Annex: Methodology for calculating adult social care funding gap estimates

What this annex covers

This annex describes in detail the methodology for calculating the estimated funding gap for adult social care services under four scenarios:

- Scenario 1: Meet future demand.
- Scenario 2: Meet future demand and improve access to care.
- Scenario 3: Meeting future demand and cover the full cost of care.
- Scenario 4: Meeting future demand, improve access and cover the full cost of care.

We also describe the methodology for projecting a baseline scenario.

Key terms used in this annex.

- **Baseline scenario:** This is our projection of adult social care (ASC) spending if no additional funding is made available in future. This involves projecting forward beyond the expected growth this parliamentary term (2024/25).

- **Meet demand:** A scenario estimating future ASC funding needed to keep pace with an ageing population and increases in costs of providing ASC.

- **Unit cost:** This is the cost of a single 'unit' of ASC (for example a week of care in a care home or an hour of care in someone's home).

- **Unit cost gap:** This is the gap, represented in % terms, between the amount that local authorities are able to pay for ASC services and our estimate of a minimum cost of care provision.

- **Care package:** This is the term used to describe the ASC usage of one user during a year (eg a year in a care home).

- **Funding gap:** This is the difference, in the medium term, between funding available in our baseline scenario and funding required under our different scenarios.

- **Funding pressure:** This is the difference, in the long term, between funding available in our baseline scenario and funding required under our different scenarios.

- **Local government core spending power:** This is the amount of funding local government have available to spend on services.

- **Better Care Fund:** This is a programme of pooled NHS and local authority funding for adult social care and integrated services.

- **Adult Social Care Precept:** This is a flexibility given to local authorities to raise additional council tax to fund ASC services.

Background

The REAL Centre's funding model for adult social care estimates additional funding needed for social care, under a range of different scenarios, by 2032/33. These estimates of funding needed, or the funding gap, are over and above the REAL Centre's projections of £24bn spending in 2032/33 in the baseline scenario, i.e. if no additional funding is made available.

In practice, additional funding estimated under different scenarios could be used to meet policy objectives which include improved access and quality of care. While this analysis focuses on funding, additional policy initiatives and reforms would be needed to achieve these objectives. We set out the priorities for reforming social care elsewhere.[1]

All estimates are provided in 2022/23 prices, and we use 2021/22 as our 'start' year for each scenario.

The baseline scenario takes into account our understanding of current government policy on social care funding which includes:

- commitments made in November 2022 and March 2023, of additional social care funding.

- overall funding for local authorities and implications for their 'core spending power'.

We have not factored in:

- estimates of the costs associated with the longer-term impact of COVID-19, as these are currently too uncertain to quantify.

- estimates of the costs associated higher inflation and with the deterioration of the wider economic context.

- interactions between supply and demand, for example higher wages leading to increased labour supply in the social care sector.

The funding estimates in the four scenarios are therefore likely to be a minimum requirement and any additional medium and long-term implications of COVID-19 may require additional funding.

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[1] https://www.health.org.uk/publications/long-reads/what-should-be-done-to-fix-the-crisis-in-social-care

[2] https://files.digital.nhs.uk/AF/4C9A4F/ASCFR%20and%20SALT%20Data%20Tables%202021-22.xlsx
[3] https://www.lse.ac.uk/cpec/assets/documents/ASCRU-CPEC-WP11-Hancock.pdf
[4] Table 5, https://digital.nhs.uk/data-and-information/publications/statistical/adult-social-care-activity-and-finance-report/2021-22/appendix-b

The amount of money spent on social care is largely determined by local authorities, with some funding provided by the NHS. If local authorities have more funding available to spend on social care, it could be used in a number of different ways and this will vary locally.

For example, some areas may have unmet need for care and may choose to increase the numbers of people receiving support. Some areas may have problems recruiting and retaining staff, so local authorities may choose to pay higher rates for care to providers so they can pay their staff more. In practice this will vary across the country. The modelling scenarios presented here are therefore a simplification to illustrate what additional funding could achieve in relation to specific goals.

Summary of funding gap estimates

The following tables are located at the end of this document:

- **Table 1** provides a summary of our estimates of the funding pressures relative to the baseline scenario up to 2032/33.

- **Table 2** provides estimates of the yearly increases in adult social care funding in the four scenarios.

Number of people accessing long-term care

Under scenarios 2 and 4 we estimate the additional funding needed for local authorities to provide improved access to care. This additional funding increases the number of people that could receive care. We use NHS Digital data on the number of people who accessed long term care support in 2021/22 to estimate this for our start year, and the Care Policy and Evaluation Centre (CPEC) projections on the number of service users to estimate this.[2] [3] [4] To illustrate, we add in an additional 10% increase in the number of service users, split over the first two years of the time-series, in scenarios 2 and 4.

In scenario 3 additional funding is used to increase the amounts that local authorities have available to pay for care. This could enable improvements in quality of care and higher wages to be paid to staff. In this scenario the number of people receiving care stays the same as in the 'meet future demand' scenario (scenario 1) and the estimates are based solely on the CPEC projections of number of service users.

Table 1 shows the projected number of people accessing long-term care in 2032/33 under the four different scenarios 1 to 4.

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[2] https://files.digital.nhs.uk/AF/4C9A4F/ASCFR%20and%20SALT%20Data%20Tables%202021-22.xlsx

[3] https://www.lse.ac.uk/cpec/assets/documents/cpec-working-paper-7.pdf

[4] https://www.ascru.nihr.ac.uk/_files/ugd/442c21_20e524d1e4014ae39705c32388b34af1.pdf

Baseline scenario

Scenario description

This is our projection of adult social care spending if no additional funding is made available in future. The starting point for the baseline scenario is the amount currently spent on social care services. This is based on Annex B of the NHS Digital publication *Adult Social Care Activity and Finance Return 2021/22*.[4] A summary of this table is shown below.

Net current expenditure on adult social care services in cash terms: by source of funding (£bn, in cash terms)

	2017/18	2018/19	2019/20	2020/21	2021/22
Social care service departments	15.07	15.81	16.55	18.31	18.78
Planned Better Care Fund expenditure	2.06	2.10	2.28	2.40	2.58
Total net expenditure	17.14	17.92	18.83	20.71	21.36

In order to estimate the pressures on social care funding in 2032/33, it is necessary to project a 'baseline' scenario. This scenario involves estimating social care spending in the medium term up to 2024/25, using information about growth in local government funding, but in the longer term, assuming flat growth in real terms funding. It involves making assumptions about the different policies that affect the funding sources, shown in the table above.

We estimate that under this baseline scenario, social care funding rises from £22.6bn in 2021/22 to reach £24.4bn in 2032/33 (in 2022/23 prices).

Modelling approach for baseline scenario

- In the medium term, we estimate that adult social care spending increases in line with the historical growth rate between 2014/15 and 2021/22 (real terms 2.6%)*. We apply this to the period between 2021/22 and 2024/25.

- For the longer term, beyond 2024/25 up to 2032/33, we assume flat growth (0%) in real terms spending.

- We provide estimates in 2022/23 prices.

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[4] Table 5, https://digital.nhs.uk/data-and-information/publications/statistical/adult-social-care-activity-and-finance-report/2021-22/appendix-b

* This 2.6% figure is subject to a high level of uncertainty. Our approach reflects the fact that government announcements represent an upper limit for increases in social care funding, and local authorities have historically not always been able to increase social care funding to the same extent given the multiple spending pressures that they face. In addition, some of the government's announced funding is not channelled through local authorities and some is assigned to children's social care. Therefore, we've introduced a sensitivity analysis that projects a higher rate of growth in the medium term.

Scenario 1: Meet future demand.

Scenario description and key results

Under this scenario, additional funding provided keeps up with underlying demand from an ageing population. This would maintain eligibility for publicly funded social care at current levels of asset and needs thresholds.[8]

The projection for this scenario starts in the same year as the baseline scenario 2021/22, with the same level of spending on social care (£22.6bn in 2022/23 prices). This annual spend is projected to grow to £32.7bn in 2032/33. We therefore estimate the funding pressure for social care in this scenario is approximately £8.3bn by 2032/33. This is the gap between £24.4bn in 2032/33 in our baseline scenario and £32.7bn in 2032/33 in our 'meet future demand' scenario.

We use NHS Digital data on the number of people who accessed long-term care support in 2021/22 to estimate the increase in the number of service users in this scenario.[9] The data suggest that around 817,915 people accessed long term support in 2021/22. We use CPEC projections of increases in the number of social care service users to forecast year-on-year growth up to 2032/33.[10] Under this scenario, the number of service users increases to a little over 1m by 2032/33, an additional 227,089 compared to 2021/22.

Modelling approach

1. We use CPEC projections of the increases in social care expenditure to estimate growth in from 2021/22 to 2032/33. The assumptions which underpin these projections are set out in their publication.[11]

2. We use NHS Digital data on the number of people who accessed long term care in 2021/22 to estimate the increase in the number of service users in this scenario.[12] We do this using CPEC projections of the increases in number of people accessing care.

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[8] https://www.nuffieldtrust.org.uk/news-item/offer-and-eligibility-who-can-access-state-funded-adult-care-and-what-are-people-entitled-to#:~:text=For%20anyone%20of%20any%20age,fall%20entirely%20on%20the%20individual.&text=Anyone%20with%20assets%20between%20%20%C2%A3,depending%20on%20level%20of%20need

[9] Table 34 https://files.digital.nhs.uk/AF/4C9A4F/ASCFR%20and%20SALT%20Data%20Tables%202021-22.xlsx

[10] https://www.lse.ac.uk/cpec/assets/documents/cpec-working-paper-7.pdf

[11] https://www.lse.ac.uk/cpec/assets/documents/cpec-working-paper-7.pdf

[12] Table 34 https://files.digital.nhs.uk/AF/4C9A4F/ASCFR%20and%20SALT%20Data%20Tables%202021-22.xlsx

Scenario 2: Meet future demand and improve access to care.

Scenario description and key results

Under this scenario, funding rises to meet the expected growth in demand from an ageing population and the local authority budget increases by 10% to expand access to long term care and meet any unmet need in the population.

Despite some estimates [12], levels of unmet social care need are challenging to quantify, so we have illustrated an increase in budgets and care of 10% to demonstrate the additional funding required in this scenario. We believe that a 10% rise in access to care is a conservative estimate of what is actually required.[13]

Meeting the expected growth in demand up to 2032/33 would require around £8.3bn (scenario 1). In scenario 2, we estimate that if we were to increase care provision by 10% in addition to meeting the expected growth in demand up to 2032/33, £11.6bn (in 2022/23 prices) additional funding would be required.

In this scenario, we estimate that the number of people accessing long term care could rise by 284,654 from 817,915 in 2021/22 to 1.1m in 2032/33.

Modelling approach

1. We use the 'meet future demand' scenario (scenario 1) as our benchmark. We increase the estimated funding in the 'meet future demand' scenario by 10% and split this rise over the first two years of the model, in 2023/24 and 2024/25.

2. We use CPEC projections of the increases in social care expenditure to estimate growth annually up to 2032/33.[14]

3. We use NHS Digital data on the number of people who accessed long term care in 2021/22 to estimate the increase in the number of service users in this scenario.[15] We do this using CPEC projections of the increases in number of people accessing care. We add an extra 10% rise in number of people accessing care, and this is split over the years 2023/24 and 2024/25.

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[12] https://www.ageuk.org.uk/latest-press/older-people-are-often-waiting-far-too-long-for-the-social-care-they-need/

[13] https://www.ageuk.org.uk/latest-press/articles/2019/november/the-number-of-older-people-with- some-unmet-need-for-care-now-stands-at-1.5-million/

[14] https://www.lse.ac.uk/cpec/assets/documents/cpec-working-paper-7.pdf

[15] Table 34 https://files.digital.nhs.uk/AF/4C9A4F/ASCFR%20and%20SALT%20Data%20Tables%202021-22.xlsx

[16] https://www.lse.ac.uk/cpec/assets/documents/cpec-working-paper-7.pdf

Scenario 3: Meet future demand and cover the full cost of care.

Scenario description and key results

Under this scenario, funding would rise to meet the expected growth in demand from an ageing population and to cover an increase in costs to local authorities for care. Additional costs could cover higher hourly rates for providing domiciliary care, or higher weekly rates for providing residential and nursing care (referred to in this Annex as 'unit costs'). In scenario 3, this results in a funding pressure of £14.6bn in 2032/33 (in 2022/23 prices).

We use NHS Digital data on the number of people who accessed long term care support in 2021/22 to estimate the increase in the number of service users in this scenario. The data suggest that around 817,915 people accessed long term support in 2021/22. We use CPEC projections of increases in the number of social care service users to forecast year-on-year growth up to 2032/33.[16] Under this scenario, the number of service users increases to a little over 1m by 2032/33, an additional 227,089 compared to 2021/22.

Modelling approach

We use cost estimates provided by the UK Home Care Association (UKHCA) and Laing and Buisson to undertake this analysis.[17] [18] [19] The numbers of people accessing care are the same in this scenario as in scenario 1 – meet future demand. We begin by calculating the unit cost gap for different types of care, as detailed below. These unit cost gaps are used to estimate the total amount of funding local authorities would need in total to meet some minimum unit cost of care for all clients accessing care.

Calculating the unit cost gap

We begin by calculating the unit cost gap for different types of care, as detailed below. These unit cost gaps are used to estimate the total amount of funding local authorities would need in total to meet some minimum unit cost of care for all clients accessing care. In our latest update (April 2023), we have two scenarios, under which the amount of funding needed by local authorities to meet to cost of care changes.

Domiciliary care

For the domiciliary care (home care) sector we use UKHCA estimates of the unit cost gap. This is a measure of the gap between the hourly weighted average price paid by local authorities in England for domiciliary care, and the hourly rate that would cover domiciliary care provider operating costs at the statutory National Living Wage (NLW) (the UKHCA 'Minimum Price for Homecare'). [20] [21]

The UKHCA's estimate of the average hourly weighted average fees paid is £18.54 in 2021/22, we have made an assumption to get a figure of £20.29 for 2023/24. We compare this to the UKHCA Minimum Price for Homecare, £25.95. This leads to an estimated unit cost gap in domiciliary care of 26.49% in 2023/24.

[16] https://www.lse.ac.uk/cpec/assets/documents/cpec-working-paper-7.pdf

[17] https://ukhcablog.com/blog/ukhcas-minimum-price-for-homecare-for-april-2021-to-march-2022/

[18]
https://www.ukhca.co.uk/downloads.aspx?ID=589#:~:text=UKHCA%20calculates%20that%20the%20UK's,can%20meet%20their%20statutory%20obligations.

[19] https://ukhcablog.com/blog/homecare-in-the-time-of-coronavirus/

[20] https://ukhcablog.com/blog/homecare-in-the-time-of-coronavirus/

[21] https://ukhcablog.com/blog/ukhcas-minimum-price-for-homecare-for-april-2021-to-march-2022

Residential and nursing care

For residential and nursing care, we use Laing and Buisson's research into care homes for older people [22]. Laing and Buisson present data the difference between their estimate of a benchmark to provide a minimum standard of care (£647) and average fees paid by local authorities (£555). This leads to an estimated unit cost gap of 16% in 2018/19, we have continued to use this figure for our estimates in 2023/24

1. The unit cost gaps are used to calculate the total funding gap.

2. We use our estimate of aggregate social care expenditure in 2021/22 from scenario 1 – meet future demand (£22.6bn in 2022/23 prices) as a benchmark.

3. We increase the £22.6bn figure using a weighted average of the unit cost gaps for domiciliary, residential, and nursing care (26% and 16% explained above). These are weighted using and the amount of overall expenditure each sector accounts for.[23]

4. We use CPEC projections to estimate growth in social care expenditure up to 2032/33.[24]

5. We use NHS Digital data on the number of people who accessed long term care support in 2021/22 to estimate the increase in the number of service users in this scenario.[25] We do this using CPEC projections of the increases in number of people accessing care (in the same way we do for Scenario 1) [26]

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[22] https://www.laingbuisson.com/shop/care-homes-for-older-people-uk-market-report/

[23] Based on gross current expenditure in 2021/22 available from NHS Digital data https://digital.nhs.uk/data-and-information/publications/statistical/adult-social-care-activity-and-finance-report/2021-22

[24] https://www.lse.ac.uk/cpec/assets/documents/cpec-working-paper-7.pdf

[25] Table 34 https://files.digital.nhs.uk/AF/4C9A4F/ASCFR%20and%20SALT%20Data%20Tables%202021-22.xlsx

[26] https://www.lse.ac.uk/cpec/assets/documents/cpec-working-paper-7.pdf

Scenario 4: Meet future demand, improve access to care and cover the full cost of care.

Scenario description and key results

Scenario 4 combines the analysis in scenarios 2 and 3. Under this scenario, funding would rise to meet the expected growth in demand from an ageing population and:

- increase access to care by increase the budget for care packages by 10% (as in scenario 2)

- cover higher unit costs of care provision in domiciliary care (home care) and residential and nursing care (as set out in scenario 3).

This leads to a funding pressure estimate of £18.4bn in 2032/33 (in 2022/23 prices).

As in scenario 2, we estimate that the number of people using long term care would rise by 284,654 from around 817,915 in 2021/22 to 1.1m in 2032/33.

Modelling approach

1. We use our estimate of aggregate social care expenditure in 2021/22 from scenario 1 – meet future demand – as a benchmark (£22.6bn in 2022/23 prices).

2. We increase the £22.6bn figure by 10% (as in scenario 2) and by a factor based on a weighted average of the unit cost gaps for domiciliary, residential and nursing care (as in scenario 3).[27]

3. We then use CPEC projections of increases in social care expenditure to estimate growth up to 2032/33.[28]

4. As in scenario 3, we use NHS Digital data to estimate the increase in the number of service users that could access care in this scenario. Approximately 817,915 people accessed long term support in 2021/22. We do this using CPEC projections of the increases in number of people accessing care. We add an extra 10% rise in number of people accessing care, and this is split over the years 2023/24 and 2024/25 (as in scenario 2).

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[27] https://digital.nhs.uk/data-and-information/publications/statistical/adult-social-care-activity-and-finance-report/2021-22

[28] https://www.lse.ac.uk/cpec/assets/documents/cpec-working-paper-7.pdf

Table 1: Funding pressures and number of user estimates under different scenarios

Scenario	Social care funding gap: total additional funding required per year by 2024/25 Uses 2022/23 prices, and 2021/22 as a base year	Social care funding pressure: total additional funding required per year by 2032/33 Uses 2022/23 prices, and 2021/22 as a base year	The estimated number of people accessing long term care by 2032/33 Based on 817,915 users in 2021/22
1. Meet future demand	£0.6bn	£8.3bn	1.04m
2. Meet future demand and improve access to care	£3.1bn	£11.6bn	1.1m
3. Meet future demand and cover the full cost of care	£5.4bn	£14.6bn	1.04m
4. Meet future demand, improve access to care and cover the full cost of care	£8.4bn	£18.4bn	1.1m

Table 2: Estimated annual funding required for adult social care in the four scenarios, 2021/22 – 2032/33 (£bn, 2022/23 prices)

Year	Baseline projections of increases in adult social care spending power	Scenario 1: Meet future demand	Scenario 2: Meet future demand and improve access to care	Scenario 3: Meet future demand and cover the full cost of care	Scenario 4: Meet future demand, improve access to care and cover the full cost of care
2021/22	22.6	22.6	22.6	22.6	22.6
2022/23	23.2	23.4	23.4	23.4	23.4
2023/24	23.7	24.2	25.4	26.5	27.8
2024/25	24.4	25.0	27.5	29.7	32.7
2025/26	24.4	25.8	28.4	30.7	33.8
2026/27	24.4	26.7	29.3	31.8	35.0
2027/28	24.4	27.6	30.3	32.9	36.1
2028/29	24.4	28.5	31.4	34.0	37.4
2029/30	24.4	29.5	32.5	35.2	38.7
2030/31	24.4	30.5	33.6	36.4	40.0
2031/32	24.4	31.6	34.7	37.6	41.4
2032/33	24.4	32.7	35.9	38.9	42.8

Table 3: Reconciling our projections of net current expenditure on adult social care with the government's 2022 Autumn Statement announcements on adult social care funding.

(All amounts in £bn in cash terms)	2023/24	2024/25
Our projections assuming a 2.6% annual growth rate for net current expenditure on adult social care between 2021/22 and 2024/25	1.2	2.2
Our projections assuming a 4.5% annual growth rate for net current expenditure on adult social care between 2021/22 and 2024/25	1.7	3.2
Additional social care funding announced by government at the 2022 Autumn Statement	2.8	4.7

Source: REAL Centre analysis of adult social care funding for 2023/24 and 2024/25 based on the government's 2022 Autumn Statement announcements and with input from the Institute for Fiscal Studies. Our projections differ from the government's announcements for additional social care funding at the 2022 Autumn Statement as we focus on net current expenditure of local authorities on social care, whereas the government's announcements cover this as well as additional social care funding routed through the NHS, some funding for children's social care and council tax flexibilities, not all of which have historically been fully used by all local authorities for additional social care funding.