

Technical note: The £6 billion funding gap for adult social care

Overview

This paper explains how the £6 billion funding gap for adult social care in 2026 used in *The case for change*¹ was calculated.

The £6 billion funding gap figure is the difference between two estimates, both of which are based on a series of assumptions and are indicative only:

1. The future cost of adult personal social care services:

This looks at projected growth in the cost of social care, taking into account social and demographic pressures, anticipated rises in the unit costs of providing care, and assuming that this rising level of need is met by supply. These projections were carried out by academics at the Personal Social Services Research Unit^{2,3} (PSSRU).

2. Expenditure on adult social care:

This uses potential economic growth of 2% real as an estimate for potential growth in government expenditure on social care. This figure is being used for analytical purposes only and should not be considered indicative of future government spending decisions.

¹ The case for change – Why England needs a new care and support system. HM Government, May 2008.
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_084725

² Future demand for social care, 2005 to 2041: projections of demand for social care for older people in England, PSSRU DP 2514, available at www.pssru.ac.uk

³ Future demand for social care, 2005 to 2041: projections of demand for social care and disability benefits for younger adults in England, PSSRU DP 2512, available at www.pssru.ac.uk

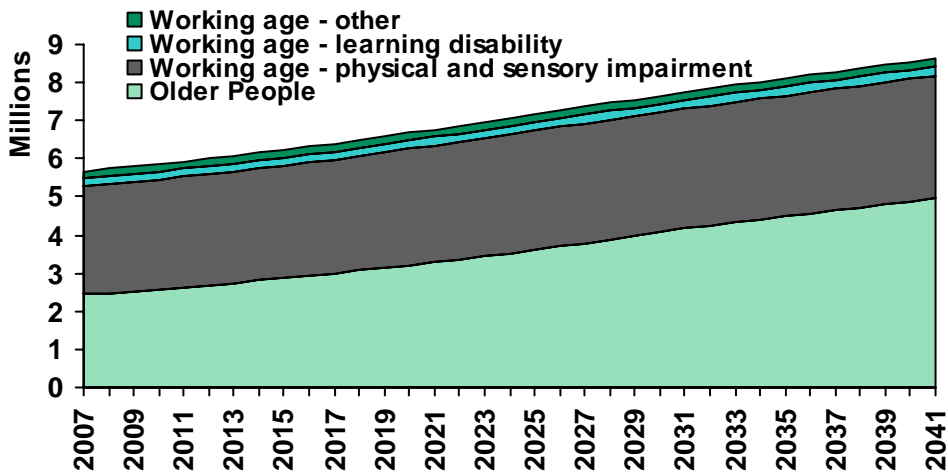
1. The future cost of adult personal social care services

Academics at the PSSRU have modelled projections of demand for care and expenditure over the next 35 years.⁴

Demographic change

- It is projected that there would be 1.6 million more disabled adults in England aged 18 plus by 2026, and 2.9 million more by 2041. (See Figure A below).
- Of these, 1.3 million by 2026 and 2.4 million by 2041 will be disabled adults aged 65 plus. The number of disabled working-age adults is projected to increase by 350,000 by 2026.

A. Projected number of disabled adults 18+, England, 2012-2041^{2,3}

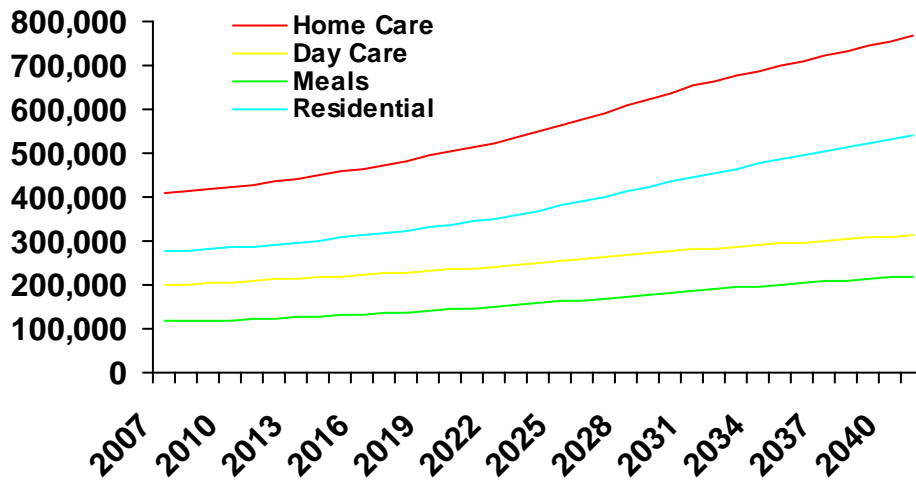


Demand for adult personal social services

- Linked to the demographic change, the demand for formal personal social services is projected to increase rapidly. Figure B shows estimates of the number of service users.

⁴ The modelling assumes constant disability rates by age and gender (except for people of working age with learning disability for whom slightly rising rates are assumed). Projections on younger adults groups are limited to learning disabled and physically disabled groups for numbers of people but extend to other groups for numbers of people using services and expenditure. A full list of key assumptions is at Annex A.

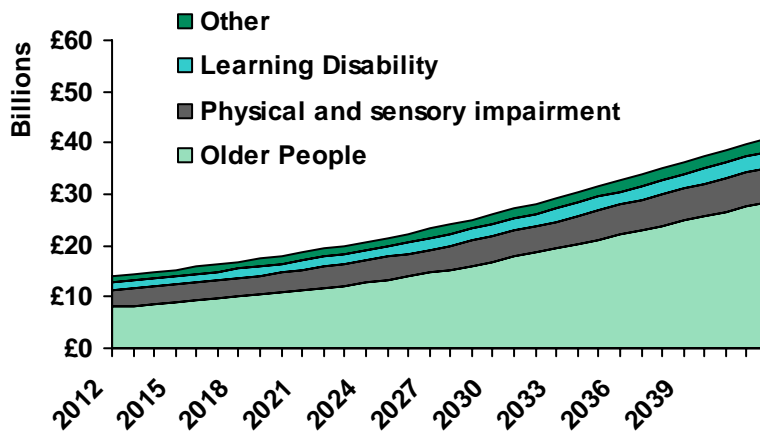
B. Projected demand for personal social services adults, England, 2012-2041^{2,3}



The public cost of increased demand for adult personal social services

- If current levels of service provision and patterns of care continued, public expenditure on Personal Social Services for adults is projected to reach £24.1 billion in 2026 and £40.9 billion in 2041 (2005 prices).⁵

C. Projected total public expenditure net Personal Social Services on adults, England, 2012-2041^{2,3}



2. Expenditure on adult personal social care

There are a number of factors that will influence future decisions on how much government spending will be committed to personal social services. Here, we use an estimate of potential economic growth of 2% real as an estimate for potential growth in government expenditure on social care. This

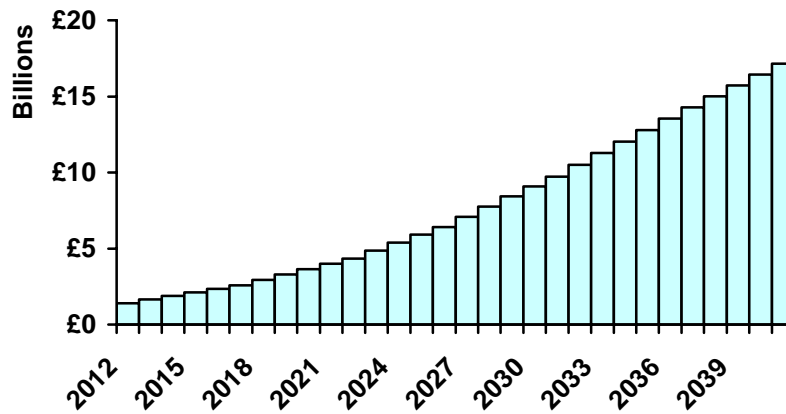
⁵ A summary of the projected increase in private expenditure for older people is at Annex B.

figure is being used for analytical purposes only and should not be considered indicative of future government spending decisions.

What is the funding gap?

If public expenditure on social care were to grow at 2% per annum, this would be slower than the projected increase in net expenditure required to maintain current patterns of care. There will be a funding gap for social care of £6 billion a year by 2026 and £17 billion a year by 2041 (2005 prices, 2005/06 patterns of care).

D. The 'funding gap' for adult social care, England, 2012-2041



Annex A: The key assumptions of the PSSRU model

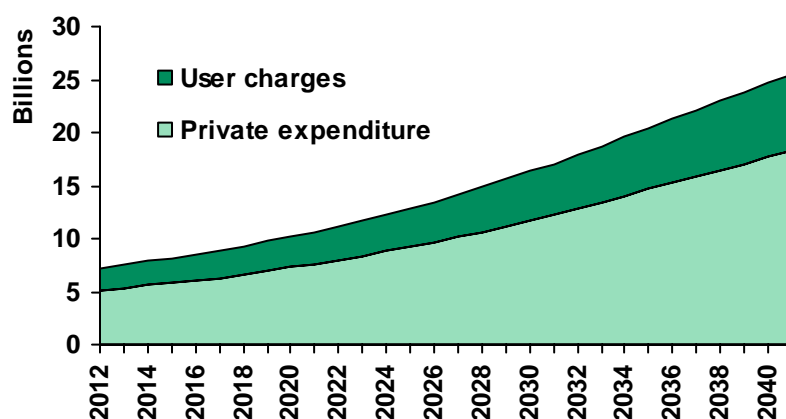
- The number of people by age and gender changes in line with the Government Actuary's Department 2006-based population projections (GAD, 2007).
- Marital status for older people changes in line with GAD 2003-based marital status and cohabitation projections (ONS, 2005): as these projections run to 2032, the 2031 marital status rates are applied to 2041.
- Marital status rates for physically disabled younger adults change (to 2032) in line with GAD 2003-based marital status and cohabitation projections (ONS, 2005), while those for learning disabled people remain constant.
- There is a constant ratio of single people living alone to single people living with their children or with others and of married people living with partner only to married people living with partner and others.
- Prevalence rates of disability among older people by age and gender remain unchanged, as reported in the 2001/2 General Household Survey (GHS) for Great Britain.
- Prevalence rates of learning disability by age and gender change in line with the projections by Emerson and Hatton (2004) and the prevalence rates of physical disability by age and gender remain unchanged as reported in the 1996/7 FRS.
- Home-ownership rates of older people, as reported in the 2001/2 Family Resources Survey (FRS), change in line with projections produced by the University of Essex (Hancock, 2005).
- The proportions of younger adults and older people receiving informal care, formal community care services, residential care services and disability benefits remain constant for each sub-group by age, disability and other needs-related characteristics.
- Health and social care unit costs rise by 2% per year in real terms (but non-revenue staff costs remain constant in real terms). Real Gross Domestic Product rises in line with HM Treasury assumptions (HM Treasury, 2007); but AA and DLA rates remain constant in real terms.
- The model assumes that the assumed real rise in care costs will be sufficient to ensure that the supply of formal care will rise to meet projected demand. This means demand will be no more constrained by supply in the future than in the base year.

Annex B: Summary of projected increase in private expenditure for older people

In addition to the public expenditure, private social care expenditure and user charges for local authority services (older people only⁶) are projected to reach £25.5 billion in 2041 (2005 prices). These projections should be treated with caution since there is limited data on private expenditure on social care.

- Private expenditure on care by older people is projected to reach £9.6 billion in 2026 and £18.3 billion in 2041 (2005 prices);
- Contributions to local authority services for older people are projected to reach £3.8 billion in 2026 and £7.2 billion in 2041 (2005 prices).

Private expenditure (services and user charges) on social care for people aged 65 and over, England, 2012-2041



⁶ There is little information available about private expenditure on care for other client groups so it cannot be modelled.