

*Submission of Evidence*

**Long Term Funding of Adult Social Care**

Joint Enquiry by the Health and Communities and Local Government  
Committees of the House of Commons

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## CREATING A SOCIAL CARE TRUST FUND

A citizens' wealth fund could provide long-term sustainable funding for adult social care, ensuring that everyone is treated fairly and equally whatever their health needs. The new Social Care Trust Fund would have the aim of creating a new universal basic service, the right to social care free at the point of use, just as already exists in relation to the NHS. As well as transforming social care provision it would lead to savings for the NHS acute care services which could be used to increase funding for the preventative, mental health and community services which are currently underfunded – services which might also be funded through the Social Care Fund as the NHS and Social Care budgets move towards full integration.

Our proposal is that the government set up an independently managed and ring-fenced, Social Care Trust Fund for England,<sup>1</sup> funded by contributions both from a hypothecated National Insurance tax and taxes on private and corporate wealth. The Trust Fund would be a permanent fund that could accumulate capital but only disburse profits and dividends for specific purposes. Once properly funded, the Social Care Trust Fund could within a decade provide a regular, sustained and permanent dividend that would be enough to fully fund a universal social care system.

This approach has a strong element of inter-generational fairness. We are asking citizens to put aside some money now to meet future needs for social care services in the future, when the demand for these services will be greater but the resources available to fund them will be more limited. Evidence from the British Attitudes Survey suggests that there has been a shift in public opinion towards spending more on funding services rather than cutting taxes.<sup>2</sup> This is especially true if citizens believe their taxes are going to be used only for a specific service that has wide public support, and cannot be 'raided' by the Treasury. This can be demonstrated by attitudes to

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<sup>1</sup> An identical Fund should also be set up in the three devolved administrations of Scotland, Wales and Northern Ireland

<sup>2</sup> British Social Attitude, *'Britain wants less nanny state, more attentive parent'*, 34<sup>th</sup> Report, 2017, <http://natcen.ac.uk/our-research/research/british-social-attitudes/>

the National Insurance system, which many people already believe, incorrectly, is being used to fund the NHS.<sup>3</sup>

Of course this long-term approach does not eliminate the need for further tax-funded expenditure to meet the immediate needs of the NHS and social care system, but it does change the terms of the debate by introducing a separate but permanent funding stream for the most under-funded and poorly organized part of the health care system.

### Why It is Needed

It is widely recognized that there is a crisis in the provision of social care. The lack of social care places for elderly people who could leave hospitals has created a huge strain on the NHS acute care hospital system. Local authorities, who largely fund social care, are facing huge cost pressures and cutting back on the amount they are putting into social care, and cutting back on eligibility and payments to private providers.

But the crisis goes deeper than this. Elderly people entering residential care do not receive care free at the point of use but, based on a strict means tests, are likely to have to fund their own residential care needs, often by selling their home. There is no private insurance that will cover these risks.

The logic of treating social care as a universal service is compelling. It would be fairer to patients, who would have a uniform and integrated system of free care, from hospitals to residential care to domiciliary support, eliminating the post-code lottery of which services are funded and at what level by cash-strapped local authorities. It would also tackle the unfair cost lottery that currently falls on some people who suffer from certain illnesses such as dementia, but not others such as cancer, a key failing identified by the Dilnot Report.<sup>4</sup>

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<sup>3</sup> House of Lords, Select Committee on the Long-term sustainability of the NHS and Adult Social Care, *The Long-term sustainability of the NHS and Adult Social Care*, HL paper 151, 3 April 2017, paragraph 181

<sup>4</sup> Dilnot, Sir Andrew, 2011, *Fairer Funding for All: The Commissions Recommendations to Government*, The Independent Commission on the Funding of care and Support, July 2011

It would also help facilitate the goal of having the NHS and social care systems to work together to deliver a seamless service for patients, something that many recent reports have recommended. In the long term, better provision and better funding of social care will save money for the overall health budget by reducing the need for acute care.

### Managing and Building a Fund

The Social Care Trust fund would be set up as an independent body with its own Trustees who would be responsible for managing the fund's assets, for deciding on disbursement rates, and investing responsibly. They would be advised by two advisory boards, one consisting of medical experts and another of citizens, which might take the form of a citizen's council.<sup>5</sup> They would employ professional managers to build a global investment fund and set targets for its returns which take into account ethical considerations.

The Trustees would also be responsible for preparing every five years a long-term evaluation over a 30- 40 year time horizon of the demand for adult social care, and what level of funding would be needed to meet that demand. The Trustees would use the evaluation to balance future needs, met by retaining gains to grow the fund, and current needs, met by disbursements. The evaluation would also be used to inform public debate.

Some of the structures and approaches we advocate have already been successfully implemented both in the UK and abroad. The UK government set up an independent body, the UK Financial Investments, to manage its ownership of the nationalized banking sector. The National Lottery introduced a system of citizen decision making in the allocation of resources for its worthy causes.

Looking abroad, the Australia Future Fund, a sovereign wealth fund has already adopted this approach. It was originally established to fund civil service pensions, but now has now set up two sub-funds to fund disability care and medical research, with hypothecated

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<sup>5</sup> Patel R & Gibbon K, 2017, *Citizen's, Participation and the Economy*, Royal Society of the Arts - <https://www.thersa.org/globalassets/pdfs/reports/rsa-citizen-participation-and-the-economy.pdf>

contributions from the government, but growing rapidly through international investment in a pooled fund.

More telling for the question of political feasibility, is the support for a hypothecated trust fund paid for by employee contributions in the United States. This is precisely how the most popular US welfare programme which provides state pensions, Social Security, is organized. It was designed at its inception to be a fully-funded system which would only pay out benefits on an actuarial basis when the fund grew large enough, and the Social Security Trust Fund now is worth \$2.7 trillion, by some measures, the largest sovereign wealth fund in the world. The Trustees of the Social Security system are required to look forward to its payouts and funding needs over a 70-year horizon. But the Trust Fund has never been allowed to invest in anything other than US government debt, thus providing a ready means of funding the government but forfeiting the long term benefits of much rates of return.

### Costing our proposal

The Institute for Fiscal Studies has calculated that the total cost of social care provided by local authorities in England is £16.5bn<sup>6</sup>, while National Audit Office estimates an additional £10bn<sup>7</sup> is spent on care and support by self-funders. A similar arrangement should be established to pay for the cost of care in the devolved administrations.

We will therefore take £26bn as our baseline funding objective, while recognizing that strains in the system have already led to the under-funding by local government of both domiciliary and residential care services, putting pressure on private providers and staff working in these services alike.

We have costed the level of annual contribution to the Social Care Trust Fund that would be required to ensure that £25-£30bn in dividends would be available every year in perpetuity to fully fund

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<sup>6</sup> Simpson P, "Public Spending on Adult Social Care", IFS Briefing Note BN200, 2017, <https://www.ifs.org.uk/uploads/publications/bns/BN200.pdf>

<sup>7</sup> "Adult Social Care in England: Overview", National Audit Office, 13<sup>th</sup> March 2014, <https://www.nao.org.uk/wp-content/uploads/2015/03/Adult-social-care-in-England-overview.pdf>

universal social care. Our estimates suggest, that, with some initial endowment from state-owned assets and borrowing, £50bn per year would be needed to reach the required level within a decade, and with £25bn per year we would reach it in two decades.

However, we recognize that society might not want to fund social care at that level, and so explore how the system of universal care might be phased in as more permanent funding becomes available. For example, we could begin by just funding residential care for the elderly, rather than for all adults. In the long term as the fund built up, we should also consider whether the boundary between NHS and social care may need to shift, with some NHS services like the provision of GPs in nursing homes, mental health and preventive care going into the ring-fenced social care budget.

### Raising the Funds

The Social Care Trust Fund could be funded by a combination of a hypothecated National Insurance tax, which would give all citizens a sense of ownership of the fund, and a wealth tax that would transfer some of the benefits enjoyed by the Baby Boomer generation to future generations. The balance between these two sources is a political decision, but we would argue that both should make a substantial contribution to growing the fund.

A 2p increase in NI for both employers and employees in a special fund, would raise £18bn<sup>8</sup> and changes in the NI to ensure that people continue to pay NI after age 65, increasing intergenerational fairness, could raise an additional £2bn.<sup>9</sup> Removal of the tax reliefs available to higher earners for pension contributions yields some £8bn.<sup>10</sup>

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<sup>8</sup> IPPR, "Saving Social Care: A fair funding settlement for the future", November 2017 - <https://www.independentage.org/policy-and-research/research-reports/saving-social-care-a-fair-funding-settlement-for-future>

<sup>9</sup> Kingman D, "All in this together? Why over 65s should pay national insurance", Intergenerational Foundation, Feb 2013 - <http://www.if.org.uk/wp-content/uploads/2014/02/All-in-this-together-Why-over-65s-should-pay-National-Insurance.pdf>

<sup>10</sup> Murphy R, "Wealth taxation for the UK", Tax Justice Network, August 2016 - <http://www.taxresearch.org.uk/Blog/wp-content/uploads/2016/08/WealthtaxUK816.pdf>

There are various ways to raise revenue from changes to wealth taxation. One obvious candidate would be to increase the yield from inheritance tax, which now only yields £3bn, by turning it into a life-time gift tax and basing it on capital gains, which might yield an additional £3bn. Another obvious candidate is changing the level of capital gains tax to align it with income tax rates, and eliminating the capital gains tax allowance, which would yield £8bn.<sup>11</sup> Reforming the existing taxation of financial transactions could yield up to an additional £7bn.<sup>12</sup>

It is clear that hypothecated taxes on property to pay for social care, which have been proposed by both Labour and Conservatives, have had an unhappy political history.<sup>13</sup> It may therefore be better to change the level of existing taxes, as long as the changes were hypothecated income into the fund. The acceptability of such tax changes among older people, the main holders of wealth, would be strengthened if there was a clear link between their increased contribution now and the concrete benefits they would receive as they reached an age where they would require these services.

Set against the cost of this proposal is the potential for substantial cost savings by reducing the future demand for NHS acute care services. It should also be noted that switching funding of social care from local authorities would release substantial additional funds for local government to meet other pressing needs.

### An idea whose time has come

The anomalies and inconsistencies in our current system of social care have been thoroughly documented by the National Audit Commission report<sup>14</sup> and more recently by the House of Lords

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<sup>11</sup> *ibid*

<sup>12</sup> Persaud A, "Improving Resilience, Increasing Revenue: the case for modernizing the UK's Stamp Duty on Shares", Intelligence Capital, May 2017 - <https://www.robinhoodtax.org.uk/sites/default/files/Improving%20resilience%20increasing%20revenue%20-%20May%202017.pdf>

<sup>13</sup> Asthana A, *Theresa May ditches manifesto plan with 'dementia tax' U-turn*, The Guardian, 22<sup>nd</sup> May 2017

<sup>14</sup> National audit office, 2014, *Adult Social Care in England: an Overview*, Report by the Comptroller and Auditor General to the Department of health, and the Department for Communities and Local Government, HC1102, session 2013-14, 13 March 2014

Report on the Long-Term Sustainability of the NHS and Adult Social Care<sup>15</sup> and the Communities and Local Government Committee on Adult Social Care.<sup>16</sup>

The Treasury and the Office for Budget Responsibility have both made long-term projections which show clearly the pressures on spending on both health and social care that will arise in the future due to an ageing population with greater care needs.<sup>17</sup>

At least three official enquiries are now taking place on how to fund social care in the long term: a government Green Paper due in the summer; a joint enquiry the Health and Communities and Local Government Committee in Parliament, and an enquiry by the Intergenerational Fairness Forum led by Lady Greengross.

What has been less clear in the discussion so far is how to find the resources to make the necessary changes. The Dilnot Commission's proposal for the government to partly fund the cost of residential social care, with the rest coming from private savings, was watered down, and then rejected by the government.

However, there is now growing support for new approaches to taxation to meet the growing crisis in health and social care. And both taxes and hypothecated taxes are firmly on the political agenda.

There is growing recognition that in the interests of fairness, taxes on wealth - mainly held by the elderly, who have disproportionately benefited from increases in house prices and financial assets - need to be increased. This view is strongly held by the Intergenerational Fairness Commission headed by Lord Willetts.<sup>18</sup>

A number of major reports have recommended applying this principle to the funding of social care, as well as the NHS. The Barker Review suggested that the government should undertake a

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<sup>15</sup> House of Lords, Select Committee on the Long-term sustainability of the NHS and Adult Social Care, *The Long-term sustainability of the NHS and Adult Social Care*, HL paper 151, 3 April 2017

<sup>16</sup> House of Commons, Communities and local government Committee, 2017, *Adult Social Care*, Ninth Report of Session 2016-17, HC1103, 31 March 2017

<sup>17</sup> OBR, *Fiscal Risk Report*, July 2017

[http://obr.uk/docs/dlm\\_uploads/Healthandsocialcare.pdf](http://obr.uk/docs/dlm_uploads/Healthandsocialcare.pdf)

<sup>18</sup> Lord Willetts on BBC Radio 4's Today Programme, 15<sup>th</sup> October 2017

comprehensive review of wealth and property taxation with a view to spending all of the proceeds on social care.<sup>19</sup> The House of Commons committee has recommended looking at the possibility of taxing wealth, for example through inheritance tax.<sup>20</sup>

The Barker Report<sup>21</sup>, the House of Commons CLG select committee<sup>22</sup>, and the Lords Select Committee<sup>23</sup> have all argued that further consideration should be given to the possibility of fully hypothecated taxes to pay for NHS care. The Barker report also suggested an increase in National Insurance rates and the partial abolition of the exemption to NI payments for those over 65.<sup>24</sup>

Concerns have been raised about the wisdom of fully funding a service from hypothecated taxes by the Treasury who have argued that any hypothecated funding could prove inadequate if the case of an economic downturn.<sup>25</sup> Our proposal, to use the hypothecated taxes to build a permanent fund to meet *future* Social Care spending counters some of these objections, since any drop in the tax take would not reduce the level of the dividend. In addition, Lord MacPherson, the former Permanent Secretary of the Treasury, who advised the Lords Committee on this matter, has now changed his mind and believes there would be public support for a hypothecated tax to fund the NHS.<sup>26</sup>

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<sup>19</sup> Barker, Kate, 2014, *A New Settlement for Health and Social Care: Final Report*, The Commission on Future of Health and Social Care in England, Kings Fund, London, 2014.

<sup>20</sup> House of Commons, Communities and local government Committee, 2017, *Adult Social Care*, Ninth Report of Session 2016-17, HC1103, 31 March 2017

<sup>21</sup> Barker, Kate, 2014, *A New Settlement for Health and Social Care: Final Report*, The Commission on Future of Health and Social Care in England, Kings Fund, London, 2014. P.31-33

<sup>22</sup> House of Commons, Communities and local government Committee, 2017, *Adult Social Care*, Ninth Report of Session 2016-17, HC1103, 31 March 2017

<sup>23</sup> House of Lords, Select Committee on the Long-term sustainability of the NHS and Adult Social Care, *The Long-term sustainability of the NHS and Adult Social Care*, HL paper 151, 3 April 2017, paragraph 179-183

<sup>24</sup> Barker, Kate, 2014, *A New Settlement for Health and Social Care: Final Report*, The Commission on Future of Health and Social Care in England, Kings Fund, London, 2014.

<sup>25</sup> House of Lords, Select Committee on the Long-term sustainability of the NHS and Adult Social Care, *The Long-term sustainability of the NHS and Adult Social Care*, HL paper 151, 3 April 2017, paragraph 118-119

<sup>26</sup> <https://twitter.com/georgemagnus1/status/962628030723186689>

The House of Lords also recommended setting up an independent body, an Office for Health Care Sustainability, on the model of the OBR, to report on the long-term pressures on the NHS and social care system and the future funding requirements.<sup>27</sup> It also considered proposals by Lord Layard for an independently funded and managed NHS trust fund.

It is clear that we need radical long-term thinking with cross-party political support to tackle the crisis in our social care and health system.

Now is the time to take bold steps now to introduce a radically new funding model to fundamentally reshape social care for the rest of the century. With the system in crisis and widespread public concern, this is the most favourable moment to mobilize public support for a plan in which society saves more now to ensure a viable social care system in the future.

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<sup>27</sup> House of Lords, Select Committee on the Long-term sustainability of the NHS and Adult Social Care, *The Long-term sustainability of the NHS and Adult Social Care*, HL paper 151, 3 April 2017 paragraph 344