future policy development in this area.
34. The Welsh Government also intends to undertake research on the future demand for, and the future funding priorities for, social care for older people in Wales. Both pieces of research will help inform the further policy development in this area and the work of an inter-Ministerial group, which is being established at the request of the First Minister to take this agenda forward. The group will be chaired by the Minister for Children and Social Care.

## **Conclusion**

35. There is clear evidence pressures on publicly-provided social care are likely to increase over the next 10 to 15 years and beyond. It is also clear that determining the best policy response to these pressures involves a number of important questions, which will need to be considered in greater detail as work is progressed.
36. The key questions in my area of responsibility relate to the different means for providing additional resources to meet increasing demand for social care and to the levers available to the Welsh Government to enable those resources to be delivered. There are equally important considerations about the scope of the publicly-funded care system in future. Although we recognise the difficulties in developing a Wales-only solution, in the absence of concrete action on a UK Government basis, we must begin to fully consider the options available to us to meet the challenge of providing high-quality and sustainable social care in Wales now and into the future.
37. The issues posed will be considered further by the inter-Ministerial group, chaired by the Minister for Children and Social Care, drawing on the best available evidence, including the additional research by Professor Holtham.

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