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Social care funding reform

Choices for the next government

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The Health Foundation

Contents

Key points

- Adult social care in England is in crisis. Many people go without the care they need, staff pay and conditions are poor, and reliance on unpaid carers is high. The crisis in social care also has knock-on effects for the NHS and pressures in hospitals.
- Unlike the NHS, state-funded social care is only available to people with the highest needs and lowest means, creating unfairness and leaving people vulnerable to high care costs.
- Successive governments have promised then failed to 'fix' this broken system. Fundamental reform of social care funding in England should be a priority for the next government.
- Policymakers have a mix of options for reforming social care funding and entitlements to provide greater protection against care costs. Here, we summarise three broad options for funding reform and estimate their potential costs (in 2023/24 prices):
- Providing basic protection for all against some care costs, with a Scottish-style model of 'free personal care' in England, could cost around £6bn extra in 2026/27, rising to £7bn by 2035/36
- Protecting people with the greatest lifetime care needs against catastrophic costs, by introducing a Dilnot-style 'cap' set at £86,000, could cost an additional £0.5bn in 2026/27, rising to around £3.5bn by 2035/36
- Introducing an NHS-style model of universal and comprehensive care could cost around £17bn in additional funding by 2035/36.
- Each option has benefits and drawbacks. An important advantage of a cap on care costs is that it has already been legislated for and is currently due to be implemented after the next general election. A cap would likely be the least expensive option in the short term and could be used flexibly by any government to provide greater state protection in the future.
- We focus here on funding reform, but a wider package of investment and reform is needed to create a social care system that supports people to live with dignity. A credible plan for social care must include policies and funding to improve people's access to good care, boost staff pay and conditions, and better support unpaid carers.
- Meaningful social care reform will require additional government spending. But, if it chooses to, the next government can afford to provide better, fairer and more generous support to older and disabled people.

1. Introduction

Adult social care in England is in crisis and people are suffering as a result. The system is a threadbare safety net. Many people go without the care they need and cuts in government funding since 2010 have limited what services can offer. Staff shortages are chronic and care workers experience shocking levels of poverty. Reliance on unpaid carers is high – millions provide informal care to family and friends – but services to support them are limited. The COVID-19 pandemic exacerbated existing problems, taking a grim toll on people using and providing care. Pressures on care services also have a knock-on effect on the NHS, contributing to problems with timely discharge from hospital.

Fundamental reform is needed to fix the broken system. The list of policy priorities is long: improving staff pay and conditions, stabilising the fragile care provider market, addressing unmet need, supporting more innovative approaches to care and support, and more. But the lack of state protection against social care costs is a glaring gap in our welfare state. Many people think social care works like the NHS, with services free when you need them, funded by government, and paid for primarily through taxes. But this kind of 'risk pooling' doesn't happen in social care. Government only covers the costs of care for people with the highest needs and lowest means. Everyone else must pay for care themselves, get help from friends or family, or go without. Some face eye-watering costs.

Politicians say the system is unfair and have made repeated promises to reform it. In 1997, Tony Blair told the Labour party conference that he did not want children to grow up 'in a country where the only way pensioners can get long-term care is by selling their home'. Since then, there has been a long line of white papers, independent commissions and even legislation on reforming social care funding in England. Boris Johnson made a similar promise to Blair's when he became prime minister in 2019. But successive governments have ditched or delayed reform – and people and their families continue to suffer unnecessarily.

As we head towards the next general election, political parties are developing manifestos for government. Neither Labour nor the Conservatives have yet set out detailed plans on social care. Here we set out the main options for reforming the funding system for social care in England – including those often proposed by political parties – outline the basic features of each policy approach and estimate their potential costs. We start with a summary of the rationale for funding reform.

2. The case for funding reform

Adult social care helps older people and disabled people lead independent and fulfilling lives (Box 1). Yet state support is not available to everyone who needs it.

Box 1: Adult social care in England

Adult social care refers to care and support for adults of all ages with a range of care needs, mostly because of disability and/or ill health. At its best, social care enables people to live in the place they call home, with the people and things that they love, doing the things that matter to them. Social care covers a range of activities, including help with washing and dressing, support staying in employment and seeing friends, care to regain independence after leaving hospital and specialist nursing care.

People are cared for in a range of settings, including care homes, their own homes, nursing homes and day care centres. Formal social care is provided by around 18,000 (mostly private) organisations in England. And, according to the 2021 census, an estimated 5 million people aged 5 years and older provide unpaid care in the UK.

In England, publicly funded social care is commissioned by the 152 local authorities, which receive a grant from central government. In 2022/23, around 835,000 adults received publicly funded long-term support.

Around 1.52 million people work in social care in England. There are chronic workforce problems and terms and conditions are poor. Pay is low – for example, the median hourly pay for care workers in the independent sector was £10.11 in March 2023, just above the national living wage of £9.50. Around 390,000 workers left their job last year and around a quarter of staff were on zero hours contracts.

Since social care is a devolved matter, it is organised differently in Scotland, Wales and Northern Ireland.

Under the current system in England, publicly funded social care is heavily means and needs tested. Government covers the costs of social care for people with assets below £14,250. People with assets between £14,250 and £23,250 may receive some state support. But people with assets above this level must pay for their own care. Access to state funded support has eroded in recent years because of cuts in funding and rising costs of providing care. In 2022/23, 4% (38,000) fewer people received

publicly funded long-term care than in 2015/16, despite requests for support rising by 11% (191,000) over the same period.

The risks of needing social care are highly uncertain and not spread evenly across the population. Some people may need no care at all over their lifetime, while others may need support in a care home for a decade, potentially costing them hundreds of thousands of pounds. Government estimates that 1 in 7 people aged 65 years and over face care costs over £100,000. Sometimes this means people spending their savings or selling their homes to pay for care. Heavily means testing care also means people with the same care needs do not receive the same access to support. Women are disproportionately affected by this lack of support, since they are more likely to both need care themselves and provide unpaid care.

Elsewhere in the economy, people are protected against these kinds of risks by insurance. For example, government insures people against the costs of health care through the NHS, paid for mainly by taxes. Risks are pooled across the population, so people don't face unaffordable bills when they get sick. But this kind of insurance doesn't exist for social care – and only a small number of people face protection in our highly targeted safety-net system. The public tends to think that the social care funding system is unfair, compared to the NHS.

Some people have suggested that individuals should be encouraged to choose to buy insurance for their own social care, leaving protection against social care costs up to the private insurance market. But this isn't a viable option for a mix of reasons. Awareness that social care is not provided free at the point of use like the NHS is low, so few people are likely to buy insurance. People who do sign up for voluntary insurance tend to be sicker on average than the rest of the population, increasing premiums and challenging the sustainability of the insurance fund – a problem known as 'adverse selection'. Even then, the uncertainties of predicting people's future care needs and costs means that the insurance sector has struggled to design products that people want to buy. Existing products in the UK are limited and uptake is low, as is the case in most other countries. A voluntary insurance scheme would also do little to help the current generation of older people and younger adults who need care.

This means government must play a central role in protecting people against the costs of social care, pooling risks across the population in a way the current system doesn't. Other countries take a mix of approaches to providing this social protection – some offering more comprehensive long-term care services funded primarily through taxes (such as in Sweden), others with dedicated social insurance schemes covering most or some care costs (such as in Germany) and others relying heavily on cash allowances for people with care needs (such as in Italy). More comprehensive approaches give everyone a stake in the services on offer, and are often seen as a route to boosting political support and reducing stigma about receiving services.

3. Options for funding reform

The next government has a mix of options for reforming social care funding, based on political choices about social care spending and the balance of responsibility between individuals and the state.

Here we summarise three broad options for reform and what they might mean for government spending now and in the future. Our estimates only provide a high-level picture – and the cost of each approach would vary depending on the detail of the state's 'offer', such as the level of care needs covered and type of support included. Box 2 describes the data and methods we used to produce the estimates, as well as some limitations of the analysis.

Box 2: Our approach to estimating costs

Free personal care

A policy of free personal care and additional payments for nursing care for people aged 65 and over was introduced in Scotland in 2002. We use the costs for Scottish users in 2015/16 (4.8% of the population aged 65 and over) to estimate similar costs for England. We have estimated this for both domiciliary and residential care by assuming that the proportion of the population aged 65 years and over using free personal care would be the same in England as in Scotland and applying the English annual costs to local government for each person. We account for a small increase in demand that may be stimulated by the introduction of this policy, as seen in Scotland. There are some demographic differences between Scotland and England that we do not account for in our analysis, but this would have a minimal impact on our estimate.

A 'cap' on care costs

We estimate costs of introducing the current government's plans for a capped cost model, where all individual care costs are capped at £86,000 and the floor for means-tested support is increased to £100,000 for both residential and domiciliary care. Funding for this policy is already in the government's spending plans. Here, estimate the full costs of the policy. We use data from the initial proposals for the Dilnot reforms from 2011 and the government's own impact assessment on charging reform for the 2021 proposals for a cap to be implemented in 2023. We roll forward the start date to 2025, in line with the government's plans. We do not adjust for the impact of population changes up to 2025, but these are minimal. Under a capped cost model, the costs would be low until significant numbers of individuals reach the cap. We account for an increase in demand that may be stimulated by introducing the cap.

A universal social care system

We use cost estimates for changing the level of the cap from the 2011 Dilnot analysis to extrapolate the cost of setting the cap at zero – which would provide publicly funded care to everyone who needs it. We adjust for inflation and update costs in line with analysis from the government's impact assessment for the 2021 funding reform proposals, which accounts for some impact of population changes since 2011, but may not fully reflect changes to people's wealth and care needs. We do not include likely additional costs of people with unmet care needs who may come forward because of the policy change.

Implementation

For free personal care and a Dilnot-style 'cap', we assume that the models are implemented in 2025, after the next general election. We set out costs of these two models for the first full year of

implementation (2026/27) and after ten years (2035/36), over and above the costs of the current system. We estimate the cost of universal care in 2035/36.

Scope and limitations

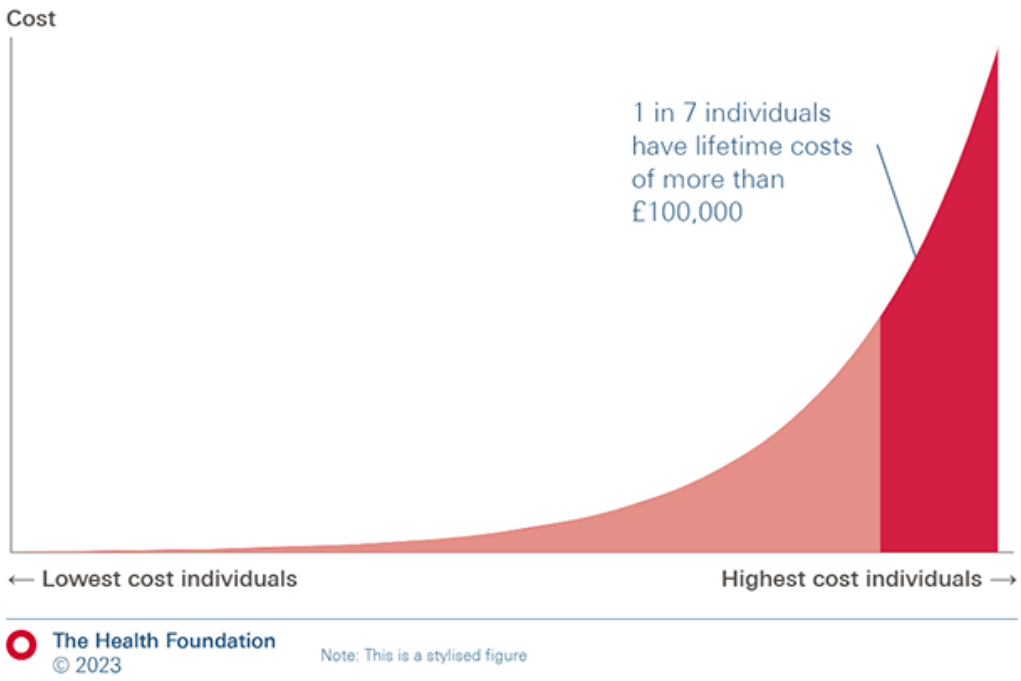
These cost estimates are indicative and rounded to the nearest £0.5bn. Policymakers would need to make choices about what should be included in the state's offer – for example, the level of social care needs covered under the system and the types of support to be funded.

To estimate future costs, we account for population ageing and growth where possible, drawing on projections by the Care Policy and Evaluation Centre. Since we use data from different years to estimate the costs of different options, estimated costs do not reflect changing population needs and assets in the same way to one another. For example, we use 2015/16 data on the Scottish population to estimate the cost of free personal care, as there has been a subsequent policy change and changes in service use during the COVID-19 pandemic. The effects of these data differences are minimal and the cost estimates for the funding options are broadly comparable. We adjust for inflation throughout and use 2023/24 prices for all cost estimates.

We set out the costs of different funding models on top of the running of the current social care system. We do not include spending needed to improve quality, access and other aspects of social care (which we have estimated elsewhere). Improvements to the current system would also impact demand for publicly funded care, likely increasing the costs of these funding models compared to our estimates.

Please see the technical appendix for further details on our approach to estimating costs.

Figure 1: Future lifetime costs by individual



Note: interactive figure available at https://www.health.org.uk/publications/long-reads/social-care-funding-reform-in-england

Free personal care

One approach is for the state to pay for a basic level of social care for everyone, regardless of their wealth. For example, in Scotland, the state provides free personal care to people in their own homes – such as help with eating, bathing and using the toilet – and contributes towards personal care costs for people in care homes, as well as an additional payment for people who require nursing care. Other care is still subject to means testing, so many individuals pay for services such as help with shopping and cleaning, social support activities and employing personal assistants outside the home. People also still need to contribute towards living costs if they need residential care, as they would in their own home.

We estimate that introducing a Scottish-style system of free personal and nursing care for people aged 65 years and over in England could cost around £6bn in 2026/27, rising to around £7bn by 2035/36. In Scotland, the policy was introduced for people over 65 years in 2002 and extended to all adults under 65 in 2019.

For many, this would be an improvement on the current system. It would mean a more equal and universal system for the care needs covered and could mean more clarity on the state's 'offer' to the population – though this would depend on how the policy is implemented. Research from the

2000s in Scotland found local areas varied in how they interpreted the policy and confusion about the policy meant that people received unexpected (but legitimate) charges.

A drawback of this kind of approach is that some individuals with persistent and severe care needs – for example, a person with dementia needing high intensity care for several years – would still face high costs. In 2019, the free personal care allowance in Scotland covered around 20% of average residential care costs, taking into account accommodation and living costs. And everyone would still face some uncertainty about future spending, given only basic care needs would be covered by government. Additional state funding would not be targeted towards individuals with the highest needs.

A 'cap' on care costs

An alternative approach is to introduce a limit on the amount people with eligible needs pay towards their social care over their lifetime – protecting those with high care needs against the risk of potentially catastrophic costs. Under a capped cost model, people with sufficient means pay for their own social care costs up to a defined limit – a 'cap'. After that, the state pays.

This model was proposed by the Dilnot Commission – an independent government review – in 2011. The commission initially proposed introducing a cap on all care costs of £35,000. It also proposed increasing the generosity of the means test by raising the levels at which people in residential care pay for care from their assets from £23,250 to £100,000 – raising the 'floor' – so that more people would have access to means-tested support than under the current system.

Rather than offering everyone a basic level of social care support, like in Scotland, this kind of approach instead targets additional government spending towards people with the greatest care needs. It would also give people more certainty about their future care costs, making it easier to plan ahead. But many people would still need to pay for their care up to the cap. And a capped cost model for social care funding can be difficult for the public to understand.

For any new government, an important advantage of this model is that it is already legislated for in the Care Act 2014. Under current plans, a cap of £86,000 will be introduced in England from October 2025, and the floor for means-tested support will increase to £100,000 for both residential and domiciliary care. Under this model, the costs to government would be low until significant numbers of individuals reach the cap. Based on the government's previous estimates, we estimate that introducing this version of the cap and floor in England as currently promised could cost around £0.5bn in 2026/27, rising to around £3.5bn by 2035/36. But implementation of the cap has been repeatedly promised then delayed over the past decade – and a general election is due before the policy is expected to be implemented. This means a new government will face choices about whether to proceed with the policy.

A new government also has choices about which version of the capped cost model to implement – and could make the policy more progressive than under the current government's plans. The Care Act 2014 originally set out that all personal care costs would count towards the cap limit – including publicly funded support for people with lower levels of wealth. But the government amended the Act in 2022 so that means-tested social care support would not count for an individual's progress towards the cap. This significantly reduces protection against high costs, particularly for people with modest levels of wealth. The amendment also means younger adults could have to pay for their care for much longer. Based on the government's figures, we estimate that repealing this amendment could add around £1bn by 2035/36 to the costs of introducing the current version of the policy in 2025. Other policy choices could be made to reduce overall costs, including raising the upper capital limit to £100,000 only for those in residential care, as the Dilnot Commission originally recommended.

The capped cost model could be adapted by different governments over the long term, based on political priorities and public spending plans. For example, the cap could be progressively lowered over time to provide greater protection against social care costs. Lowering the cap to £0 for all social care costs would effectively create a universal and comprehensive model.

Universal and comprehensive social care

A final option is to create a universal and comprehensive social care system, with government covering all care and support costs. Under this kind of model, people would access social care services free at the point of use, regardless of their individual wealth, like the NHS.

Government would need to make choices about what should be included in the state's offer – for example, the level of social care needs covered and the types of support to be funded. But this option is likely to require considerably more funding than the other options we have described. If the state covered the costs of everyone currently receiving adult social care services in England, we estimate that this could cost around £17bn in 2035/36. This is a broad estimate only. For example, it assumes that all self-funders would be eligible for publicly funded care and does not include likely additional costs of people with unmet care needs who come forward because of the policy change.

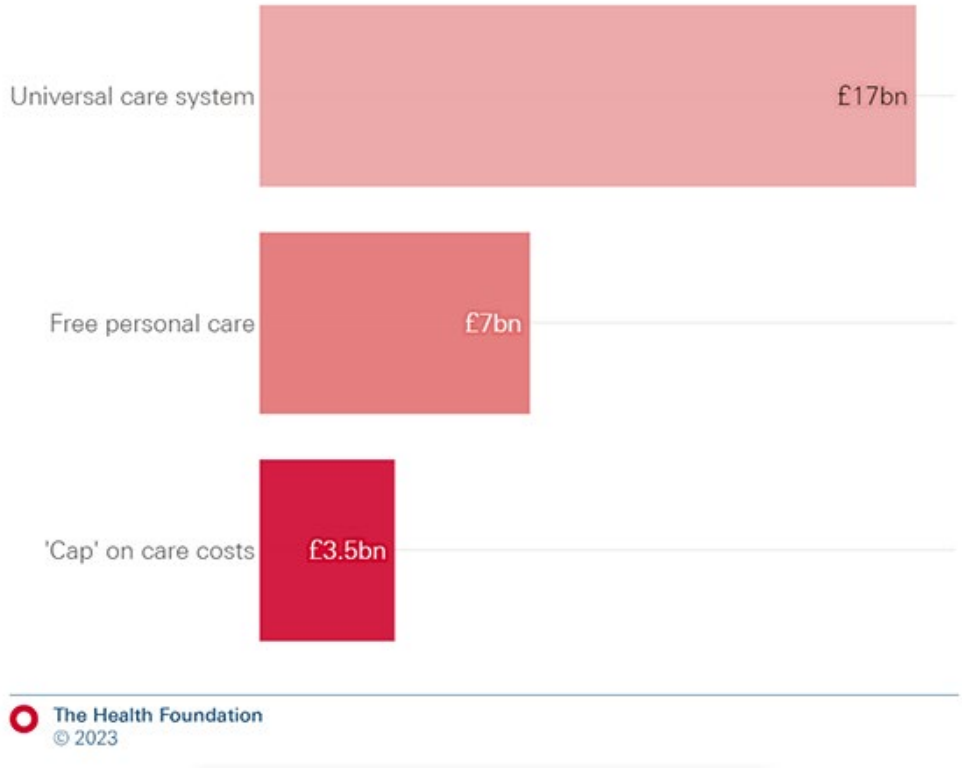
4. Affordability of the social care system

Whichever funding reform option the next government chooses, additional public spending will be needed. This should not be a surprise. Any move away from a system that leaves many people without the care they need and relies heavily on the unpaid work of friends and families – the kind of system we have now – is bound to cost government more.

But reform is not unaffordable: if it chooses to, government can afford to provide a better, fairer and more generous social care system in England. The cost of social care reform pales in comparison to the overall government budget. For example, putting the cost of the current government's version of the Dilnot model in context, the level of extra spending that could be required by 2035/36 is equivalent to around 0.2% of GDP, or the national income produced in roughly 16 hours. The cost of the cap equates to around £4.25 per household per week, or about the same as households spend on insuring home and contents.

On top of changes to the funding system, further investment is needed to improve social care. In 2023, the Health Foundation estimated that meeting future demand, improving access to care and covering the full cost of care could cost around £8bn by 2024/25 and £18bn by 2032/33. A well-funded and effective social care system could also strengthen communities, creating more (and better) jobs in care, supporting more people with disabilities to work and helping unpaid carers balance caring responsibilities with paid employment.

Figure 2: Social care reform costs in context



Note: interactive figure available at https://www.health.org.uk/publications/long-reads/social-care-funding-reform-in-england

Where does the money come from?

Policymakers also have choices about how to raise the money to pay for social care reform. Cuts in funding to other public services should be avoided since most are performing worse now than before the COVID-19 pandemic, when they were already fraying after a decade of austerity. While some extra funding could come from additional borrowing, increases in taxation would most likely be needed to fund reform over the long-term. The most recent internationally comparable data show that tax revenue in the UK made up a slightly smaller share of national income in 2021 than the average for G7, OECD and EU14 countries.

Policymakers have a mix of options for raising tax revenue to fund social care, including increasing general taxation, taxing wealth (for example, changing council tax or taxes on people's estates), taxing or redirecting spend on older people who are more likely to need care (such as extending National Insurance contributions beyond retirement age), and more. These options have various advantages and drawbacks. Given all the options for funding reform are less progressive than the current system (which directs limited spending towards people with the lowest wealth), a more progressive option

for raising revenue (where people with higher wealth contribute more) could be explored to pay for it.

Conclusion

The social care system is in crisis and many people go without the care they need. Successive governments have promised then failed to reform the broken system – leaving a gap in our welfare state. Ending this cycle should be a priority for any new government.

Policymakers have a mix of options for reforming social care funding and entitlements and can build on existing legislation to help do it. Each option would require additional public spending – and we've sketched out the potential costs of three high-level options to help inform debate. But the cost of continued inaction to people and their families is substantial.

Reforming social care is not just about changing who is eligible for state funding support. Here we have focused on options for reforming the social care funding system in England. But a wider package of reform and investment is needed to create a social care system that supports people to live with dignity and promotes their wellbeing. In 2021, government set out a high-level 10-year vision for improving social care, but key components have since been delayed and scaled back – and there is no long-term plan or funding settlement for achieving this vision. As well as protecting more people against care costs, any credible plan for social care must include policies to improve people's access to good care, boost pay and conditions for the workforce, and better support unpaid carers.

The experience from other countries, such as Germany and Japan, shows reform to make social care funding fairer and more sustainable is not just necessary, but possible. Research on their experience points to a mix of ingredients for reform – including long-term thinking, a clear offer for the public, cross-party cooperation, and a broader vision for the future. Research with the public shows that once people understand the current funding model for social care in England, they are clear that it needs to change. But – ultimately – progress will not happen without political will and leadership. A new government has the opportunity to provide it.

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Supporting information

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