Age UK is the new force combining AGE Concern and HELP THE AGED WE WILL

Care in crisis: causes and solutions

1. Summary

Care and support in later life has reached financial breaking point.

- Out of 2 million older people in England with care-related needs, 800,000 receive no formal support from public or private sector agencies. With spending cuts underway the figure is likely to pass one million between 2012 and 2014.
- Since 2004, net spending on older people's social care has risen by just 0.1 per cent per year in real terms, a total of £43 million, while real spending on the NHS has risen by £25 billion.
- Spending cuts are projected to reduce spending on older peoples' care by £300 million over 4 years (using optimistic assumptions). Real spending on older people's care will be £250 million lower in 2014 than in 2004. Over the same period the number of people over 85 has risen by two-thirds (630,000 people).
- In 2005 half of councils provided support to people assessed as having 'moderate' needs, but in 2011 the figure has fallen to 18%.[1] As a result the number of people receiving local authority funded care at home has been slashed from 489,000 in 2004 to 299,000 in 2009.
- Public sector commissioners are underpaying for older peoples' care homes, with a cumulative shortfall of half a billion pounds. Age UK estimates that the average shortfall per resident is £60 per week, rising to £120 per week in South East England. As a result, many care homes are demanding that older people and their relatives 'top up' their care fees with additional private money, a real injustice as families are forced to subsidise the State's statutory duties.
- There are huge local discrepancies in the local quantity and quality of care for older people. The highest spending local authority (Tower Hamlets) spends five times as much as much per older resident as the lowest spending (Cornwall).
- An independent review of age discrimination found that younger service users are allocated an average of £78 a week per person, compared to £53 a week per older person

Age UK has ten principles for reform:

1. A guarantee of sufficient quality and quantity of care for low income older people is Age UK's highest priority
2. A non-means-tested entitlement for everyone with care needs regardless of income, for example a limited liability cap to protect against very high costs
3. New financial products to meet the remaining costs of care for middle to high income older people, such as private insurance
4. Payments to support the additional costs of disability continue to be available on a non means-tested basis as a national, legal entitlement
5. A national legal entitlement to support, in order to end the current post-code lottery
6. Adequate funding for advice, assessment and support to arrange services
7. An end to age discrimination in the provision of care and support
8. A system which supports rather than penalises families and carers
9. Alignment with the NHS and other local government services such as housing support
10. A flexible system which gives users control and permits different types of care services to develop

Reform cannot be achieved without billions of pounds of new money:

- Today taxpayers spend 0.5% of GDP on care for older people in England. If we merely maintain this level we will cause misery and danger for hundreds of thousands of frail older people.
- In Age UK's view we need to spend 0.9% of GDP on care in later life by the mid 2020s to deliver good quality care for people while maintaining a means tested. As a start an extra two to three billion pounds per year is needed from 2015.
- If there is appetite for a public system that also helps mid and high income groups then spending may need to rise to around 1.1% of GDP. The costs of establishing a limited liability cap, which covers one third of remaining care costs, after means-testing, would be in excess of two billion pounds in 2015.

Once the deficit is closed the Government has two options for finding the required money:

- The Treasury could declare 'the money will be found' and allocate funds from the overall pot of general taxation at a later date. There would need to be explicit guarantees that sufficient funding would be available otherwise the proposals will lack credibility when they are put before Parliament.
- Ministers could specify new sources of revenue to support the reforms now. This could be a package of several taxes or charges that strike a fair balance between generations and income groups.

2. Introduction

Care and support in old age has reached financial crisis. For years society has tolerated a care system that has gone from bad to worse, for lack of money. This is in spite of the dedication, professionalism and innovation of tens of thousands of people working in social care. Recent well-intentioned reforms have been an insufficient response to the deep-seated problems our care system faces, because they have been unable to tackle the underlying financial crisis. Radical funding solutions cannot now be avoided, and they will not be cheap. But although politicians from all parties acknowledge the problem there is as yet insufficient commitment to comprehensive reform.

The starting point for this paper is a simple statistic: in the six years before the present financial troubles, public spending on older people's care increased by just £43 million after inflation (a real terms increase of 0.1% per year). At the same time the number of people aged over 85 who are most likely to need care increased by 23%, while costs in the care sector continued to outstrip inflation as well.[2]

This has created huge pressures in the publicly-supported care system: tighter eligibility requirements; variability in support across the country; inadequate help for people living in their own homes; under-funded care homes; and the sidelining of 'upstream' preventative spending, despite councils' best endeavours. All this has hit low income groups the most. But councils have also responded by reducing the help they offer mid and high income groups, or by charging them more, and private spending on care has been unable to fill the gap. As a result levels of unmet need are rising and families are being forced to take on a greater burden. This comes on top of long-term grievances regarding a means-tested system which asks homeowners to meet almost all the costs of a care home. The result is a lottery. Some people never need to use care services and pay nothing while others lose almost their entire life savings; and in between too many people are put of using support services they clearly need.

The pity is that this funding crisis has come at a time when councils are making genuine attempts to transform how they deliver services. For more than a decade many local authorities have been taking successful steps to reduce the number of people living in care homes by providing better support in people's own homes. More recently, growing emphasis has been placed on more personalised services, including increased uptake of Direct Payments, preventative support and improved information and advice. This reform agenda is laudable, and in a different financial climate could be delivering significant improvements in care. But with insufficient funding, the results have been patchy, with many authorities simply lacking sufficient funds to provide adequate personal budgets or invest in prevention at the same time as they withdraw existing services. The reform agenda of recent years has been well-intentioned, but its ambitions have been stymied by the current funding climate.

This leaves two funding challenges for future reforms to resolve. First we need a new publicly-funded system for people with low incomes that adequately meets everyone's

essential needs, while also going with the grain of personal control, flexibility and innovation. Achieving this objective will require a new 'architecture' to equip the care system to offer everyone transparent, equitable cash-linked entitlements. But redistributing existing resources will not be enough. Adequately meeting needs will also take two to three billion pounds of new money for older people alone.

Second, for middle and high income groups, we need to create a fairer mixed economy of care and support. The support on offer from the state today is both irrational and inadequate; and people are unable to insure themselves privately against the risk of needing care or to put in place other financial plans. We do not believe the state should pay the full costs of care for mid and high income groups, but it should make a new offer which gives people certainty, encourages people to take up support, and limits the risk of very high costs. The lens for judging this new offer should be whether it enables people on mid incomes to access good quality care and support at a price they can afford and which people feel is fair.

The process of reform of course involves trade-offs. At the margins it may be possible to spend a little more on one of these two challenges, and a little less on the other. But essentially out first challenge must take priority over the second. Society has a moral responsibility to adequately fund care for people with low incomes and to provide help to everyone to access the care they need, even if some pay for it themselves. Once this is achieved, we can go further and find ways to co-fund mid and high income groups, to help people of all backgrounds share the costs of care.

Each of these challenges will cost in the region of £2 billion to solve, and that is for older people alone. By the mid-2020s we may need to double the share of GDP spent on publicly funded care. An increase on this scale may seem dramatic, but it would mean only a 4% rise in total public spending on older people. It is not money that will be easily found, but if we do not accept it is needed, politicians will continue to fail the most vulnerable older people, leaving care needs unmet and huge financial burdens for a small unlucky minority.

Brave decisions will be needed to raise money on this scale. It is open to the Government to simply commit to spending what is needed, once the deficit has been closed in 2015, without specifying where the money will come from. Alternatively, it could set out a package of taxes or charges to explicitly link its care 'offer' to sources of revenue which are seen to be fair and linked to each generation's ability to pay.

Now is the time for our political leaders to grasp the nettle and resolve this deep and worsening crisis. In recent years there has been growing, cross-party, acceptance that the care system needs reform. But the state of public finances and the current controversy over the future of the NHS mean that care risks being sidelined again. Politicians of all parties must sign up to radical reform, and a new financial deal, if we are to avoid frail and disabled people suffering acute hardship and danger.

3. The funding crisis today

As a society we are spending a grossly inadequate amount on care and support, from public and private sources combined. Our public provision is so thread-bare that it frequently fails to meet the needs of those with low incomes it is principally designed to serve. Many older people and their families also pay large amounts for care from their own pocket – often more than they feel is fair or they can reasonably afford. But even added together, private and public spending falls far short of the amount of care and support people in later life need. The result is that too many people are going without the support they need, while a huge and growing burden is being placed on families and carers, many of whom feel unable to cope.

Tens of thousands of dedicated people work in social care and the sector has made concerted efforts to transform services in recent years, with the mantra of independence, early intervention and personalised support embraced across the country. But these efforts have been set against a grim backdrop. In this section we flesh out the nature of the current funding crisis, analysing the different elements of our failing care system and how they interact. Even 'standstill' spending on care is inadequate to address the failings of today's system and to cope with rising costs and the growing number of people in late old age who will need support. But this is just a snapshot; in four years time we will be spending even less public money on care, as spending cuts take effect. Without a radical new funding system the situation will grow far worse.

Unmet need: The missing million

Social care in England is totally failing to meet the volume of need experienced among disabled people aged over 65. Today, out of 2 million older people in England with care-related needs, 800,000 receive no formal support from public or private sector agencies. In five years time the situation will be worse still. Even before the spending cuts it was predicted that in 2016 one million older people, out of the 2.3 million who will have care needs, will receive no support.[3] Now the spending cuts could bring this grim milestone forward to between 2012 and 2014; by then 100-150,000 fewer older people are expected to be using care services than if budgets had risen in line with need.[4] We fear this suffering will take place in silence, with few older people asking for extra help or making a fuss.

A public system starved of cash...

Over the last six years publicly funded social care for older people has been systematically starved of cash. Since 2004/05 net spending on older people's care has risen by just 0.1% each year in real terms, a total of around £40 million. Over the same period the number of people aged over 85, who are most likely to need care, has increased by 230,000 (4% each year). By comparison NHS spending increased by around £25 billion (5% each year) over the last five years.[5]

While this has happened the attention of policy makers and the social care profession has been elsewhere. There has been unprecedented debate on the future of care – both its long-term funding and the 'transformation' of council provision today. But in the mean-time local authority spending decisions have changed the 'facts on the ground' with a significant deterioration in services for older people. All this comes before the spending cuts which are projected to reduce spending on older people's care by at least £300 million over four years.

Net spending on older people's social care in England

Year	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Net spending	£6,850,000	£7,438,000	£7,683,000	£7,680,000	£7,421,000	£7,384,000
Real increase	6% outturn	9% outturn	3% outturn	0% outturn	-3% outturn	0% outturn
Year	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Net spending	£7,633,000	£7,482,000	£7,407,000	£7,333,000	£7,260,000	£7,187,000
Real increase	3% outturn	-2% budget	-1% projection	-1% projection	-1% projection	-1% projection

NOTES
2010 prices; Outturn: Personal social care expenditure and unit costs 2009/10, NHS Information Centre Budget: Revenue Account Budget (revised) 2010/11, Department for Communities and Local Government; Projection: -1% real terms assumes government projections for local government spending and £2 billion top-up for social care passed on in full. Early indications suggest these are optimistic; Inflation index: RPI

...with ever tougher eligibility rules

The most visible effect of this starving of resources has been a large reduction in eligibility for publicly funded social care. Since 2003 councils have used a four-point scale for assessing whether disabled people should be eligible for support (with needs ranging from so-called 'low' to 'moderate', 'substantial' and 'critical'). In 2005/06 half of councils provided support to people assessed as having 'moderate' needs, but in 2011/12 the figure has fallen to 18%.[6] The impact has been a decline of 39% in the number of older people receiving local authority funded care at home, from 489,000 a year in 2005/6 to 299,000 in 2009-10.[7] During the same period the number of people aged over 85 increased by 17%.[8] In fairness, until 2008/09, the total volume of home care provided continued to rise, as councils increased spending on people with very high needs, at the same time as they reduced the number of people receiving services. Now not even this is true. In the most recent year the total hours of support purchased by local authorities for older people fell from 2 million to 1.85 million.[9]

…variable levels of support across the country

It is often said we have 152 social care systems in England. Variations in eligibility criteria are but one example of the huge discrepancies in the quantity and quality of support offered to older people by different local authorities. The highest spending local authority (Tower Hamlets) spends five times as much per older resident as the lowest spending (Cornwall). Some of these differences are due to variation in underlying need, but even when this is controlled for, by looking at spending per older

person receiving benefits, spending is still almost 3½ times higher in Camden than Cornwall. Age UK supports diversity in the design of services to meet different local needs, but such major variations in spending cannot be explained in this way.

...services undermining dignity, independence and equality

For those older people who are deemed eligible for services, levels of support are often inadequate to remain independent and maintain a good quality of life. Normally only the most essential services are provided; for instance, help to get out of bed, wash and eat a meal. Home visits frequently last only 15 minutes at a time. Wider services to help support a good quality of life are often unavailable, for example domestic cleaning, help with practical tasks around the home, the chance to go out and social activities. This is despite evidence that these low-level services are the ones that older people most value.[10]

Decision makers in local and central government have attempted to counter these problems by giving people more control over the services that are commissioned on their behalf. Personal Budgets and Direct Payments (cash payments provided by councils *in lieu* of care) are designed to enable people to decide for themselves the support that would best meet their needs. However sadly they are often paid at such low levels that older people have little room for manoeuvre in buying their own services. In 2008 the Commission for Social Care Inspection, raised concerns that the Resource Allocation System used by many councils was not transparent, did not allow for equity between different types of service user, and limited the support available to older people with more complex needs.[11] There is no evidence that the situation has improved.

Age discrimination in the allocation of care resources dates back decades, with commissioners too often having lower standards about the lives older people can expect to lead. An independent review of age discrimination in social care found that younger service users are allocated an average of £78 a week per person, compared to £53 a week per person. Aged over 65.[12] The study estimated that equalising the level of support would imply spending 25% on older people's care packages.[13] Yet, in recent years spending on older people's services has stagnated, while allocations for adults aged under 65 have risen quickly.

... care homes left teetering on the brink

Discussions about the future of social care tend to focus on how to transform support for people living independently in the community. But more than half of public spending on older people's care still goes to care homes – and the share of private spending on care homes could be even greater. In recent years the care home sector has made real strides in improving quality, as testified by improving star ratings under the previous inspection regime. But the sector now faces growing pressures. The root of these problems is that public sector commissioners routinely under-pay for older people's care homes. Independent research by the leading market analyst concluded in 2008 that this amounted to a cumulative shortfall of half a billion pounds.[14] In 2009

Age UK estimated the average shortfall per resident of £60 per week, rising to £120 in South East England.[15] Since then we have heard numerous stories of fees being frozen, or in some cases cut, even though costs in the sector continue to rise. This leads us to fear that the situation is deteriorating.

Under-funding impacts on residents in three main ways. Firstly, service quality is put at risk as operators seek to cut costs. Secondly, for many years care home operators have responded by demanding top-up payments from families or charging self-funding residents over the odds, in order to cross-subsidise public sector commissioners. This is a real injustice; older people and their families should not have to subsidise the state when it discharges statutory duties. Thirdly, under-funding increases the likelihood of residents – who have virtually no security of tenure - losing their homes if operators go out of business. This is very worrying given the health risks forced moves create for very frail people. We fear that many reputable care home operators will become increasingly reluctant to invest in new facilities given such poor returns on investment. Some are even struggling to maintain their existing operations today. The risk of large-scale closure due to the collapse of a major operator appears to be a real possibility.

...preaching prevention but little in practice

In recent years Age UK has keenly supported the increased emphasis in national guidance and policy on spending money 'upstream' on modest levels of support which will prevent or delay the need for more expensive services. This includes: 'that little bit of help' to stay independent at home; good quality information and advice; and community-wide services to help people remain active. There have been effective examples on a small-scale, including nationally evaluated pilots under the Partnerships for Older People and LinkAge Plus programmes. But sadly the reality in most places is quite different. Fewer and fewer people are receiving publicly arranged low level 'home help' support (only 55,000 people of all ages received support for 2 hours a week or less in 2008/09). The number of people using day services continues to fall, even though these are often people's only opportunity for social contact and activity. Over the last five years Supporting People spending for older people's housing-related support has fallen by 20% in real terms. This has led to many sheltered housing schemes losing on-site staffing. Finally the number of people provided with equipment or adaptations has fallen from 386,000 households in 2005-06 to 208,000 in 2009-10.[16]

...and penalising people with mid and high incomes

Too often social care provides poor services for poor people. Services in the community are intended to be available to people regardless of their means, as long as they meet needs-based criteria. However there is a tough means-test which leads to people with mid and high incomes often paying substantial charges. In both 2010/11 and 2011/12 many councils increased charges or abolished maximum caps, leaving many people who receive a large amount of care facing significant increases in costs. A recent survey showed that 88% of local authorities are planning to raise charges for

care.[17] Another survey found that 43% of care service users thought that they were less able to afford essentials such as food and heating due to changes to services.[18]

The result is that huge numbers of people do not seek help. The PSSRU estimates that by 2015 290,000 disabled older people will be not using services because they are means-tested, rather than partly-funded for everyone.[19] In recent years these problems have been augmented by 'gate-keeping' from councils, who have avoided assessing and offering services to people with mid and high incomes when they ask for help in spite of legislation and guidance. In many cases families are unable to access help to arrange services, even when they are willing to bear the full costs themselves.

The system also creates a lottery for people with mid and high incomes and assets, which many view as wildly unfair. People who die without needing to use care services end up paying nothing, while others who started out with the same amount of money but need expensive services for many years face the full costs. These costs which may add up to tens or even hundreds of thousands of pounds are usually very difficult to predict in advance. While people with very high incomes may be able to cope, those with middle incomes – people who own a home and may have moderate savings - are hit very hard. Currently there is no way of sharing this risk between people with similar incomes, through either private insurance or the welfare state.

...with four years of cuts to come

All this could grow far worse as councils implement four years of significant funding cuts. We do not yet have the full picture on the scale of cuts councils have implemented this year to older people's social care. The most optimistic scenario is that national spending will fall by 4% in real terms (this assumes that all the Government's planning assumptions hold good, including councils spending a new non-ringfenced allocation entirely on social care). This would leave real spending on older people's care £250 million lower in 2014/15 than in 2004/05, while the number of people over 85 has risen by two-thirds (630,000 people).

To make matters worse, the early indications suggest councils are making larger cuts than this optimistic scenario would suggest. This may be happening in part because local authorities have not used their extra allocation for social care as intended. Additionally many councils, especially in disadvantaged areas, have seen their funding fall by far more than the national average and have been forced to make very substantial cuts as a result. If real spending were to fall by 6 to 7% the PSSRU projects that 250,000 older people would lose services (assuming councils are unable to reconfigure services to improve efficiency).[20]

Age UK will publish a full audit of cuts to older people's care services in June.

4. The architecture for reform

To pull back from the brink older people's social care needs a new 'architecture' and significant extra resource. This section outlines ten principles for designing a new system. Collectively these amount to a recipe for a viable new architecture of care and support. In section 5 we look in detail at how much it would cost.

A re-designed system is required to give everyone with care needs clear and equitable access to support, while also creating a framework in which innovation can flourish. In Age UK's view this implies a more national system, in which the key entitlements people can expect are secured on a uniform basis. This would significantly change the role of local government, giving it less discretion with respect to who should receive services, what they should pay and what outcomes should be achieved. Councils would be left free to focus on developing effective local care markets and providing support to people to make effective decisions especially at times of crisis.

Ten key principles for a new care system

1. A guarantee of sufficient **quality and quantity of care for low income groups** is Age UK's highest priority by far. People with few means who cannot possibly pay for care themselves should become eligible for support earlier; their care homes fees need to fully reflect the costs of quality services; and packages of support for those living in their own home (usually in the form of direct payments) must be enough for people to enjoy a decent quality of life. Together this will cost two to three billion pounds for older people alone, and the money available will need to rise further in future to reflect rising demand and costs.

2. Additionally, we support **a non means-tested financial contribution** for all with care needs (subject to this being affordable, after money has been found to improve support for low income groups). The 'offer' could be a limited liability scheme, which the Dilnot Commission has indicated it is minded to recommend. This would reduce extreme costs for those with the highest needs.

3. **New financial products to meet remaining care costs** should be facilitated and promoted by the Government. Models should include viable private insurance products (although these will only be of interest to a minority) and a range of options for paying at the point of need.

4. **Payments to support the additional costs of disability** should continue to be available on a non means-tested basis as a national, legal entitlement. Retaining existing disability benefit entitlements (even if they are packaged as part of a new support system) will ensure everyone has money to meet the additional costs of being disabled, and prevent the need for more intensive and expensive services.

5. **A national legal entitlement to support** is essential to end the worst excesses of the post code lottery. In addition to today's disability benefits, this should

include (1) the right to a personalised assessment; (2) a national eligibility threshold so the same level of needs triggers a right to support everywhere; (3) once someone is deemed eligible for help, an entitlement to the cash resources (or arranged services) required to meet nationally-determined acceptable outcomes (albeit subject to means-testing for mid and high income groups). The allocation of resources to service users should vary in line with regional differences in the costs of meeting these outcomes, but not with local political decisions about the extent to which social care is a priority. A fair system for distributing funds to local government is essential to bring this about.

6. **Information, assessment, advocacy and brokerage** services should be funded to a level that they are available to everyone who needs them. This will help ensure informed decisions and appropriate use of resources.

7. There should be complete **age equality** in the availability of care and support resources and the outcomes the system aims to achieve.

8. A reformed system should be **carer neutral**. Those who want to provide informal care should be supported to do so, through benefits and services – including quality respite care – and new financial entitlements should not be designed so they are a disincentive to caring. But no one should be forced to assume exclusive or excessive caring responsibilities.

9. There must be **alignment with the NHS and other local government services**, especially housing support. The NHS should continue to support health needs in care homes, and jointly commission preventative services with councils. Councils should be responsible for joining-up all local support, including coordinating joint assessments and referrals. They should have a financial stake in the funding of care so they have an incentive to reduce demand for services by providing community support and services.

10. The funding system should be **flexible to promote diversity of provision and give users control.** This should including neutrality between different types of tenure and the option of cash payments or commissioned services, whichever is more appropriate. Funding should encourage innovation and positive risks.

This architecture would redraw the lines of responsibility for social care. National government would have a more explicit responsibility for defining entitlements and the outcomes people should expect. It would set out rights, duties and standards of service and ensure these are met. And it would need to establish a funding mechanism that ensures these can all be met; in all likelihood this will mean something different from the current arrangements for local government finance. Councils will be the critical local hubs for care and support: they will support people to access entitlements and choose services; ensure local public provision is well coordinated; and promote a diverse local market of care services. Other public services would need to cooperate with councils to develop joint approaches to identifying need and offering preventative support. Finally providers would have much more clarity about their role,

with a direct relationship with the end-users of care - often facilitated by independent agencies there to support informed decision making - while also maintaining strong relationships with councils to respond to local demand and improve practice.

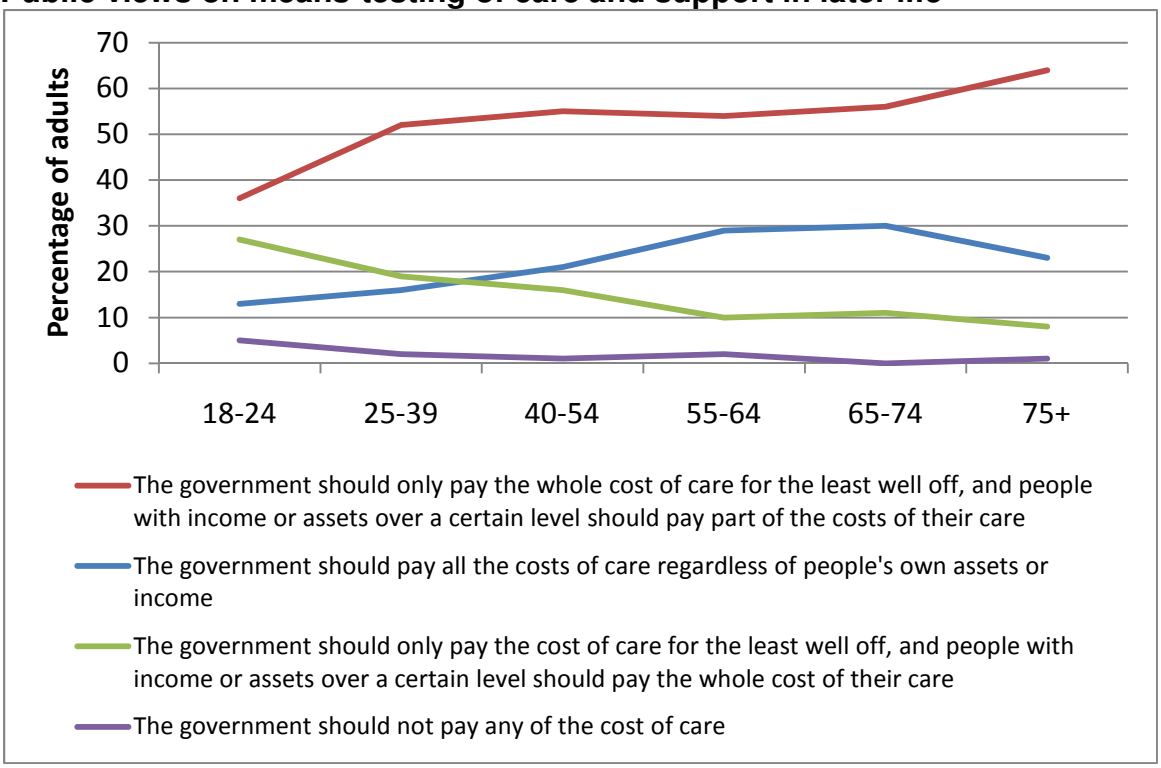
What about free personal care?

It is important to recognise that although our principles for reform would be expensive to achieve, they are very different from previous proposals to offer 'free personal care'. Age UK accepts that free personal care regardless of people's means, is not a viable option in the current financial climate. More generally, we believe that the question of free personal care, although a totemic political issue in the past, is actually a distraction from the wider funding challenges facing the care system. As experience in Scotland has shown, creating an entitlement to non means-tested support leaves many questions unanswered:

- At what point should eligibility for support begin?
- What amount of support is sufficient to meet needs?
- How should mid and high income families meet the accommodation costs of care homes?

Our proposals for reform answer all these questions; indeed they could easily cost more than some versions of 'free personal care'. But they are designed to improve the whole of the care system and address the full range of issues that have created the care crisis. Our acceptance of a partly means-tested system is in line with the public opinion. There is now broad support for a care funding system based on mid and high income groups meeting some, but not all, the costs of care. This position is now significantly more popular than support for either today's means-tested system or a totally free service.

Public views on means-testing of care and support in later life



5. How much will it cost?

There is no escaping it. A new 'architecture' for care will need to be adequately resourced. The first task is to prevent further damage being done by stopping short term spending cuts which go beyond efficiency savings. All the indications are that this year's budget reductions are leading to cuts in frontline services and entitlements, not just reorganisation behind the scenes; and they mark the first year of a four-year programme. Once the Dilnot Commission proposals are published we hope the Treasury will authorise 'bridging' finance to stabilise today's social care provision, and help local authorities prepare to implement a new architecture and new national entitlements.

Then, from around 2015, significant extra money will need to come on stream. Solving our care crisis will take billions of pounds. In the not too distant future spending on older people's care may need to double. From one point of view, this makes the whole debate a non-starter. In a time of austerity how can we possibly contemplate an increase of that magnitude? But put another way, this just underlines the depth of the crisis. And fortunately English social care makes up less than 5% of age-related spending in the UK, with the NHS and social security taking up the lion's share. Doubling spending on care would amount to an increase of around 4% in overall spending on over-65s. As a nation, if we value it enough, we can afford it.

To illustrate the scale of spending required in more detail, Age UK has re-analysed existing publicly available data, principally work by the Personal Social Services Research Unit for the King's Fund. These costs do not include provision of support for disabled people under the age of 65. The affordability of the overall package will need to take into account extra demand for support from this group.

Estimated costs of funding care and support for older people in England

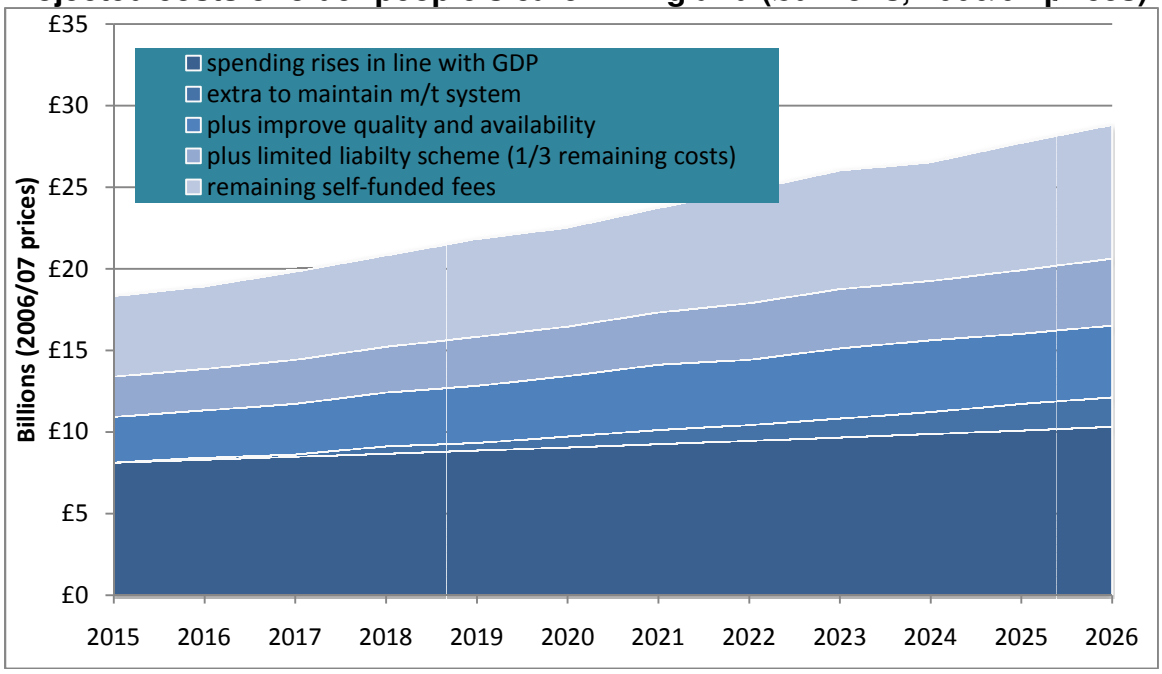
	£ Billions		% of GDP	
	2015	2026	2015	2026
Status quo	£8.1	£12.1	0.5%	0.6%
Priority 1 – fully meet needs, retain means-test	£10.9	£16.5	0.7%	0.9%
Priority 2 – some help for all (eg liability cap covering 1/3 of remaining costs)	£13.4	£20.6	0.9%	1.1%

Notes: Prices are 2006/07.

In section 4 we explained that Age UK's first priority for new money is to adequately meet the care needs of people currently eligible for support under the existing means-tested system (**priority 1**). Any new financial system that fails to achieve this objective will fail. The PSSRU analysis suggests that meeting needs up to an objectively defined

benchmark would require an injection of £2.8 billion in 2015, followed by annual increases of 4%. If this was implemented public spending on English care for older people would rise from 0.5% to 0.8% of UK GDP[21] by 2026.

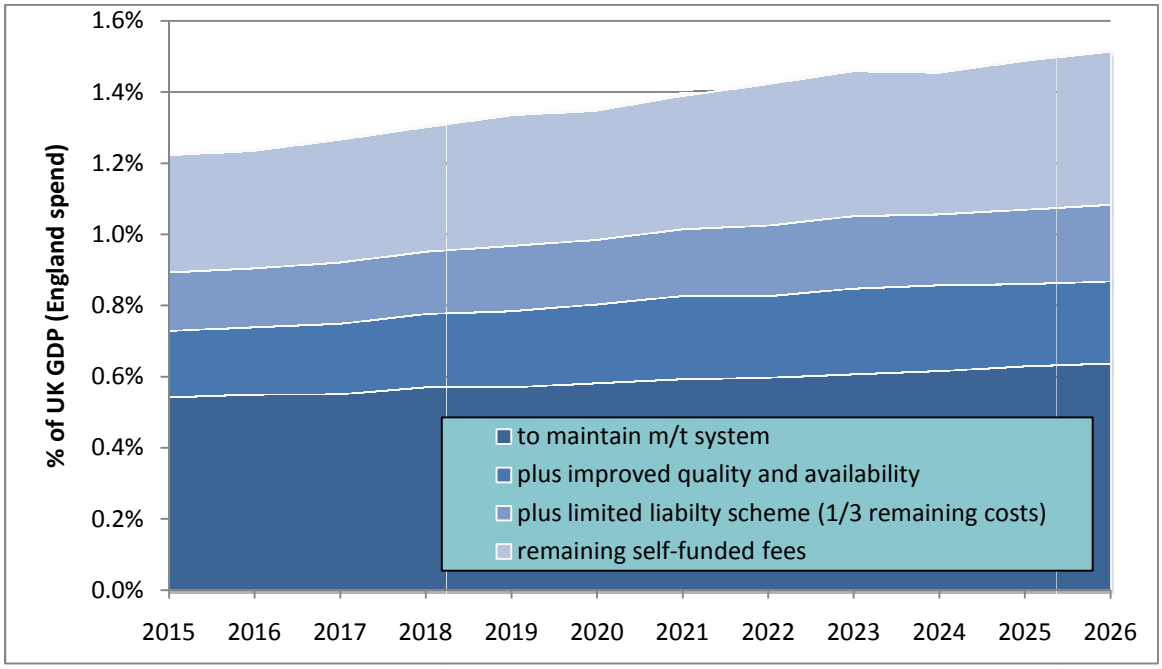
Projected costs of older people's care in England (£billions, 2006/07 prices)



To go further, and also deliver a non-means-tested care payment would cost more. The precise figures would depend on the design of the scheme, but to illustrate we have assumed that a new system would meet one-third of the remaining costs of care (including accommodation costs in care homes). This could take the form of a limited liability cap (ie the final costs when someone has very high needs) or a co-payment system (a constant share of costs throughout).

By coincidence the costs of achieving decent outcomes under the means-tested system and of meeting one-third of all remaining care costs are roughly the same. However they cannot be viewed as alternatives. There is no point in widening access to publicly funded care to a broader group of people when it is already failing to meet the needs of those who are eligible for help today. Creating a system where everyone gets support can only come as a supplement to finding the resources to transform provision for people with limited means.

Projected costs of older people's care in England (£billions, 2006/07 prices)



There are many permutations and an array of numbers, but the financial challenge is easily summarised:

- Today taxpayers spend 0.5% of GDP on care for older people in England. If we merely maintain this level we will cause misery and danger for hundreds of thousands of frail older people.
- In Age UK's view, we need to spend 0.9% of GDP on care in later life by the mid 2020s to deliver good quality care for people while maintaining a means tested system.
- If there is appetite for a public system that also helps mid and high income groups then spending would need to rise to anything up to 1.1% of GDP.

6. Where could the money come from?

Specifying the design principles required to bring older people's care back from the brink - and putting a price tag on it - begs a crucial question: where will the money come from? One option is for the Government to simply declare 'the money will be found' and leave the Treasury to allocate funds from the overall pot of general taxation, in competition with other spending priorities. This is after all how we fund the NHS and state pensions, which cost far more than care and support. If the Government is to proceed in this manner, there would need to be explicit guarantees that extra funding would be available on the scale required. Otherwise the proposals will lack credibility when they are put before Parliament.

The alternative approach would be to specify in some detail the sources of revenue which will support a package of reform. There are two arguments in favour of this route. First a new unfunded 'offer' from the Government at a time of financial pressure is likely to be distrusted (even though we would expect the new system to kick in from 2015 after the deficit has been eliminated). Second, views on the fairness of the reforms – real and perceived – will depend on people being able to assess both how the money will be spent and where it has come from. For example many would be concerned if new support for richer people in later life was being largely funded by low income working households. Saying where the money would come from does not mean taxes or charges for care would need to be hypothecated. Indeed we think a special care levy would be inflexible and administratively complicated. New revenue could simply be identified and informally earmarked as meeting future care needs.

Any new earmarked revenue could take the form of a package of several new or increased taxes or charges, designed so that overall they are seen to be fair and affordable. As part of this, we think it is important that a reasonable proportion of the costs are borne by people in later life, especially those with considerable wealth, not just workers' payroll taxes. To illustrate what might be possible we have assembled a menu of possible options for earmarked tax changes to support a new care system. Age UK is not setting out detailed proposals or recommendations, but these examples demonstrate the order of magnitude of the charges required and the combinations of policies that might be possible.

A menu of possible options for raising money for care and support

£3 billion	**Removing the upper age limit on National Insurance Contributions**: people with earnings aged over State Pension Age do not pay NICs on the grounds that they have completed their period of contribution for the state pension and aren't eligible for pre-SPA benefits. NICs paid after SPA could be earmarked specifically to pay for care costs - a new 'offer' from the state which pensioners can expect to benefit from in future.
£3 billion	**Permanent increase to NICs of 0.25%** The Government is hoping the current elevated rate of National Insurance Contributions will be temporary. From 2015 some of the temporary increase could be placed on a permanent footing to provide funding for care, for example by keep employer and employee contributions 0.25% higher than otherwise planned. We do not think the entire costs of care funding should be paid through National Insurance, since people in later life who are able to pay should also contribute. However, just as with the NHS and state pensions, there is a clear case for people of working age contributing to the costs of age-related spending, in the knowledge that they will benefit from equivalent support in their own later life.
£2billion	**Half penny rise in the basic rate of Income Tax** Although Income Tax is paid mainly by people aged under State Pension Age, around half of pensioners also pay. With tax free allowances for different age groups being harmonised it is increasingly an age-neutral tax, where people contribute on the basis of their ability to pay not the stage in life they have reached.
£2 billion	**Reducing pension tax relief:** pensions tax relief is foregone government revenue today which is intended to improve later life in future. However most of the tax relief goes to higher rate tax payers, who do not need such a large incentive to save. Some of the money chould be re-allocated to meet acute need in late old age today. Following recent reforms to save £4 billion further adjustments could be made to reduce the relief by another £2 billion.
£2 billion	**Permanent increase to VAT of 0.5%**: VAT has the advantage of being paid by everyone, rather than just people with earnings, with patterns of consumption smoother over the life course than patterns of income. The Government could pre-announce that whatever else happens to VAT rates from 2015 there will be a permanent earmarking of 0.5% of VAT to cover care costs (this might be in the context of an overall reduction in the 20% rate, should economic conditions permit). Although VAT is generally a regressive tax in this instance it would sit within a progressive overall package.
£1 billion	**Taxing assets at the point of transfer**: the ippr has recently proposed scrapping Inheritance Tax and replacing it with a graduated Capital Receipts Tax for all gifts of over £150,000. This would include wealth passed from older people to family members other than their spouse, so would be an incentive to spend money on personal needs during retirement. It would be particular appropriate as a means to pay for 'limited liability' care protection which will be of most benefit to people with high assets they wish to pass on to family members.

Whatever funding arrangements are agreed at the point of reform, the question of revenue will continue into the future. Each Government Spending Review will turn again to the question of how much money our care system needs, and there is a real risk that funding increases could fail to keep up with need, just as has happened through the 2000s. In response we propose a process of regular independent reviews on the amount of resources needed to meet needs. This could be led by a permanent

body or a time-limited panel convened in advance of each Spending Review. This process could articulate the level of spending required and leave it to the Treasury to decide on where the money should come from. Alternatively it could also make recommendations on ongoing options to fairly raise revenue to pay for care.

Andrew Harrop, Director of Policy and Public Affairs

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