Reforming the Precept

A stepping-stone to sustainable care

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James Lloyd

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Strategic Society Centre
32-36 Loman Street
London SE1 0EH

info@strategicsociety.org.uk
www.strategicsociety.org.uk
@sscthinktank

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About the Author

James Lloyd was appointed Director of the Strategic Society Centre in September 2010. He read Philosophy at University College London, and has Masters degrees in Comparative Politics, and in Public Policy. James has worked at a number of think tanks and at the Prime Minister's Strategy Unit. He has a particular interest in social care, housing, pensions and higher education. He is an Advisor to the Micro-Social Research Centre at the University of Essex.

james.lloyd@strategicsociety.org.uk

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Contents

Executive Summary

Local authority adult social care budgets have come under significant pressure in recent years owing to:

- Cuts to public spending;
- Additional costs posed by the Care Act (2014);
- Introduction of a ‘National Living Wage’;
- Population change and rising demand for care.

In response, the government has given local authorities the right to apply a ‘social care precept’, whereby local authorities can increase council tax in their area year on year by up to 2% up to 2020, with the additional revenue earmarked for adult social care.

In its first year of operation (2016-17), 144 out of 152 authorities with adult social care responsibilities utilised some or all of their social care precept. The precept accounted for £22, or 1.4%, of the average Band D council tax bill in 2016-17. This suggests that in total, the social care precept will raise £382 million in England during its first year, in the context of total council tax revenue across England of £26.1 billion.

In addition to providing extra revenue for local authority adult social care budgets, the social care precept has a number of strengths:

- Explicit acknowledgment in fiscal policy of the funding challenge for adult social care;
- New local authority tax-raising powers specifically for adult social care;
- Potential for improved public understanding of local authority social care responsibilities, given the requirement for the precept to be clearly listed on household council tax bills.

However, various stakeholders have identified limitations and weaknesses to the precept as a response to budget pressures on adult social care. These relate to:

- The revenue raised by the precept is inadequate given service pressures and government assumptions for its use by local authorities up to 2020 are highly optimistic;
- The precept extends the role of council tax in funding social care, which is regressive at the household level;
- Demand for social care, and the relative value of the council tax base, vary widely between different areas;
- The social care precept could be used by central government to shift blame to local authorities for social care budget shortfalls;
- The use of hypothecation to fund social care has limitations, particularly when hypothecated revenue sits on top of a non-hypothecated budget;
- The creation of the social care precept may be incoherent with efforts to achieve more integrated health and social care funding and services.

Most importantly, the social care precept coincides with historic reform of local government financing designed to incentivise councils to encourage economic growth. However, the precept is potentially problematic for these reforms, given the need for an equalising mechanism for social care budgets across councils, and the need by the social care system for regular reappraisal of relative demand in different areas.

As such, it is likely that the design of the social care precept will have to adapt in future, simply to take account of reform to local government financing. Given this need, and the various limitations of the precept identified above, policymakers have a number of options for reforming the precept, each with different pros and cons. The options include:

- Preserve the precept beyond the current Spending Round period that ends in 2020;
- Pool the precept with council tax by removing the hypothecated element;
- Free the precept from restrictions, giving councils complete control to set council tax as they wish to fund social care;
- Widen the precept to include other forms of taxation that are not currently subject to local authority tax raising powers;
- Nationalise the precept by handing control to central government.

Building on the analysis in this paper, a number of concluding messages for policymakers can be made:

- Local authorities still confront significant shortfalls in budgets for adult social care despite the precept, which the government must address;
- The precept cannot be maintained forever in its current form, and policymakers will have to look again at its design;
- The government must track how precept revenue is being used by councils;
- The precept creates an opportunity for a long-term, sustainable solution to financing social care in England building on the progress it represents.

1. Introduction

1.1. Background

The November 2015 Autumn Spending Review saw an unexpected **transformation in debate on how to fund long-term care**: the government announced that English local authorities would be given new powers to raise council tax levels specifically to fund social care.[1]

The '**social care precept'** enables local authorities to increase council tax in their area year on year by up to 2% above the previous threshold. The government estimated that if all local authorities use the social care precept to the full, this would raise nearly £1.8 billion a year extra by 2019-20 across England.[2]

The creation of the precept represents a **radical new direction for policy and debate** on funding England's adult social care system in the face of population ageing and rising demand. The precept marks the first time the government has **explicitly acknowledged in setting fiscal policy the funding challenge facing England's social care system**, and the first time that a **'hypothecated' tax revenue stream** has been created which those leading the social care system have the power to raise.

However, the social care precept has been met with scepticism from some quarters, given the **assumption** by the government that all councils will be able to use the precept every year up to 2020, concerns around the **adequacy** of the additional resources provided by the precept and the **distributional consequences** for different areas.

In addition, the social care precept has coincided with **fundamental reform of local government financing in England**, involving the phasing-out of funding directly from central government. These structural changes raise major questions around how demand for local authority social care services will be matched with revenue in future.[3] As such, the design of the social care precept will likely have to **adapt** to changes in how local authorities are financed.

1.2. Reforming the Precept

It is widely acknowledged that the funding challenges for adult social care in England will persist long into the future as the population ages. Policymakers therefore need to explore how the future direction of policy around funding care can **build on the creation of the social care precept and place adult social care in England on a sustainable footing**.

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[1] HM Treasury (2015) *Spending Review and Autumn Statement 2015*, London

[2] Source: Clark G (2016) *Final local government finance settlement 2016 to 2017* - Oral statement to Parliament, available at: https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2016-to-2017

[3] CLG (2015) *The provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years*, CLG, London

This report therefore situates the social care precept in the context of England's adult social care funding challenge, addresses its limitations and explores how policymakers can build on it to meet the government's aspirations for funding social care.

The next chapter sets out **why it was necessary for the government to implement the social care precept** as a response to rising financial pressures on the care system, and what the **sources of these pressures** are.

Chapter 3 explores the **design and operation** of the social care precept, as well as the **strengths and weaknesses** of the precept identified by stakeholders. Chapter 4 explores **options for reforming** the precept, and the context for reform.

In Chapter 5, the report concludes the report with **key messages** for policymakers.

2. Why was the social care precept introduced?

2.1. Introduction

The government introduced the **social care precept** in recognition of the considerable financial pressure on English local authority adult social care budgets. To explore the government's motivation in detail, this chapter reviews:

- The **operation** of the local authority care system in England;
- The different sources of **budget pressures** on England's care system;
- The **consequences** of budget pressures for care users and providers that prompted action from the government.

2.2. England's local authority care system: An overview

In England, financial support from the state for the care and support of adults is administered by 152 local authorities, operating under a duty of care toward their local population contained in the Care Act (2014).[4]

The level of local authority support for care costs that a person receives is determined through the application of two eligibility criteria. To qualify for local authority support, a person must be assessed as having **eligible care needs**, reflecting a national minimum eligibility threshold that all councils apply. If someone is assessed as having qualifying care needs, a local authority will determine the financial value of care they are judged to require, and then undertake a **means assessment** to determine how much of this amount a person must contribute themselves, taking account of their income and wealth.

Local authority spending on adult social care is not ring-fenced, and the percentage of a council's annual budget allocated to social care is the result of a **political decision by elected local councillors**, taking account of the authority's legal duties and local priorities.

The following data for 2014-15 collected by the Health and Social Care Information Centre (HSCIC) convey the scope of the local authority adult social care system in England during that year:[5]

- Around 890,000 adults received long-term support. Of these, 485,000 people at year end had been in receipt of this support for more than 12 months;
- Around 86,000 people received long-term nursing home care, while 194,000 received residential care, together accounting for 32% of all people receiving long-term support. The remaining 609,000 people supported by their local authority received community support, of whom 39% had a personal budget;
- There were 1,846,000 new requests for support from local authorities, of which 72% were

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[4] This figure excludes Guernsey, Jersey, Isle of Man and Isle of Scilly
[5] HSCIC (2015) *Community Care Statistics, Social Services Activity, England - 2014-15*, HSCIC, Leeds

from people aged 65 and over. Of these requests, 18% were individuals who had been discharged from hospital;
- Around 334,000 carers received support.

2.3. Understanding pressures on social care budgets

A number of factors have combined to put significant pressure on local authority adult social care budgets in recent years:

- Cuts to public spending;
- The Care Act (2014);
- Introduction of a 'National Living Wage';
- Population change.

Cuts to public spending

Public spending on local government has decreased since 2010 in the context of the government's deficit reduction plan. In response to these budget cuts, local authorities have had to cut spending on services, including adult social care, through realising savings and reducing provision of services.

The Health and Social Care Information Centre (HSCIC) collects data on adult social care expenditure, adjusting for price inflation. HSCIC found that expenditure on adult social care in England during 2014-15 was £17.0 billion, representing a 1% reduction in cash terms from £17.2 billion in 2013-14, which is the equivalent of a 3% decrease in real terms from the preceding year.[6] HSCIC note that over the five-year period from 2009-10, when the figure was £16.8 billion, expenditure on social care has increased by 1% in cash terms, which is a **decrease of 8% in real terms.**[7]

The scope of reductions in social care expenditure can also be expressed by 'client group'. For example, in 2014 prices, around £10.2 billion was spent on adult social care for older people in 2009-10, but this had fallen to £8.8 billion in 2013-14, according to HSCIC data.

However, such data on council expenditure adjusted for inflation does not capture the pressures stemming from **rising demand and complexity of care**, as well as price **inflation in the cost of in social care services**. For this reason, the Association of Directors of Adult Social Services (ADASS) conducts its own annual budget survey of local authorities in England.

The 2015 ADASS Budget Survey estimated that since 2010, there have been a total of £4.6 billion of budget savings against projected local authority spending on adult social care.[8]

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[6] HSCIC (2015) *Personal Social Services: Expenditure and Unit Costs, England - 2014-15, Final release*, HSCIC, Leeds

[7] It is worthwhile noting that adopting a different methodology, across England, budgeted net expenditure on social care by local authorities is £14.1 billion in 2015-16 according to government statistics, down from £14.4 billion in 2014-15. Source: CLG (2016) *Local authority revenue expenditure and financing England: 2015 to 2016 budget*, CLG, London

[8] ADASS (2015) *ADASS Budget Survey 2015*, ADASS, London

The £4.6 billion cumulative savings over five years equates to reductions in cash spending of £1.6 billion, savings against increases in baseline demand owing to population ageing worth £1.75 billion, and savings from price pressures worth £1.25 billion. It is estimated that such savings are equivalent to 31% of 2010-11 adult social care budgets.

Care Act (2014)

The Care Act (2014) was brought in to modernise and streamline the legislation underpinning the local authority adult social care system in England. The Act encourages the care system to focus on prevention and intervention, and gives a central role to the well-being of people with care needs, and carers. The Act also gives local authorities a legal duty not to take any actions which may threaten the sustainability of the social care market; and a duty to promote a sustainable, effective and efficient care home market.

A Department of Health (DH) analysis estimated the transitional costs of implementing the Care Act for local authorities as £35.2 million in 2015-16 and £16.1 million in 2016-17, while the additional costs of meeting the duties of the Care Act in those years were estimated as £276.9 million and £337.9 million respectively.

Introduction of a 'National Living Wage'

The government's 'National Living Wage' is set to increase costs for the local authority adult social care system significantly.

The social care system employs a relatively high proportion of people on or below the National Minimum Wage (NMW). For example, the Resolution Foundation estimated that the total cost of eradicating non-compliance with the NMW across frontline care jobs in the UK during the year 2013-14 would have been £142 million.[9]

In Summer Budget 2015, the government announced a new NMW for those aged 25 and over to be known as the 'National Living Wage' (NLW), initially set at £7.20 per hour, and projected to rise to around £9 per hour by 2020.

The Resolution Foundation has estimated the NLW will directly affect up to 1 million frontline care workers across the UK, increasing payroll costs associated with frontline care workers by £2.3 billion by 2020 of which £1.4 billion relates to publicly-funded services.[10]

As such, the introduction of the NLW is expected to add significant financial pressures to local authority adult social care budgets, both directly and via the fees charged by independent providers in order to cover the cost of the NLW while remaining sustainable.

[9] Gardiner L and Hussein S (2015) *As if we cared: the costs and benefits of a living wage for social care workers*, Resolution Foundation, London
[10] Gardiner L (2015) *Care to pay? Meeting the challenge of paying the National Living Wage in social care*, Resolution Foundation, London

Population change

Two demographic trends are increasing demand for local authority adult social care and support.

First, the UK population is ageing. Life expectancy is increasing, and the percentage of the population who are over retirement age is growing. Reflecting these demographic trends, demand for services used by older people such as adult social care is projected to increase over coming decades.

For example, academic projections suggest the number of older people in England needing help with at least one activity of daily living will rise from 1.15 million in 2015 to 2 million in 2035.[11]

As such, demand pressures on England's adult social care system will not be alleviated during the medium-term, but are expected to continue for several decades in line with the ageing of the population.

Second, life expectancy among adults below retirement age with physical and learning disabilities is increasing. For example, a study for Public Health England notes that although people with learning disabilities have a shorter life expectancy when compared to the general population, life expectancy is increasing, especially for people with Down's syndrome.

Commensurately, demand on adult social care budgets has increased. For example, gross current expenditure on social care for people aged 65 and over in England was £9.9 billion in 2007-08 and £8.8 billion in 2013-14 (2014 prices) according to the HSCIC. However, the equivalent figures for adults aged 18 to 64 with learning disabilities was £3.9 billion and £5.4 billion.

In its 2016 Budget Survey, ADASS reported that cost pressures relating to the increased numbers of older and disabled people needing care and support continue were just below 3% per year, equating to £413m additional pressure during 2016-17.[12]

2.4. Budget Pressures: Consequences for care users and providers

What do pressures on local authority expenditure on social care mean for those using and working in England's social care system? The effect of budget pressures may manifest in several different ways.

Value of support

Adult social care budget pressures may result in reductions in the financial value of support that local authorities offer to individuals with qualifying care needs. This could result in shorter - or less frequent - home care visits to help people dress, use the toilet or make a meal. Budget pressures may also make it more difficult for councils to meet aspirations for

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[11] Wittenburg R and Hu B (2015) P*rojections of demand for and costs of social care for older people and younger adults in England, 2015 to 2035*, PSSRU Discussion Paper 2900, University of Kent
[12] ADASS (2016) *ADASS Budget Survey*, ADASS, London

personalised care set out in the Care Act (2014).

Fee levels

Local authorities have sought to manage pressures on adult social care budgets by cutting the value of fees they pay for domiciliary and residential care, or not increasing fee levels in line with the cost of providing care.

For example, in 2014-15, local authorities paid an average of £14 per hour for an external home care agency to provide support to adults and older people.[13] In 2010-11, the equivalent figure after adjusting for inflation was £15.60. Similarly, in 2014-15, the average unit cost of residential care for an older person with a disability paid by local authorities was £540 per week. In 2010-11, the equivalent figure after adjusting for inflation was £912 per week.

It is independent care providers from the private and not-for-profit sectors who principally feel the effect of fee cuts, in particular, as independent providers are responsible for over 90% of residential care bed capacity. The direct results of cuts in fees may include **salary freezes or reductions** for care workers to statutory minimums, in what is already a markedly low-paid sector.

In addition, fee cuts may undermine the **financial sustainability** of care providers, resulting in **care home closures** and **loss of capacity** in the sector. In addition, fee cuts may adversely affect the quality of care that care homes are able to provide, resulting in a lower quality of life for service users.

Local authority fee cuts may also exacerbate the widely noted trend toward **polarisation** of the residential care market with new, higher quality homes only opened in areas with high proportions of 'self-funders' so that providers are not reliant on fees funded by local authorities. The principal effect of this trend is to create a 'two-tier' care market in relation to provision.

Tightening eligibility and needs assessment

Following the Care Act (2014), all local authorities are required to apply the same national minimum eligibility threshold for assessing care needs, broadly equivalent to the 'Substantial' level on the previous Fair Access to Care Services (FACS) framework. However, interpretation of eligibility is inherently subjective, and in practice, councils may operate tighter eligibility criteria than required in some cases, as a consequence of budget pressures.

Delayed discharges

Budget pressures on local authorities may result in individuals **not receiving the social care support that allows them to leave hospital**. Indeed, the 'delayed discharge' of adults owing to the non-availability of social care support is a regular occurrence, and directly increases costs for hospitals. NHS England estimates that of the 159,100 total delayed discharges days

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[13] HSCIC (2015) *Personal Social Services: Expenditure and Unit Costs England 2014-15, Final release*, HSCIC, London

that occurred during January 2016, 32.3% were attributable to the non-availability of local authority social care support.[14] In this way, due to the interdependent nature of the health and social care systems, budget cuts to social care may result in **more expensive additional costs to the NHS**.

2.5. Conclusion

This chapter has set out the different factors conspiring to put pressure on local authority adult social care budgets, and the consequences that result for care users, providers and the NHS. In light of growing concern at these consequences, the government announced the creation of the social care precept, which is evaluated in the next chapter.

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[14] NHS England (2016) *Monthly Delayed Transfers of Care Data, England, January*, NHS England, London

3. Evaluating the Precept

3.1. Introduction

The government used the November 2015 Spending Review to announce two measures to relieve budget pressures on local authority adult social care budgets.

First, HM Treasury confirmed the continuation of **funding for local authority adult social care from the Better Care Fund** (BCF) – incorporating what was previously the NHS transfer to social care - worth £105 million in 2017-18, £825 million in 2018-19 and £1.5 billion in 2019-20. It is important to note that the Spending Review stated that this increase in the Better Care Fund was intended to make "**available social care funds for local government**."[15]

However, the most significant and historic funding measure announced at the November 2015 Spending Review was the creation of the **social care precept**.[16] Despite councils previously being encouraged to freeze council tax, the government gave local authorities in England with social care responsibilities the ability to **increase council tax** to raise additional revenue to spend on adult social care.

Subsequently, in recognition of the varying capacity of councils to raise council tax and the need for an equalising mechanism, the government announced follow-up proposals to:[17]

> "allocate the additional funding for the improved Better Care Fund through a separate grant to local government, using a methodology which provides **greater funding to those authorities which benefit less from the additional council tax flexibility for social care**."

CLG (2015) *The provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years*

To understand and evaluate the social care precept in the context of funding pressures on adult social care budgets, this chapter explores:

- The **design** of the social care precept;
- The **operation** of the social care precept in its first year;
- The **strengths and weaknesses** of the precept identified by stakeholders.

3.2. Design of the social care precept

The social care precept gives local authorities with adult social care responsibilities the **option to raise council tax in their area by up to 2% above the existing threshold**.

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[15] HM Treasury (2015) *Spending Review and Autumn Statement*, HM Treasury, London
[16] HM Treasury (2015) *Spending Review and Autumn Statement*, HM Treasury, London
[17] CLG (2015) *The provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years*, CLG, London

Specifically, the social care precept allows local authorities to set their council tax by up to 2% year on year **more than the level that would require a local referendum** to secure public approval. As such, the social care precept has a **potential 'ratchet' effect**, increasing the additional, hypothecated funding of adult social care year on year.

To monitor use of the additional resources raised, local authority officers have to write to the Department for Communities and Local Government (DCLG) to provide information demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care. In subsequent years of the Parliament, Section 151 officers will be required to confirm that this additional council tax **continues** to be allocated to adult social care.[18] In addition, local authorities have been told that the DCLG Secretary of State will monitor the use of the additional flexibility and will take authorities' actions into account when determining referendum principles each year.

Local authorities are also required to **inform council taxpayers** on their council tax bill that the precept is being used to fund adult social care. This represents the first time that local authorities have been required to **explicitly link a specific portion of local taxation to local public spending on social care**.

The government estimate that if all local authorities use the social care precept to the full, this would raise nearly £1.8 billion a year by 2019-20 across England.[19]

3.3. Operation of the social care precept

In practice, not all local authorities chose to make use of the social care precept in the first year it was available. For the financial year 2016-17, 144 out of 152 authorities with adult social care responsibilities utilised some or all of the social care precept. The precept accounted for £22, or 1.4%, of the average Band D council tax bill in 2016-17.[20]

This suggests that in total, the social care precept will raise £382 million in England during its first year, in the context of total council tax revenue across England of £26.1 billion during 2016-17.

There are also concerns that not all local authorities are using the funds raised through the social care precept to better reflect the true cost of care in the fees they offer. The Government has set up a Social Care Providers Taskforce, reporting to the Department of Health, Department for Communities and Local Government and the CQC, to monitor how local authorities are using the precept and how they are passing it on is the form of fee rises.

3.4. Strengths of the social care precept

Following the announcement of the social care precept in November 2015, stakeholders

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[18] Mustafa H (2015) *Council Tax Setting in 2016-17: The Government's Offer to Adult Social Care Authorities*, DCLG, London

[19] Source: Clark G (2016) *Final local government finance settlement 2016 to 2017* - Oral statement to Parliament, available at: https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2016-to-2017

[20] DCLG (2016) *Council tax levels set by local authorities in England 2016-17*, DCLG, London

identified a number of strengths to the reform, in addition to providing extra funding for adult social care.

These strengths centre on the unprecedented nature of the social care precept in the context of longstanding debate and campaigning on placing adult social care spending on a sustainable footing. The unprecedented nature of the precept relates to:

- Explicit acknowledgment in setting fiscal policy of the funding challenge for adult social care;
- Application of a specific funding stream for social care;
- New local authority tax-raising powers for social care;
- Improved public understanding of local authority social care responsibilities.

Explicit acknowledgment in setting fiscal policy of the funding challenge for adult social care

The social care precept represents the most clear, explicit acknowledgement by the government of the funding challenge for local authorities with adult social care responsibilities in England, and of the need for specific fiscal responses.

Previously, the 2010 Spending Review included provision for an increase in grant funding for social care of around £875 million per year provided through the Department of Health's Personal Social Services grant, which was merged into the local government formula grant.[21] In total, this was worth around £7.2 billion over the 2010-2014 spending review period.[22]

Subsequently, the government announced the creation of the £3.8 billion Better Care Fund in June 2013, which pooled funding from health and social care, including the NHS contribution to social care. Subsequently, some local areas chose to pool more money, lifting the total value of the Fund to £5.3 billion. However, although the Fund provides additional resources for adult social care from the NHS, the purpose of the Fund is ultimately to improve coordination and integration across health and social care, rather than to alleviate budget pressures.

In contrast, the social care precept represents a **historic acknowledgement by the government of both the funding challenge for social care and the need for a specific fiscal response**. It is the first time that government has sought to address the challenge of long-term care funding through specific fiscal, tax-and-spend measures to finance social care expenditure, rather than simply moving resources around between different budgets, or suggesting that individuals should set aside savings or purchase financial products to fund care.

Application of a specific funding stream for social care

The social care precept is unprecedented in providing a funding stream specifically for social care. It represents the first time that a delineated revenue stream has been explicitly linked to

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[21] Humphries R (2011) *Social care funding and the NHS: An impending crisis?*, The King's Fund, London
[22] Health Committee (2012) *Fourteenth Report: Social Care*, House of Commons, London. Source: http://www.publications.parliament.uk/pa/cm201012/cmselect/cmhealth/1583/158307.htm

public expenditure on social care. In particular, it signals acceptance by the government that **earmarking tax revenue for social care may be necessary for public acceptance of tax rises**.

More widely, the introduction of a hypothecated tax for adult social care is noteworthy as HM Treasury has traditionally resisted incorporating hypothecated taxation into UK fiscal policymaking.

New local authority tax-raising powers for social care

The social care precept represents the first time that local authorities have been given the power to vary taxation specifically for the purposes of supporting spending on adult social care. As such, the precept creates a **closer functional link between revenue raising and expenditure on social care**. This distinguishes social care from many other areas of public spending at both a national and local level.

Improved public understanding of local authority social care responsibilities

Rules around the social care precept require councils to clearly identify the precept on the council tax bill of households. In this way, the precept may improve **public understanding of the responsibility of councils for social care**, for example, correcting the common assumption among many citizens that social care is the responsibility of the NHS, which has previously been identified as a barrier to a new settlement for long-term care funding. Indeed, these potential improvements in public understanding may in turn help the government develop long-term sustainable funding reform for the social care system.

3.5. Weaknesses of the social care precept

Despite the additional revenue and important precedents set by the social care precept, various stakeholders have identified limitations and weaknesses to the precept as a response by the government to budget pressures on adult social care budgets. These relate to:

- Adequacy of revenue raised and government assumptions;
- Regressive effects of council tax among households;
- Inequalities between areas;
- Perception of ‘blame-shifting’;
- Use of hypothecation to fund social care;
- Incoherence with integrated care agenda;
- Incoherence with reform of local government financing.

Adequacy of revenue raised and government assumptions

In its first year, the social care precept is expected to raise £382 million. However, a number of stakeholders have argued that the social care precept – together with monies from the Better Care Fund (BCF) announced in the 2015 Spending Review – will be inadequate, and that government assumptions around the revenue raised are optimistic.

For example, the Local Government Association (LGA) has argued that the revenue generated by the social care precept will be insufficient, noting England's 152 councils will receive £2.5 billion less core Revenue Support Grant from central government to run local services in 2016-17,[23] with an associated need to make savings to offset pressures.

In addition, the LGA has pointed out that in some areas the extra income raised by the social care precept may be entirely swallowed up by the additional costs posed by the NLW - noting previous analysis it has published suggesting this would cost authorities at least £330 million in 2016-17. In this situation, councils will have to meet other pressures on the system through savings realised elsewhere, including from the adult social care budget.

More generally, a joint analysis by the Nuffield Trust, Health Foundation and King's Fund argued that, after taking account of BCF funding and the NLW, the introduction of the social care precept will still see a funding gap by 2020 for adult social care in England of between £2.8 and £3.5 billion.[24]

Regressive effects of council tax among households

The introduction of the social care precept affords a greater role for Council Tax in funding adult social care. However, it is important to note that at the household level, council tax is usually considered to be regressive. The following analysis from the Institute for Fiscal Studies (IFS) summarises this point:[25]

> "In cash terms, average council tax liability rises with income, as higher-income households tend to live in higher-band properties. But it is a lower share of income for high-income households, at least partly because council tax is a lower proportion of property value in the higher bands. If everyone claimed the [Council Tax Benefit] CTB to which they were entitled, net council tax liabilities would be a smaller share of income for low-income households than for middle-income households. But given actual patterns of take-up, council tax is regressive across the whole income distribution even once CTB is taken into account."

Source: IFS (2013)

As a hypothecated, extension of council tax, the social care precept must also therefore be considered regressive at a household level, as well as at a local authority level.

Inequalities between areas

As a tax, the social care precept will raise different amounts proportional to need among different local authorities, and may in fact penalise councils with either high demand and/or smaller council tax bases.

Demand and entitlement for local authority-funded social care varies considerably across England. Research by the Strategic Society Centre has shown potential demand tends to be higher in poorer areas of the country.[26] For example, Census 2011 data shows that around

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23 LGA (2016) *Council tax rises will not fix social care funding crisis - Media release*, LGA, London
24 Nuffield Trust, Health Foundation, The King's Fund (2015) *The Spending Review: what does it mean for health and social care?*, Nuffield Trust, Health Foundation, The King's Fund, London
25 Adam S and Browne J (2013) *Reforming Council Tax Benefit*, IFS, London
26 Lloyd J and Ross A (2014) *The Bigger Picture: Understanding disability and care in England's older population*, Strategic Society Centre, London

57% of the 65+ population in Blackpool have a long-term condition that limits their day-to-day activities. However, the equivalent proportion in Hampshire is 43%.

Crucially, the council tax base of different local authorities does not reflect their demand for care, but rather, the number of properties in the local authority, what Council Tax band these properties fall in, and the existing Council Tax rate.

As such, the revenue raising power of the social care precept does not necessarily correlate with demand for social care, and in fact, the social care precept is potentially regressive: raising council tax by 2% in poorer areas where demand is higher may raise proportionally less money than wealthier areas.

This point was emphasised by the House of Commons Treasury Select Committee, which observed: "Certain local authorities with low council tax bases and high needs may face particular funding pressures."[27] As noted above, budget shortfalls in adult social care may result in higher costs for the NHS – or potentially other services – and these effects may be multiplied in areas of high need and co-morbidities.

In response to concerns around the distributional consequences of the social care precept, the government proposed in December 2015 to allocate the additional funding for the improved Better Care Fund through a separate grant to local government from 2017, using a methodology which provides greater funding to those authorities that benefit less from the additional council tax flexibility for social care.[28] However, this means that the **effectiveness of the social care precept is linked to the future of the Better Care Fund**, which is itself subject to different and competing policy priorities and objectives, and has an uncertain future.

Perception of 'blame-shifting'

Some stakeholders have argued that the creation of the social care precept by HM Treasury is intended to provide a mechanism for 'blame-shifting', i.e. enabling the Westminster government to divert public criticism of expenditure on social care to local authorities.

Since most councils have opted to make maximum use of the social care precept in its first year, there appears little scope for the government to suggest that local authorities are choosing to 'under-use' the precept – i.e. that local authorities are responsible for inadequate funding.

Nevertheless, the government may in future seek to argue that since local authorities have been given the option of raising additional council tax funding for social care, any claims that funding is inadequate result from council decisions.

Use of hypothecation to fund social care

The choice of using a hypothecated funding stream to finance adult social care has raised

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[27] Treasury Select Committee (2016) *Spending Review and Autumn Statement 2015*, Houses of Parliament, London

[28] CLG (2015) *The provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years*, CLG, London

concerns.

On the one hand, these concerns relate to the practicalities of using the social care precept to fund only part of a council's expenditure on social care. Although local authorities are obliged to inform central government that the revenue from the social care precept will be used to fund social care, it will be difficult for the government to determine what would have been spent on social care **in the absence of the precept**. These difficulties are a result of combining a hypothecated funding stream with a discretionary funding stream in setting overall social care expenditure: the local authority cannot prove the 'counterfactual' of how much it would have spent on adult social care in the absence of the precept. As such, it **is questionable whether the social care precept does in fact increase local accountability** for decisions around raising money to spend on adult social care.

A second concern relates to the appropriateness of using a hypothecated funding stream to part finance locally determined expenditure. For example, the Treasury Select Committee has noted:[29]

> "In previous Parliaments, the Treasury Committee, and the Treasury, have criticised hypothecation of central government taxation, on the grounds that the revenue raised by such taxes rarely reflects the required amount of spending. The same arguments apply at local government level. **Unless there is a compelling reason why funding needs should grow in line with the council tax base in each local authority, the social care precept is not a sustainable or equitable way of financing social care in the long term**."

Source: Treasury Select Committee (2016)

Incoherence with integrated care agenda

Some stakeholders have noted potential incoherence between the social care precept and the government's aspirations for integrated health and social care. This is because the government is encouraging councils to use a form of local taxation – the precept – to fund social care, while also encouraging councils to integrate social care commissioning and services with the NHS, which is financed through national taxation. In this sense, as a reinforcement of the locally based nature of taxation to finance adult social care, the precept could be considered a step in the opposite direction of more integrated health and social care systems, which may in fact prioritise single, integrated funding streams.

Incoherence with reform of local government financing

In several respects, the social care precept is incoherent with the aims of the government's reforms to local government financing.

Local government in England is funded through a combination of central government grants, locally administered council tax, business rates and various other fees and charges. Besides specific grants such as the Dedicated Schools Grant, the main grant from central government is the Revenue Support Grant. This grant is not hypothecated and local authorities can spend it as they wish.

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[29] Treasury Select Committee (2016) *Spending Review and Autumn Statement 2015*, Houses of Parliament, London

For many years, Business Rates were gathered locally, pooled together nationally and then redistributed. This revenue would be combined with the Revenue Support Grant to form a single Formula Grant for councils that took account of local population, consequent demand for services and ability to raise money through local taxation.

However, since 2013, councils collectively retain 50% of business rates generated in England, independently of Revenue Support Grant. Such changes reflect a drive by central government to fund local government through locally raised taxation, in order to incentivise decision-making by local authorities that stimulates economic growth.

As such, although at the start of the 2010 Parliament, almost 80% of council expenditure was financed by central government grant, by 2017-18, the Revenue Support Grant will account for only 16% of spending power of local authorities, and by 2019-20, it is set to represent only 5%.[30] The government has made it clear that ultimately, its intention is for the Revenue Support Grant to disappear altogether as part of a move to 100% business rates retention.

However, such moves will ultimately require some form of equalising mechanism that compensates councils in poorer areas confronting relatively high need, beyond simply using the Better Care Fund.

The government has **not provided firm detail on how this equalising will be achieved**, but there are strong indications that the 'tariff and top-up' system will be retained.[31] As such, in future, it is likely that all local authorities will collect Business Rates, and undergo a relative needs assessment, i.e. an assessment to determine what percentage of total national Business Rate revenue they should receive. Those councils who are assessed as receiving more revenue than they require will be expected to release this income. In contrast, those local authorities assessed as having needs greater than can be met from their own Business Rates will then receive additional Business Rates income pooled from other local authorities.

In this way, the income of councils proportional to need will be equalised across local authority areas, and the cross-subsidy of areas with inadequate Business Rates revenue by other areas will occur, even as all of local government is incentivised to take decisions that encourage economic growth.

However, reforms of local government financing seek to incentivise councils further: the amounts that councils receive and transfer from Business Rates will be set for **defined time periods**, and any additional revenue that local authorities receive from Business Rates during this period will be **retained by the individual council**. At the end of the defined period, e.g. ten years, the system will be reset and new assessments made of income need and revenue-raising capacity among councils. In this way, councils will be directly incentivised during this period to take decisions that encourage economic growth and therefore increase their own Business Rates revenue.

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30 Clark G (2016) *Statement by the Secretary of State for Communities and Local Government on the final local government finance settlement for 2016 to 2017*, DCLG, London
31 Sandford M (2016) *Reviewing and reforming business rates: Briefing Paper Number 07538*, House of Commons Library, London

Within this broad picture, various details are to be finalised, but there is significant potential for the continuation of the social care precept to be incoherent with the government's plans to reform local government financing in two principal respects:

- **Business Rates cross-subsidy vs. decisions around the precept**

If local government financing combines local discretion over tax-raising for social care with revenue cross-subsidy between councils, this potentially creates tensions around the design of social care financing.

For example, **should a local authority's decisions regarding the social care precept be ignored in assessments of relative need**? If a local authority in a poorer area has chosen not to make use of the social care precept, should its assessment of relative need and allocation of Business Rates revenue use its actual income as the basis for assessment, or the income it would have if it had chosen to use the social care precept? Such difficult questions highlight potential incoherence between the operation of the optional social care precept, and the aims of reforms to business rates.

- **Duration of 'reset period' vs. matching income with need**

To be most effective at incentivising councils to take decisions that encourage economic growth and therefore provide additional Business Rates revenue, the duration of the 'reset period' – the gap between assessments of relative need – should be as long as possible, so that local authorities gain from the policy decisions they make regarding transport, planning, skills, etc.

However, the longer the reset period, the more out-of-date assessments of relative need become given evolving population profiles and demand in different areas. In this sense, the **aims of reform of local government financing conflict with aspirations for funding the social care system** in which changes in local demand are closely tracked by adjustments in resources available.

3.6. Conclusion

This chapter has reviewed the design, operation, strengths and weaknesses of the social care precept.

On the one hand, the social care precept can be viewed as a historic, bold and transformative change. However on the other hand, it is unlikely the social care precept will raise adequate funds to cope with pressures on the adult social care system, the precept extends the role of regressive council tax in funding social care, requires transfers from the Better Care Fund to equalise resources across areas, and its design will have to change and adapt given the phasing out of the Revenue Support Grant, and the need for a long-term, replacement mechanism for equalising demand and revenue across different councils.

The next chapter therefore considers options for reforming the precept, and evaluates these options.

4. Reforming the Precept: Options and trade-offs for further reform

4.1. Introduction

The social care precept in its current form has different strengths and weaknesses, and will likely have to be redesigned and adapted to the government's plans to reform the financing of local government in England, and outstanding questions around how resources across different areas will be equalised.

In the longer-term, placing the social care funding system in England on a sustainable footing will require policymakers to build on the precept and go beyond it. However, the nature of this longstanding challenge has itself evolved in light of the existence of the precept.

This chapter therefore explores the options for policymakers in reforming the precept and the trade-offs involved. In particular, the chapter reviews:

- The context for reform of the precept;
- The pros and cons of different options.

4.2. Context for reform of the precept

The key context for reform of the social care precept relates to **local government financing reform to incentivise economic growth**, as well as changes in **public attitudes** following the introduction of the precept, and the development of the **integrated care agenda**.

Local government financing reform to incentivise economic growth

The government wants local government to retain 100% of Business Rates revenue in order to incentivise local policy decisions that encourage economic growth. However, as the previous chapter noted, there is a risk that the operation of the optional social care precept will complicate assessments of relative need and cross-subsidy used under the emerging system. The application of substantial 'reset-periods' to allow councils to retain the benefits of policy decisions that encourage economic growth is also potentially in conflict with the aspiration of a social care system in which funding closely tracks changes in demand among different areas.

As such, an important criterion for evaluating a reformed social care precept is how coherent it is with the government's local government financing reforms to incentivise economic growth.

Public attitudes following social care precept

In several key respects, the social care precept represents a test of public opinion and attitudes:

- Is the public willing to pay more tax to finance public expenditure on adult social care?
- Does hypothecation make the public more willing to accept tax rises for social care?

At the time of writing, 144 out of 152 local authorities had made use of the social care precept in its first year, and the associated increase in taxation on households has not resulted in notable public protests. In part, this relates to the cost of the precept – typically around £22 per household in a year – but can also be linked to the hypothecated nature of the revenue.

It remains to be seen whether increases in the social care precept in future years result in greater public resistance or protest. However, the evidence of the first year of the social care precept suggests that **hypothecation may be an effective way of increasing the public acceptability of tax rises** to fund social care.

Integrated care

Decisions on reforming the social care precept in future will have to take account of the growth of the health and social care integration agenda.

Across England, local authorities and NHS bodies are innovating in relation to the integration of health and social care budgets, commissioning and delivery. In particular, April 2016 saw the Greater Manchester Combined Authority, made up of eight local authorities in and around Manchester, take control of £6 billion of integrated health and social care budgets.[32]

However, both the social care precept and other potential social care financing measures raise complex questions if local authorities are seeking to combine their budgets with the NHS. For example, **will revenue raised via the social care precept in future be used to fund health services in the form of integrated provision**, if local authorities and the NHS commissioned integrated care providers providing seamless health and social care?

4.3. Options for reforming the precept

Various options for reforming the precept are available to policymakers, each with different pros and cons. The options include:

- Preserve the precept;
- Pool the precept with Council Tax;
- Free the precept from restrictions;
- Widen the precept to include other forms of taxation;
- Nationalise the precept by handing control to central government.

Each option differs in how it such addresses key issues for policymakers, such as:

- Adequacy of revenue raised;
- Coherence with reform of local government financing;
- Placing social care funding on a long-term sustainable footing;

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32 GMCA (2016) *Taking Charge of our Health and Social Care in Greater Manchester*, GMCA, Manchester

- Coherence with integrated care agenda.

4.4. Preserve the precept

Summary: The social care precept is retained in its current form beyond the current spending review period ending in 2020, with local authorities continuing to be given the option to increase council tax by 2% year on year for the purposes of financing social care.

Pros: Preserving the precept into the future would improve the adequacy of resources available to fund adult social care in England, and make social care funding progressively more sustainable.

Cons: Due to the ‘ratchet effect’ of the social care precept, by 2020 it could amount to as much as 10% of council tax bills, unless councils lower council tax. Retaining the precept beyond 2020 would increase this percentage, and exacerbate existing weaknesses of the precept such as its regressive effects, and the need for a corresponding mechanism to equalise revenue among local authorities proportional to need and tax-base. In addition, although in 2016-17 the social care precept has amounted to 1.5% of the average Band D council tax bill, and met with little public resistance, preserving the precept beyond 2020 may in fact result in public resistance and hostility.

4.5. Pool the precept with Council Tax

Summary: Following the end of the current spending round in 2020, the government could scrap the hypothecated nature of the social care precept, allowing local authorities to maintain council tax at the total level reached by 2020, but pooling the revenue from the precept into overall local authority budgets.

Pros: Pooling total revenues from the social care precept into local authority budgets in 2020 would maintain higher levels of funding potentially available for social care, and avoid any sudden reduction in revenue if councils were forced to give up the revenue they had received from the precept during the preceding spending review period. Pooling the precept may also be more coherent with the government’s plans to reform local government financing, as well as efforts to integrate health and social care spending, and invest in prevention and wellbeing.

Cons: Freed from any constraint to spend revenue from the social care precept on social care, local authorities may opt to cut spending on social care in order to divert resources to other areas. Without the revenue from the precept hypothecated for social care spending, public hostility to overall council tax levels may grow.

4.6. Free the precept from restrictions

Summary: The government could increase, or scrap completely, the 2% threshold by which local authorities are allowed to increase council tax year on year to fund social care.

Pros: Freeing the social care precept from all restrictions on it would effectively allow local authorities full democratic control to set council revenues derived from the precept at the level they wish for funding social care. This would allow local councillors to make the case directly to their electorate for how much should be spent on social care, and potentially increase the revenue available for social care.

Cons: Removing restrictions on the social care precept for councils could result in considerable local variation, making it more difficult for the government to develop appropriate mechanisms to equalise resources across local authorities in the context of reform of local government financing. Where councils did respond by significantly increasing the level of the social care precept, this would exacerbate the effects of the regressive nature of council tax.

4.7. Widen the precept

Summary: The government could enable local authorities to introduce additional social care precepts in relation to other forms of taxation, that currently sit outside local authority revenue raising powers. For example, just as local authorities can increase council tax on homes left empty for more than two years – in effect, an empty homes tax – a 'social care precept' could be applied to the value of capital gains experienced by homeowners selling their main homes. Multiple other options exist that would derive revenue from the income or wealth of individuals or households in different ways.

Pros: The absence of public opposition to the social care precept suggests that hypothecated, locally derived taxation for social care may be successful in changing the public's willingness to pay other additional taxes to fund social care, outside of hypothecated council tax.

Cons: Most alternative forms of taxation to council tax have their own individual drawbacks. Introducing more variation into the form and incidence of local taxation may exacerbate challenges around local government financing reform, equalising of resources in different areas and coherence with integrated care. Public opposition to a social care precept may increase if it related to types of taxation not normally associated with local authorities.

4.8. Nationalise the precept

Summary: Given local authorities have proven the public's willingness to pay a hypothecated council tax for social care, the government could take over direct responsibility of the social care precept, such that it is applied across the population, with the revenue collected and allocated at a national level.

Pros: Nationalising the social care precept would allow the burden and income derived from the precept to be directly controlled by government, creating consistency across areas and allowing the government to ensure the continued role of the precept is coherent with wider reforms to local government financing. A nationalised precept could also be made coherent with integrated care and the national funding of the NHS.

Cons: Handing control and revenue of the social care precept to central government would reduce the democratic nature of a locally administered social care precept, and the closer link between local authority income and expenditure: locally elected politicians would no longer be able to make the case for increased taxation to spend on social care in a local area. In addition, it maybe difficult to show that social care was receiving the revenue raised from a national precept, given this hypothecated revenue stream was merely forming part of the national government's overall tax base to fund social care.

5. Conclusion

5.1. Introduction

Local authorities were largely forced to freeze council tax levels during the previous Coalition government. However, the creation of the social care precept has enabled local authorities to once again increase overall levels of council tax, while minimising public opposition or accusations of inconsistency being levelled at the government.

In the context of longstanding debate on how to fund social care in England, the social care precept represents a major change in debate; in particular, the granting of new tax-raising power for local authorities to fund social care was not anticipated or expected ahead of the November 2015 Spending Review. However, the social care precept has clear weaknesses, and raises outstanding questions that policymakers must address.

Building on the analysis set out in this report, this chapter concludes the paper with key messages and observations for policymakers.

5.2. Local authorities still confront significant shortfalls in budgets for adult social care, which the government must address

It is clear that while a positive step forward, the social care precept is ultimately an inadequate response to the challenge of placing adult social care on a sustainable financial footing, and further change is therefore necessary.

5.3. The precept cannot be maintained forever in its current form

Change to the precept is inevitable, given increasingly few councils will feel able to levy higher council taxes on their local populations over time, and the limitations of using council tax to fund social care will become starker.

In various ways, the precept is also incoherent with the government's reforms to how councils are financed, and the retention of business rates revenue.

As such, further changes and adaptation of the social care precept are unavoidable.

5.4. The government must track how precept revenue is being used

To identify how best to adapt and reform the social care precept, the government needs to understand how it has been used.

Although the government has required local authorities to confirm that revenue from the social care precept is being used to fund social care, the government should go further in requiring local authorities to provide more detail on how specifically the money is being used. This would improve the confidence of stakeholders and local populations that the revenue was being used appropriately, and would help policymakers consider the trade-offs of options for reforming the precept.

5.5. The precept creates an opportunity for a long-term, sustainable solution

Having taken a bold step in creating the social care precept, the government has an opportunity to reform the precept, and move toward a long-term, sustainable solution to the funding of adult social care that is:

- Adequate;
- Progressive;
- Fair between generations, households and regions;
- Facilitates, rather than hinders, integrated health and social care.

Strategic Society Centre
32-36 Loman St
London
SE1 0EH
www.strategicsociety.org.uk
info@strategicsociety.org.uk
@sscthinktank

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