

# Care and Support Funding Reform

## Cost implications for London



## Key findings

The government has announced that from April 2016 a cap will be introduced limiting the amount of money people will have to pay towards their care. This cap will be set at £72,000. The government will also raise the means testing threshold at which people are eligible for support from local authorities, from the current £23,250 to £118,000. London Councils has analysed the cost implications of these reforms, illustrating the additional cost pressures that can be expected by London boroughs.

### Cost pressures in London

London Councils' analysis has found that the potential total additional cost pressure that local authorities could be faced with by 2019/20 as a result of introducing the cap and raising the threshold AND the on-going social care cost pressures is approximately £1.3 billion. Approximately £877<sup>1</sup> million of this will be as a direct result of implementing the capped cost model for care and raising the eligibility threshold over the first four years.

### National cost pressures

The government's estimates of providing £1 billion per year to fund the funding reforms nationally is inadequate. **London Councils' analysis has found that the reforms nationally over four years will cost in the region of £6 billion – on average £1.5 billion per year (cost pressures will be heavily weighted in the first and fourth year of implementation).**



<sup>1</sup> It is important to note that at the time of the financial modelling not all data was available regarding the working age thresholds of the cap.

## Key recommendations

London boroughs support the government's push to improve the health and wellbeing of people and enabling them to live longer independent and healthier lives. However, there is also a need to ensure that local authorities are appropriately funded to enable them to respond to the increased cost pressures while continuing to provide services for those who need help and support for their care. To enable local authorities in London to implement the funding proposals, London Councils is calling for the following:

1. The government to commit to addressing the potential additional cost pressures in the region of £1.3 billion (of which a minimum of £877 million is a direct result of implementing the proposals) that local authorities in London will be facing by 2019/20.
2. Assurance from government that funding allocations will reflect different costs and populations pressures across the country.
3. The 2015/16 Spending Review announced £335 million to help local authorities deliver the proposed changes from 2015/16. However, this will be too late. Local authorities need transitional funding prior to 2015/16 to enable them to begin to prepare for implementing the proposed reforms if they are to be ready in time for the implementation date.
4. A timely national information campaign will be necessary to minimise any confusion that care users may have regarding how the new system will work.
5. The proposed changes will require significant changes to be made to existing council systems. To ensure that there is a consistent approach nationally, councils will need time and support to develop the new frameworks that will be required.
6. Government should work closely with local authorities in developing the detailed guidance for these funding proposals.

London boroughs are already starting to analyse the implications of the proposals and starting to consider the implications on the way they work. Councils will work closely with government and others to shape up the future systems for adult social care. It is important however, that if the government is committed to implementing these proposals that they ensure local authorities are appropriately funded to enable them to deliver their statutory responsibilities.

# Overview

The Care Bill is currently going through Parliament and is expected to receive Royal Assent in 2014. The Bill sets out key proposals for reforming the way that adult social care is funded. If enacted, from April 2016 the way adult social care is funded will be changed. Local authorities will have to:

- put in place care accounts for people eligible to receive care and support from the local authority so that once people have contributed up to a maximum of £72,000 towards their care the local authorities will then take over their costs
- introduce the means testing threshold at which people are eligible for care and support from the local authority will see the cap on their contribution raised from £23,250 to £118,000.

This report analyses the implications of the proposed funding reforms on the future cost implications on adult social care in London and sets out:

- the impact of demographic changes on future cost pressures of local authorities in London
- the overall cost implications of the funding reform and more specifically:
  - the regional implications of introducing the maximum life time contribution cap on local authorities
  - cost implications of raising the means testing threshold
- the need for a transitional budget.

In summary, London Councils’ analysis also found the following:

<p><b>Introducing the capped cost model</b></p> <p><b>3.5 years:</b> Is the average length of time that it will take for a person in London to reach their contribution cap and for the local authority to take over the care. By 2019/20 care users in London will begin to reach their maximum contribution cap and local authorities will begin to take over the costs for their care.</p> <p><b>27 per cent:</b> The proportion of self-funders in residential care in London who are likely to hit the cost cap, compared to only 3 per cent of self-funders in residential care living in the north east and an average of 15 per cent nationally.</p> <p><b>37 per cent:</b> The increase in people that will qualify for local authority support for their residential care by 2019/20.</p> <p><b>Raising the means testing threshold</b></p> <p><b>£477 million:</b> Approximately 15 per cent more people could potentially qualify for local authority support in 2016/17 as a direct result of raising the means testing threshold to £118 000 and would add a cost pressure to London local authorities in the region of £477 million.</p> <p><b>Impact of inflation and demographics</b></p> <p><b>£421 million:</b> The potential additional cost pressure faced by local authorities in London in the delivery of adult social care services by 2015/16 before any of the proposed reforms are implemented.</p>
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## 1. Background

Adult social care net budgets account for over one third of local authorities' overall spend. In 2012/13, this equated to £2.4 billion in London. Since 2010 local authorities have been faced with higher budget cuts than any other area of public services. Core government funding to local government will have fallen by 35 per cent in real terms by the end of 2014-15. Earlier this year, London Councils calculated that London boroughs will face a funding gap of £907 million by 2017/18 to fund their social care obligations before any funding implications from the new proposals are taken into account.

Local authorities have been working hard to ensure they can realise maximum benefits from their budgets despite the cuts. The last two years have seen local authorities making substantial savings; nationally they have managed to achieve £1.9 billion<sup>2</sup> in savings.

There have long been calls for reform of the system of funding for adult social care, driven by the pressures as well as the difficult situations people face due to unpredictable care needs and the high care costs they might face in the future.

In 2010, the process to reform adult social care began; the Law Commission was tasked with reviewing the legal statutes covering the provision of adult social care and the Dilnot Commission was set up to explore the best options for the future funding of care and support. The findings of these Commissions have now culminated in the Care Bill which began its progress through Parliament in May 2013.

As part of the Bill, the government has committed to reforming how adult social care is funded and included in the 2013 Budget was the government's proposed changes which will be implemented from April 2016:

- an individual's contribution to their 'eligible' care<sup>3</sup> and support costs will be capped at £72,000
- people who develop care needs at working age<sup>4</sup> will have a lower cap and those who have care needs when they turn 18 will have the cap set at zero. There has still not been any detail about how a staggered support system might look for working age care users
- for adults in residential care, the upper means-tested threshold will increase from £23,250 to £118,000. This means people entering a care home with assets less than this value will not have to pay the full cost of their care
- for adults in residential care, the lower means-tested threshold will increase from £14,250 to around £17,000. People with assets less than this value will receive full support for their care costs.

The reforms are a positive step towards providing more financial protection to individuals; but they do not come without a cost. London Councils has analysed what this cost might be to local authorities and how this might vary regionally.

This report explores some of the cost implications that the proposals for funding reform will have in London. At the time of writing the report government had not published all the data that would enable a complete analysis to be done for example the different levels of the contribution cap that will apply to working age adults.

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<sup>2</sup> Association of Directors of Adult Social Services (2013) Budget Survey ADASS Budget Survey

<sup>3</sup> The Department of Health is proposing setting a minimum national threshold for eligible needs.

<sup>4</sup> Working age refer to those between the ages of 18 and 65 years old

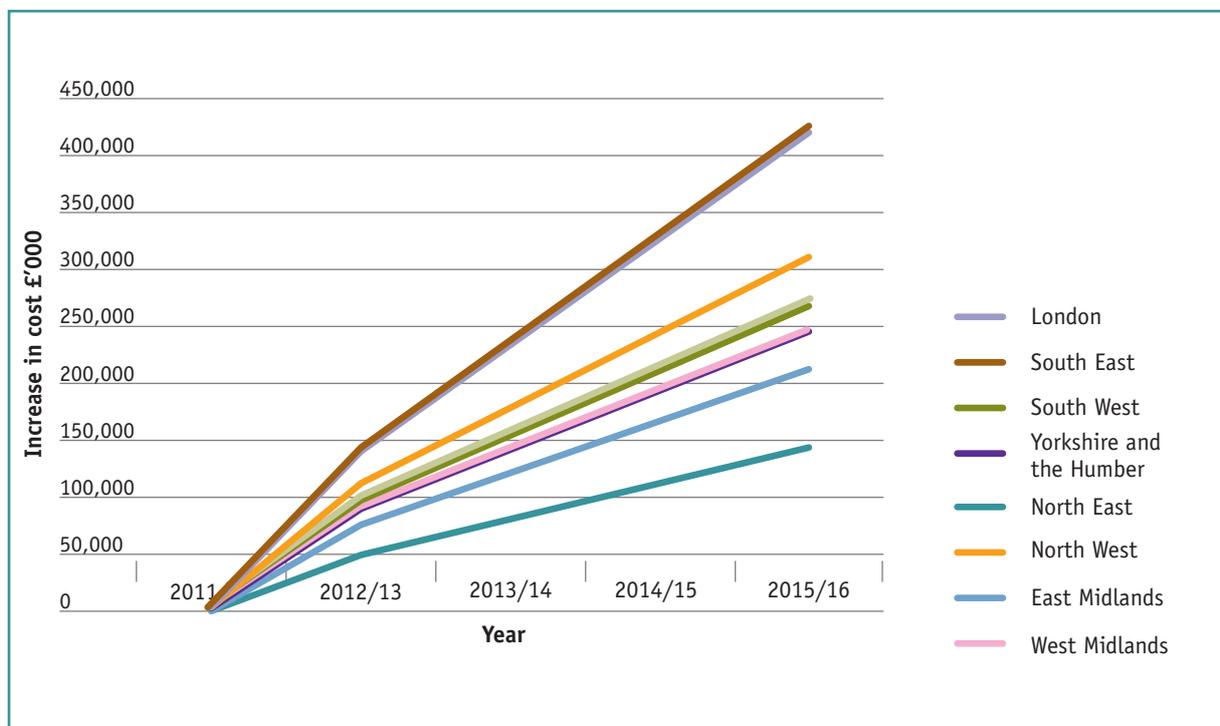
## 2. Impact of demographic changes and inflation on the on-going pressures in adult social care.

Increasing costs as well as a growing and ageing population are already stretching adult social services and these issues need to be confronted when considering the future funding implications of reforming the system. It is expected that by 2020, in London there will be a 14 per cent increase in people over the age of 65, a 10 per cent increase in care users with mental health issues, a 10 per cent increase in care users with learning disabilities and a 13 per cent increase in care users with physical disabilities<sup>5</sup>.

Using demographic data produced by the Institute of Public Care (IPC) and inflation forecasts by the Office for Budget Responsibility (OBR), the graph below illustrates the expected increase in cost pressures that local authorities will be facing by 2015/16 when the proposals for reform are expected to be implemented. The combined effect of inflation and demographics mean that there will be a potential **£421 million additional cost pressure on Adult Social Care in London by 2015/16**.

Earlier this year, London Councils calculated that London boroughs will face a funding gap of £907 million by 2017/18 to fund their social care obligations before any funding implications from the new proposals are taken into account. This previous analysis took into account projected funding cuts to local government which could potentially impact social care and the resulting pressures. This analysis looks purely at the expenditure and the impact of pressures relating to the demand and reforms. It does not include the impact of future cuts to local government which could place even more pressure on Adult Social Care budgets.

**Figure 1: Inflation and demographic impact on costs (£'000)**



<sup>5</sup> Projecting Older People Population Information System (POPPI) and Projecting Adult Needs and Service Information System (PANSI) data

### 3. Implementing the proposals for funding reform

The following section of the report sets out London Councils analysis of the potential implications of implementing the funding proposals as set out by government.

London Councils' analysis includes the overall implications of the proposals and more specifically the implications of introducing the maximum contribution cap and raising the means testing eligibility threshold.

#### 3.1 Overall cost of the funding reform

London Councils used data on the regional levels of wealth and asset ownership to estimate how many more care users are likely to qualify to receive local authority support as a result of the means testing threshold change. We subsequently looked at the lengths of time and the costs of care across the country to analyse the progress towards the cost cap.

Combining this analysis, we found that as a result of the cost cap and means testing threshold changes, approximately 37 per cent more people will be eligible for local authority funded support by 2020. The cost for local authorities of supporting these additional care users over the period from the implementation of the reforms in 2016 to 2020, combined with the cost of inflation and demographic pressures in this period, means there will be a cost increase of £877<sup>6</sup> million in London from 2016/17 to 2019/20. It should be noted that this does not include the additional cost implications that will result from the other new responsibilities that have been set out in the Care Bill. This report considers just the contribution cap and the raising of the means testing threshold. The overall funding requirements to implement all the new responsibilities set out below would be far higher than this estimate<sup>7</sup>.

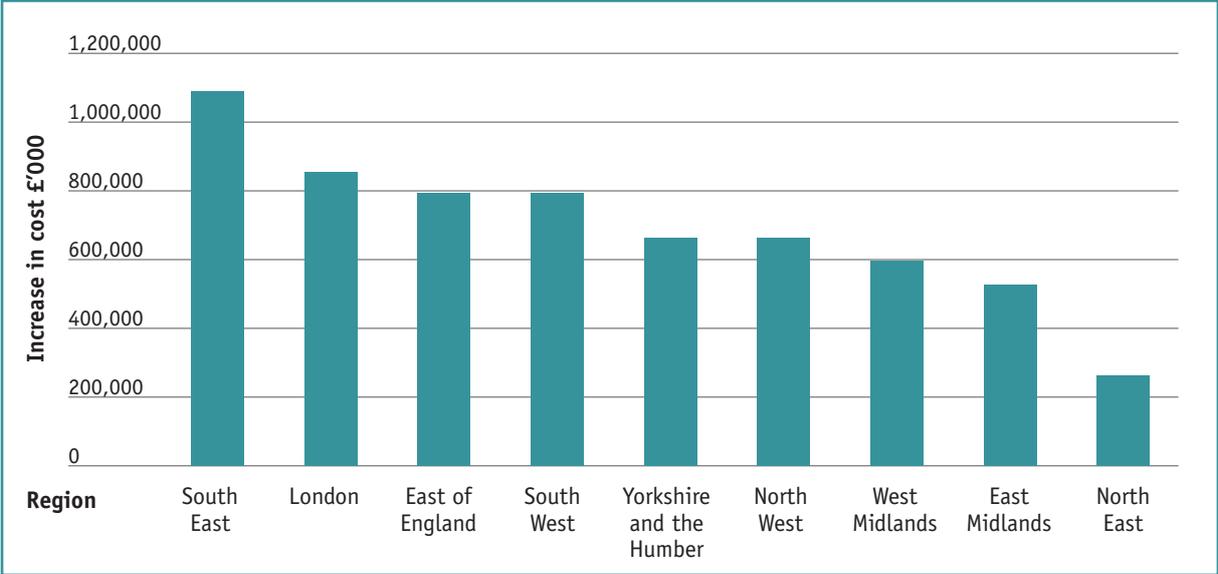
The following graph shows the regional increase in costs of adult social care from the year the reforms are implemented through to 2019/2020. The government has so far only announced £2 billion for the first two years of implementing the reforms. The government's estimation of providing £1 billion per year to fund the funding reforms nationally is inadequate. London Councils' analysis has found that the reforms nationally will cost in the region of £6 billion over four years to 2019/20 on average £1.5 billion per year (cost pressures will be heavily weighted in the first and fourth year of implementation).

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<sup>6</sup> Details of the differentiated impact of working age adults still not published at time of report and therefore not included in this calculation

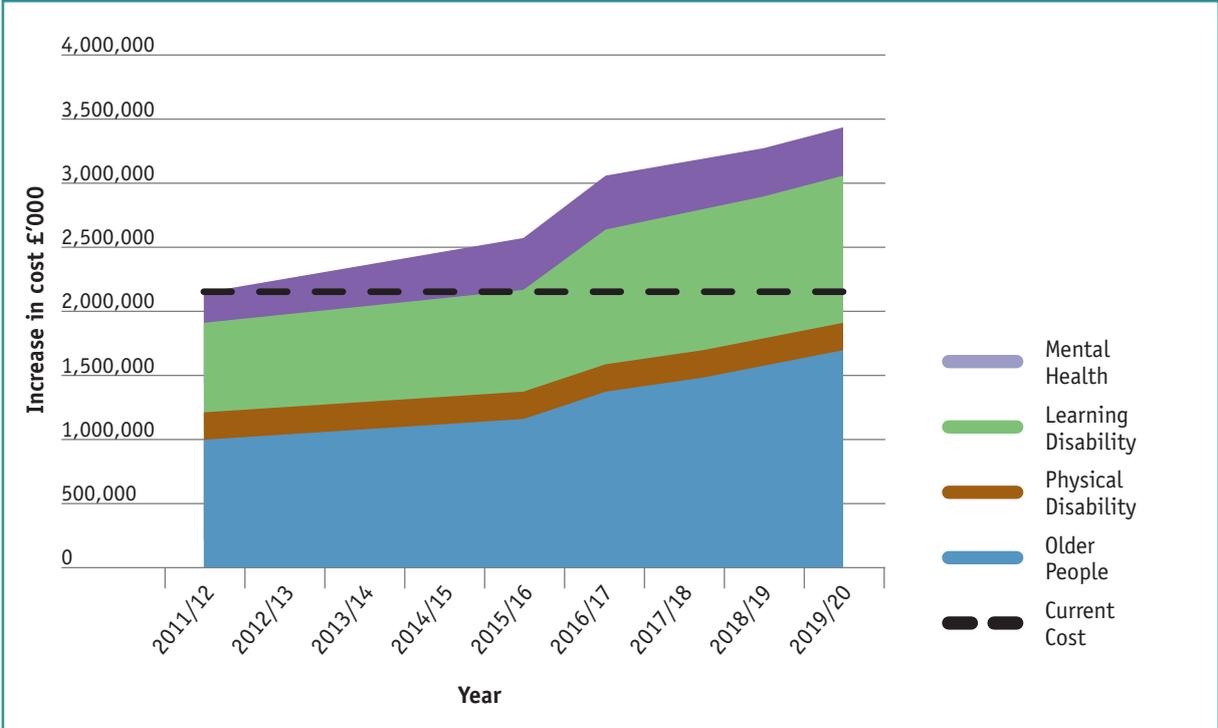
<sup>7</sup> London Councils is continuing work to assess the cost implications of these. See briefing for initial findings <http://www.londoncouncils.gov.uk/policylobbying/healthadulthoodservices/socialcare/carebill.htm>

**Figure 2: Total Increase in cost pressure by region from 2016/17-2019/20 (£'000)**



However, taking into account not just the cost of implementing the funding reform proposals but looking at the combined impact of the reforms and the current pressures which adult social care budgets are facing, mean that London boroughs could face a total increase in cost pressures of £1.3 billion by 2019/20 which is an increase of approximately 50 per cent based on current spend. The following graph breaks down the costs for London by type of care, with the highest costs unsurprisingly being that of older people followed by spend on people with learning disabilities.

**Figure 3: Total Projected cost to London of Adult Social Care (£'000)**



### Overall costs

- Local authorities will potentially be faced with £1.3 billion cost pressure by 2019/20 to deliver both the proposals for funding reform and address on-going pressures in the sector.
- Local authorities are likely to face increased cost pressures of £877 million at a minimum from 2016/17 to 2019/20 as a result of implementing the raised means testing threshold and the contribution cap.
- Nationally the additional cost pressures from the reforms could potentially be as high as £6 billion by 2019/2020.

### 3.2 Regional differentiation in introducing the maximum life time contribution cap

*“In London, the average person would reach their care cap 3.5 years, compared to 5.7 years in the north east.”*

A central feature of the funding proposals which the government has committed to, is the introduction of a maximum life time contribution cap set at £72 000 from April 2016. The Commission hoped that the introduction of such a cap would serve mainly two purposes:

- that the cap would protect people from paying catastrophically high care fees by putting a limit to what people will have to pay and also encourage them to plan more effectively for their future needs
- that the cap would encourage the private sector to help to fund adult social care by increasing the demand and supply for financial products in adult social care.

It should be noted that the contribution cap will not cover all the costs of someone living in a care home – the cap will exclude accommodation costs such as food, heating etc. The cap will **only** cover those care needs that fit the **local authority’s eligible care and support needs** based on the national eligibility threshold that is yet to be announced.

#### ***How long will it take to reach the cap?***

People stay in care for different lengths of time and the costs of carer is variable across the country. Both these factors are critical to how long the care user will take before reaching the maximum life time contribution cap - the point at which the local authority will take over their costs.

Using data showing the average length of stay in a nursing home along with the average annual cost<sup>8</sup> to calculate an average time that it will take to hit the cap, our analysis shows that it could potentially take on average 4.2 years to hit the cap in England.

However, because London has high care costs, which can be attributed to a number of reasons such as the higher staffing costs, it means that a person in a care home in London will be paying much higher rates for similar care and support services than somebody in the north for example. Therefore, the person in London will take a much shorter period to reach their contribution cap than they would outside London.

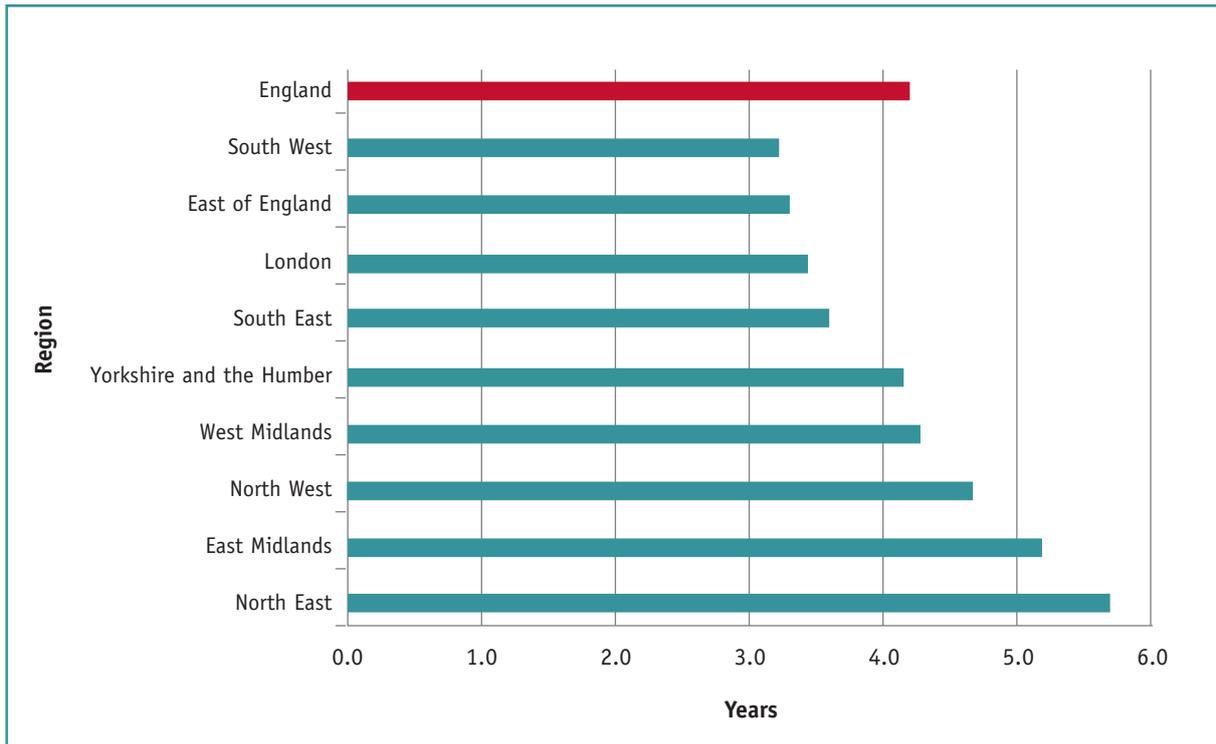
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<sup>8</sup> Robinson J (2012) “Care home rooms can now cost over £30,000 a year, with prices rising at double the rate of inflation since 2011.” Article for “This is money” published 6 September 2012

Our research found that on average a person in a care home in **London would take approximately 3.5 years** to reach their contribution cap. The implication of this is that local authorities in London would then have to take over the costs within 3.5 years. In contrast, our research found that a person living in a care home in the north east of England where care is least expensive it would take approximately 5.7 years before the contribution cap was reached and the local authority have to take over the care costs.

The graph below sets out by region the average length of time that a service user would expect to reach their maximum life time contribution cap.

**Figure 4: Number of years to hit the cost cap**



London Councils research has found that around 27 per cent of self-funders in London are likely to hit the cost cap. In comparison only 3 per cent in the north east and 15 per cent nationally are likely to hit the cap.

It is evident from our research that the regional variances will have substantial implications on how local authorities will be impacted by the introduction of the cap. During this period when local authorities are faced with growing funding pressures it is critical that government recognises the regional variations and requirements when they announce their funding allocations for implementing the Dilnot proposals if the proposals are to be delivered equitably across the regions.

#### **Introducing the contribution cap**

- 3.5 years is the average length of time that it will take for a person in London to reach their contribution cap and for the local authority to take over the care.
- By 2019/20 care users in London will begin to reach their maximum contribution cap and local authorities will begin to take over the costs for their care.
- 27 per cent of self funders in London are likely to hit the cost cap.

### 3.3 Increasing the means testing threshold (Residential care)

One of the objectives of the proposals for the funding reform is to try and offer care and support to a wider group of care users than under the current system as a way of making the system fairer. The proposals for reform include from April 2016, raising the threshold at which a person needing residential care is eligible for some support from their local authority from £23,250 to £118,000. While the lower threshold at which a person is eligible for complete support for their care and support needs will be raised from £14,250 to £17,000.

London Councils analysed the cost implications of raising the means testing from £23,250 to £118,000. Raising the means testing threshold will have an immediate impact on local authorities once introduced. While the contribution cap will take at least 3.5 years before local authorities in London have to take over their costs, raising the means testing threshold means that from April 2016 once a person is means tested, has wealth and assets below £118,000 and has eligible care and support needs then local authorities will have a duty to pay for some of their care and support needs.

It should be noted that only those with eligible care and support needs and assets below the minimum means testing threshold of £17,500 will be eligible to have all their costs paid for by the local authority.

Those with assets between £17,500 and £118,000 will pay different amounts towards their costs but will also have some of the costs taken care of by the local authorities. The final levels have not been announced yet but one can expect that a person with £20,000 assets would pay less towards their care than say a person with £100,000 in assets and wealth.

Our analysis looked at the regional levels of wealth and asset ownership to estimate how many more care users are likely to qualify to receive local authority support and what the cost of this will be. Using ONS wealth data and the 2011 census data, it was possible to show how wealth is distributed by region and the number of people that the raised threshold would impact.

London Councils' analysis found that London as a region has the lowest proportion of people who own their house outright, at just 21 per cent, compared to the England average of 31 per cent. When added to those with shared ownership or with a mortgage, this increases to 49.5 per cent in London, with an England average of 64.3 per cent. Therefore over half of London's households have no ownership of their household assets.

London Councils found that from April 2016, local authorities in London can potentially expect an increase of approximately 15 per cent in the number of people who could qualify for support. **Using the average cost per care user, this equates to local authorities being faced with additional cost pressures in the region of £477 million in 2016/17.**

#### **Raising the means testing threshold**

- 15 per cent more people could potentially qualify for local authority support in 2016 as a direct result of raising the means testing threshold to £118,000.
- Approximately £477 million extra will have to be spent by local authorities in London to meet the extra demand for care and support as a result of the raised threshold.

## 4. Need for a transitional budget

Although the reforms will not be implemented until 2016, funding pressures on local authorities will begin to be felt sooner. Local authorities need to start preparing and exploring the implications for their social care departments and the way they work. To enable them to do this they will need transitional budgets to be announced now. The 2015/16 Spending Review announced £335 million to help local authorities deliver the proposed changes. However this will be too late. Local authorities need transitional funding prior to 2015/16 to enable them to begin to prepare for implementing the proposed reforms if they are to be ready in time for the implementation date. Some areas which will require transitional budget from government include:

- System changes - Local authorities will need to change their systems to make them ready for April 2016. The proposals will require new systems to be in place to enable local authorities to track and monitor the contribution caps to ensure that there is a consistent approach nationally councils will need time and support to develop new systems but allowing for local flexibility. Poor initial implementation of the proposed changes could affect public credibility in the whole system.
- Work force development - The number of assessments that local authorities carry out will increase as they begin to assess those who are currently self-funders this is likely to have implications on the work force. Local authorities will need to increase their spending on their workforce as they begin to either train their staff or increase their workforce or commission additional external capacity to enable them to carry out their new responsibilities.
- Information campaign - Local authorities will also face additional costs as they will have to carry out an advertising and information campaign prior to April 2016 to make people aware of the changes. This will help to manage peoples' expectations and demand, and help to enable a smooth transition to the new system. It is important that what local authorities do at the local level builds on a national campaign giving advice and information regarding the proposed changes.

If local authorities are to plan and manage the transition effectively government needs to provide some transitional funding to help them in doing this.

## 5. Conclusions and recommendations

A key problem facing adult social care at the moment is that the sector is already faced with intense funding pressures to deliver social care under the current system. London Councils' collaborative research<sup>9</sup> published in January already illustrated that boroughs in London would be faced with a potential £907 million funding gap by 2017/18 before any funding proposals were implemented. These funding proposals will add significant costs pressures to local authorities. If the government is committed to seeing these funding proposals implemented it is important that they should be fully funded.

To ensure that the funding reforms are successful, London Councils is calling for the following:

- **The government to commit to addressing the potential additional cost pressures in the region of £1.3 billion (of which a minimum of £877 million is a direct result of implementing the proposals) that local authorities in London will be facing by 2019/20.**
- **assurance from government that funding allocations will reflect different costs and populations pressures across the country**
- **the 2015/16 Spending Review announced £335 million to help local authorities deliver the proposed changes. However this will be too late. Local authorities need transitional funding prior to 2015/16 to enable them to begin to prepare for implementing the proposed reforms if they are to be ready in time for the implementation date**
- **a timely national information campaign will be necessary to minimise any confusion that care users may have regarding how the new system will work**
- **the proposed changes will require significant changes to be made to existing council systems. To ensure that there is a consistent approach nationally, councils will need time and support to develop the new frameworks that will be required**
- **government should work closely with local authorities in developing the detailed guidance for the proposals.**

London Councils' research has provided estimated figures using the available data to illustrate approximately how much more funding London local authorities will require for adult social care as a result of the reforms. We will continue to analyse the implications as more detail is published.

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<sup>9</sup> London Councils (2013) A case for sustainable funding for adult social care  
(<http://www.londoncouncils.gov.uk/policylobbying/healthadultservices/socialcare/fundingadultcare.htm>)

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