

Institute for  
Fiscal Studies



## Social Care: The Fiscal Context

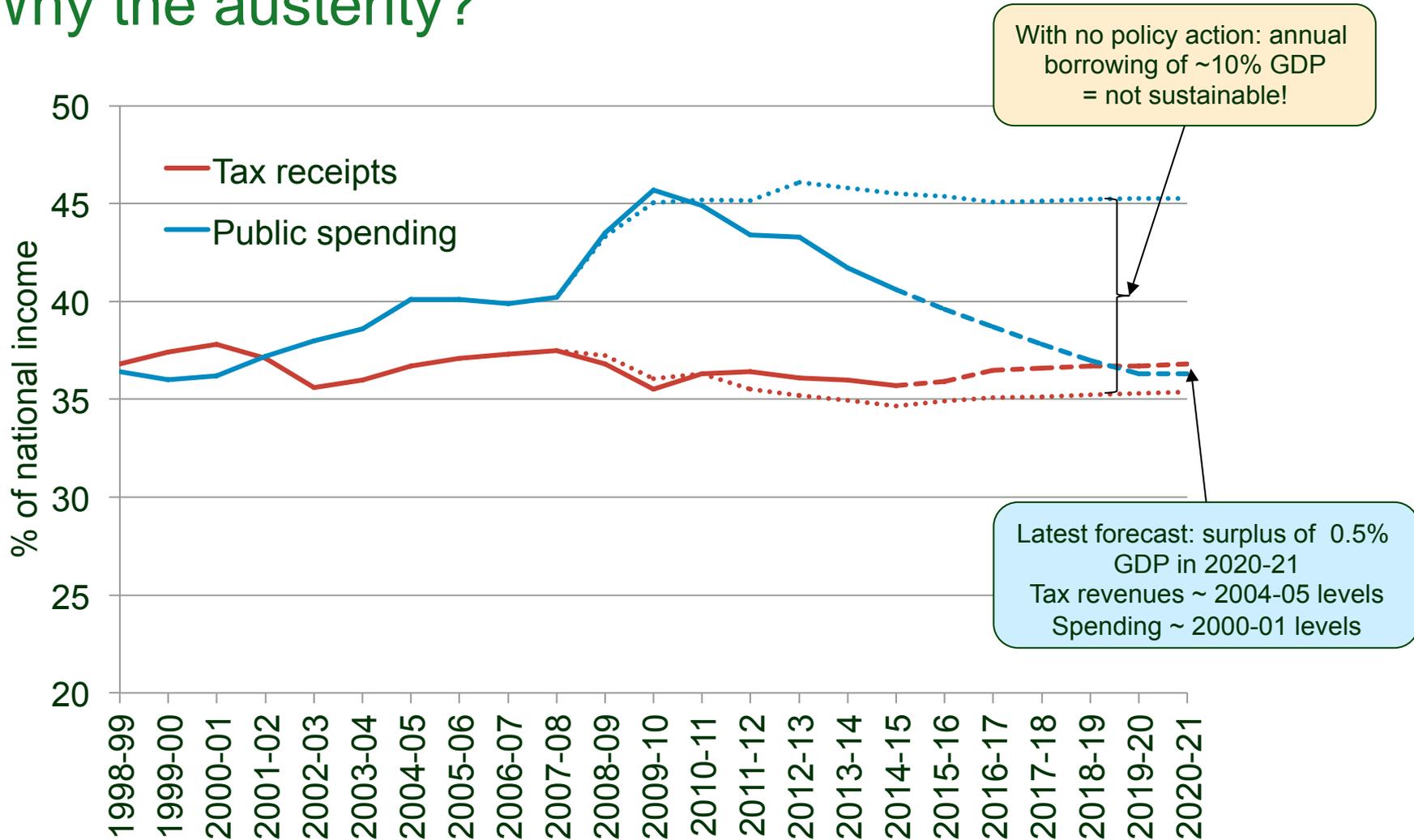
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VODG Annual Conference, 17 September 2015

# Introduction

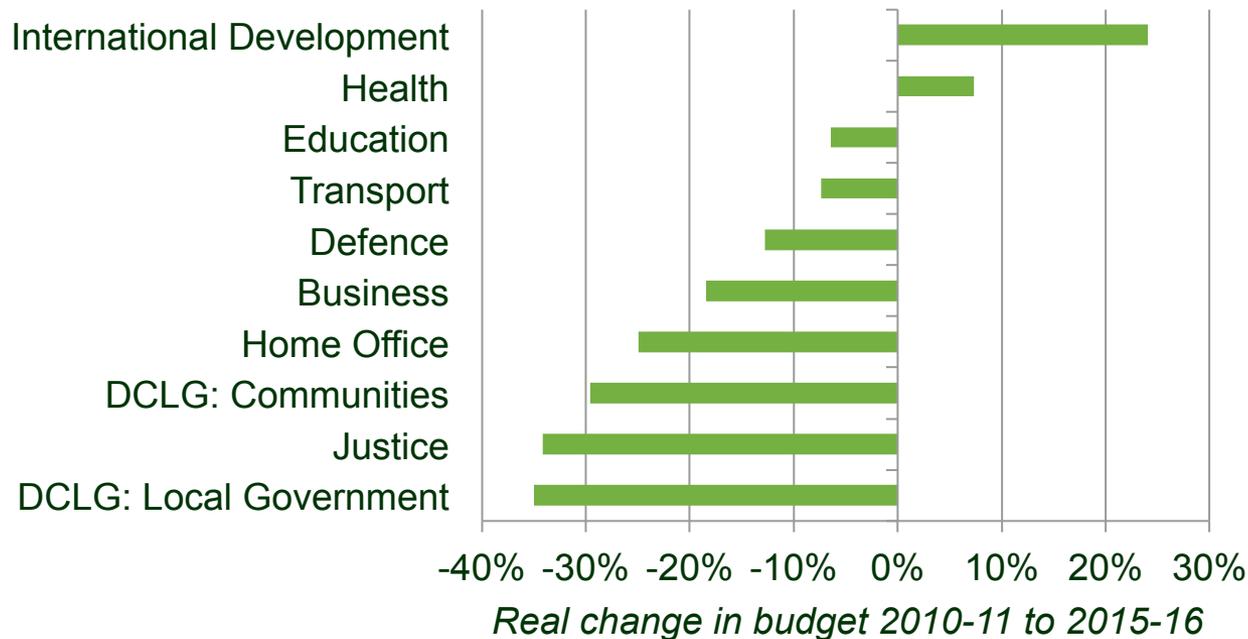
- Last parliament was one of significant fiscal austerity
  - (increases in taxes and cuts to public spending)
- This is set to continue for the next parliament
  
- Numerous government policies affect the social care sector
- In particular:
  1. Cuts to spending on public services
  2. Changes to tax and benefits
  3. Increase in the National Minimum Wage

# Why the austerity?



# Cuts to departmental spending

- Spending by government departments (on admin and public services) has fallen by 10% between 2010-11 and 2015-16
- Big differences across departments:



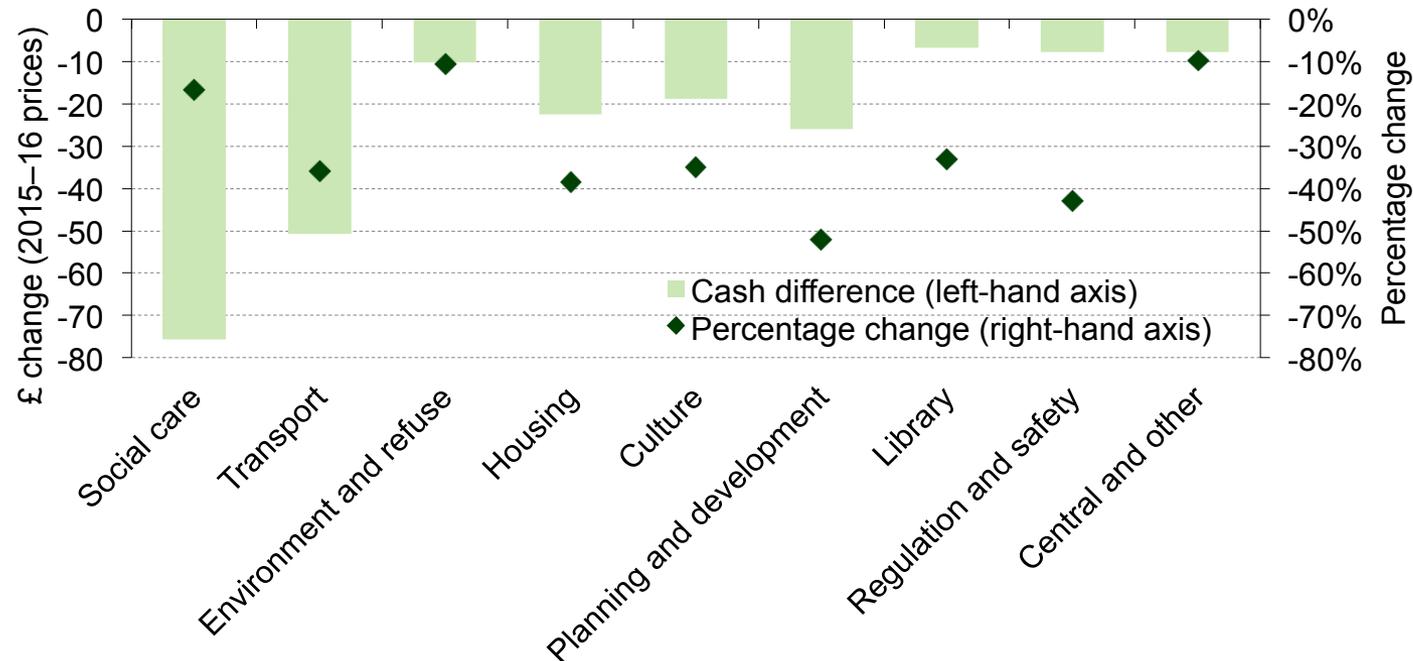
# Cuts to spending by local authorities

- On average grants to local authorities cut by 36% in real terms between 2009-10 and 2014-15
- Small increases in council tax revenues (3%) mean total revenues have fallen on average by around 20%
- But cuts to net service spending per person not evenly distributed across local authorities:
  - Average cut of 23%, but 14 LAs cut by 34% or more while 20 LAs cut by less than 15%
  - Cuts larger for LAs that are more reliant on central government grants
  - Most deprived areas have seen largest cuts (16% on average among least deprived 10% of LAs, 28% on average among most deprived 10% of LAs)

Sources : Innes and Tetlow (2015) 'Central cuts, local decision-making: changes in local government spending and revenues in England, 2009-10 to 2014-15', <http://election2015.ifs.org.uk/uploads/publications/bns/BN166.pdf>

## Spending on social care relatively protected

- Average change in net service spending per person 2009-10 to 2014-15:



- Some variation across local authorities
  - 15 cut social care spending by 34% or more, while 11 increased spending
  - Some of these differences driven by differences in overall budget cuts, some due to different prioritisation of social care spending

# Outlook for the next parliament: the bad news

- The Spending Review in November will set departments' budgets for 2016-17 to 2019-20
- July Budget plans imply that between 2015-16 and 2019-20:
  - Total departmental spending will be cut by 3%
  - Non-investment spending will be cut by 5%
- Some departments' budgets are 'protected':
  - NHS England budget to increase by £8 billion by 2020-21
  - Cash spending on schools will increase with pupil numbers
  - Defence budget to increase by 0.5% per year
- HM Treasury has asked other departments to describe implications of 25% and 40% real cuts to their non-investment budgets
- DCLG grant might be expected to fare relatively badly (again)
  - Worse implications for LAs who are more reliant on grant funding

# Postponement of cap on private care costs

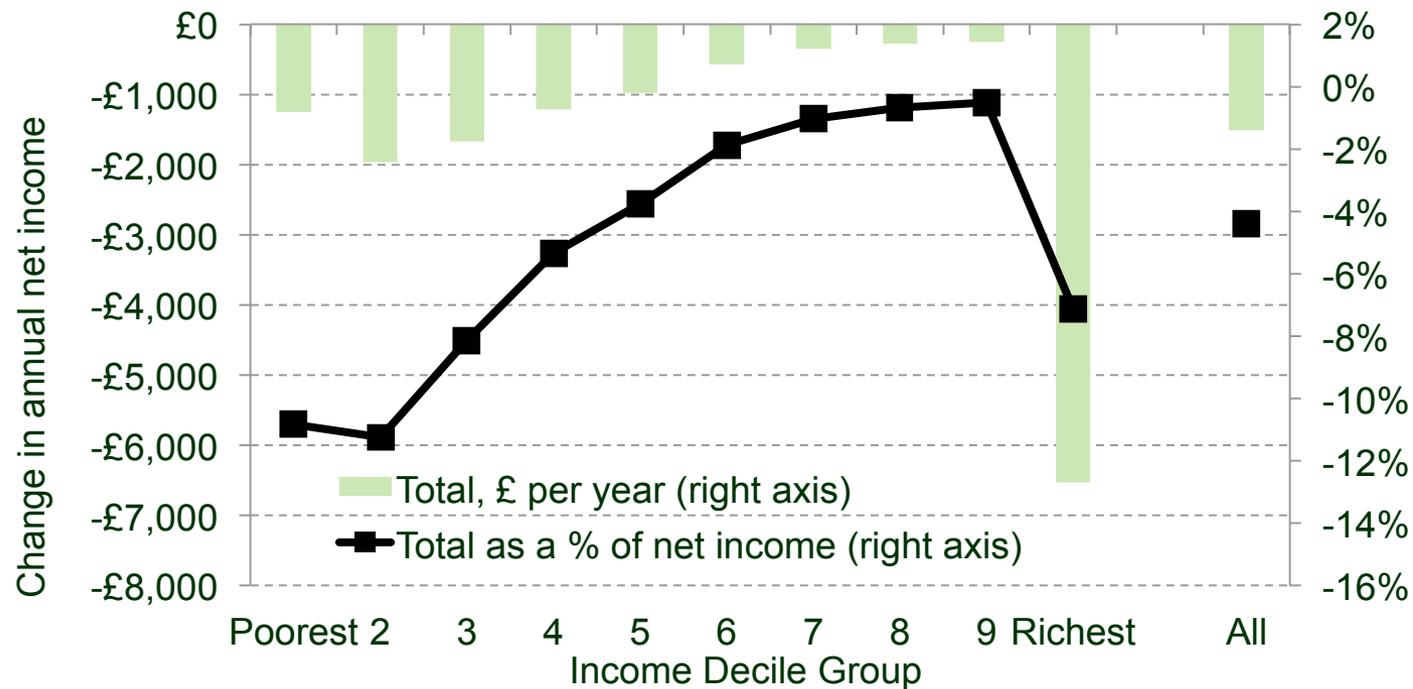
- Reforms to social care funding were due to introduce a cap on the total individuals have to pay privately for long term care from April 2016
  - Based on recommendations of Commission on Funding of Care and Support who argued that “the current system is confusing, unfair and unsustainable”
- Now been postponed to April 2020
  - Perhaps understandable given complexity of the reform and its cost to the government
  - Key question will be whether the reform goes ahead in future
- The interaction between long term care expense risk, individuals’ perceptions, public provision, the availability of insurance and household savings decisions is a really interesting area of research

# Outlook for the next parliament: the good news

- After 2019-20 current plan is that total spending will grow in line with national income (2.5% in 2020-21)

# Changes to tax and benefits

- A large number of significant changes to the tax and benefit system have been introduced since January 2010
- Distributional impact of (modelable) tax and benefit changes between Jan 2010 and May 2019:



Sources and notes: Hood (2015)

# Changes to tax and benefits

- Some reforms to disability related benefits:
  - Introduction of ESA, replacement of DLA with PIP, move to CPI indexation
- Some protection from other benefit reforms
  - Benefit cap and 1% cap on benefit increases for 3 yrs from April 2013
- Households with disabled people less likely to benefit from tax changes
  - Browne and Elming (2015): Impact of direct tax changes introduced between May 2010 and May 2015 increased income by £354 per year for households with no one disabled, but only £262 per year for households with one or more disabled people

# Increase in the National Minimum Wage

- Budget 2015 announced a 'National Living Wage'
  - Essentially a top up to the Minimum Wage for those aged 25 and over
  - Set at £7.20 $ph$  in April 2016 (50p above the NMW)
  - Aim to reach 60% of median hourly earnings by 2020 (OBR assume £9.35)
- Will increase income for some individuals:
  - OBR assumes 2.7 million people who earn below £9.35 $ph$  in 2020 benefit
  - Small spillover effects on slightly higher earners
- Will reduce income for some individuals:
  - OBR estimates reduced employment by 60,000 and reduced average hours
- Announced alongside cuts to tax credits, but they are not substitutes
  - Tax credits support those with low annual family incomes, NMW supports those with low hourly wages (often have higher family incomes)
- Will increase wage bill for some employers

# Impact on the social care sector

- Social care is a 'low paying sector' (defined by Low Pay Commission as employing 4% or more of minimum wage workers)
  - In 2013 Minimum Wage was around 78% of median hourly wage
  - Around 5% of SC employees earned the minimum wage (though LPC argue this is an underestimate)
- Increase in NMW likely to have particular consequences for SC sector
- Estimates of proportion of workforce affected vary:
  - Using ASHE and assuming wages grow with average earnings suggests around one-third of workers 25+ would earn below £9.35 in 2020
  - Resolution Foundation estimate 50-60% of the workforce benefit
- Resolution Foundation have estimated £2.3 billion cost to the sector of increasing wages to the new minimum wage rather than in line with inflation

Sources: Cribb (2015) and Resolution Foundation (2015) <http://www.resolutionfoundation.org/media/blog/budgeting-for-the-national-living-wage-in-the-social-care-sector>

# Summary

- Upcoming Spending Review will confirm further 4 years of cuts to spending on public services
  - NHS spending protected but no explicit protection for social care
  - May be some further integration of funding for health and social care
- Tight funding environment for LAs particularly difficult in the context of:
  - Rising demand
  - Rising wage pressures (general return to growth in private wages, higher NMW, higher NI contributions for employees with DB pensions)
- Difficult period for individuals with disabilities
  - Reduced public provision of services
  - Tax and benefit changes that reduce household income for many
- Openness to transformative ideas potentially provides opportunities
- Real terms public spending increases expected at the end of the parliament...