

P 03668

PRIME MINISTER

**COMMUNITY CARE: IMPLEMENTATION**

[Minute from the Secretary of State  
for Health of 30 April]

**DECISIONS**

You need to decide whether to defer implementation of some or all of the community care initiatives described in the White Paper "Caring for People" (briefly outlined in the "background" section below).

2. The options for deferral are not set out very clearly in the paper attached to Mr Clarke's minute. There appear to be three main possibilities for the timing of the key reform (the funding of people in residential care):

i. Option I - going ahead as planned with implementation in April 1991. This would meet the expectations of local authorities and others who have welcomed the proposals. It would put an early end to the present perverse incentives to move to residential care in private homes supported through generous benefits rather than remain at home. But it would risk adding to community charges by up to £15 on average in 1991/92 on the least favourable illustrative figures in the paper - the actual effect would depend on PES decisions and what local authorities chose to spend in practice. (Other proposals you are considering for extensive charge capping could reduce or remove the risk by controlling spending). In any case, the reforms could add up to £180m to public expenditure in 1991/92 on DoH figures. There could also be teething troubles, with highly publicised hard cases where the new system fails. You need to decide whether these potential costs are acceptable.



ii. Option II - deferring implementation by 1 year to April 1992. This would give local authorities more time to plan for the introduction of the reforms. It would also delay the community charge and public expenditure effects by a year. On the other hand, these effects may not be any more acceptable in 1992/93. The present perverse incentives would remain for a further year. Mr Clarke argues that delay by one year only is not a sensible option.

iii. Option III - deferring implementation by 2 or 3 years, to April 1993 or 1994. This would delay the community charge and public expenditure effects even longer, to a period when the present difficulties in both cases may have abated. On the other hand, this would mean perpetuating the present perverse incentives in the benefits system for a further 2-3 years, with a higher risk of abuse, eg by local authorities transferring their homes to the private sector. Nevertheless this may be the best option if you decide the community charge, public expenditure and presentational risks of going ahead in 1991/92 are too great.

3. If you decide to defer the main changes relating to residential care, you will need to consider whether some of the other reforms could nevertheless go ahead in April 1991. Mr Clarke says that he would certainly want to proceed with the proposed mental illness initiative. It would also be possible to proceed with other elements of the package, eg the preparation of community care plans. You may therefore want to ask Mr Clarke to bring forward a further paper urgently discussing which items might go ahead.

#### BACKGROUND

4. The main elements in the community care reforms are:

i. new arrangements for funding people in private residential care and nursing homes. They will receive



housing benefit and income support in the normal way. But local authorities will take over responsibility for paying care costs. The present income support arrangements for paying homes' fees will cease;

ii. a new requirement on local authorities to produce and publish community care plans. Local authorities will be expected to make maximum use of the private and voluntary sectors to provide care;

iii. a new requirement for local authorities to set up inspection and registration units at arms length from their own services, to be responsible for standards in their own homes and private homes;

iv. a new specific grant to promote the development of services for the mentally ill.

#### MAIN ISSUES

5. The following paragraphs consider the implications of the three options set out above for the community charge, public expenditure, the preparedness of local authorities and for presentation.

#### Community charge implications

6. The DoH paper considers three possible levels of local authority spending on their new responsibilities:

i. estimate A, which includes only the sums which DSS would otherwise have spent in income support for new claimants.

This is all the Treasury believe local authorities need to spend. In year one the figure would be £300-330 million;

ii. estimate B, which adds in additional amounts which DoH believe authorities will need to spend. In year one the total figure would be £530-570 million;



iii. estimate C, which is based on the local authorities' own provisional estimates. In year one the total would be £840-900 million.

7. The effect of this spending on the average community charge will depend on three factors: the Government's figure for what authorities need to spend; how much of that is funded through additional AEF; and the actual level of spending, which may of course be higher. The DoH paper gives three illustrations of the possible outcome for year one (whether 1991/92 or 1992/93):

i. illustration A shows what might happen if the Government fixed need to spend on the basis of estimate A above, and added the same amount to AEF (the Treasury's preferred option). If authorities then set budgets at the same level, there would be no effect on average community charges. But if they budgeted at estimate B, the average charge would rise by £6.50-6.80. If they budgeted at estimate C, the average charge would rise by £15.00-15.90;

ii. illustration B shows what might happen if the Government fixed need to spend at estimate B above, but added rather less than that to AEF. If authorities set budgets at estimate B, average charges might rise by £2.30-2.40 in year one. If authorities instead set budgets at estimate C, average charges might rise by £11.00-11.50;

iii. illustration C shows what might happen if needs and AEF were both set on the basis of estimate B above (DoH's preferred option). If authorities actually spent at the same level there would be no effect on average charges in year one. But if authorities spent at the level of estimate C, average charges might rise by £8.60-9.10.

8. These figures illustrate the range of possible outcomes in the year the community care proposals are implemented.



Implementation in April 1991 (option I) risks adding up to £15 to average community charges, depending on decisions made in the PES round about needs and AEF and on actual spending. Delay by one year (option II) would put this off, but risk adding a similar amount (about £16) to average charges in 1992. Delay by two or three years would put off the effect until 1993 or 1994. From the point of view of the community charge, therefore, the choice between the options is a matter of when such a risk to the average charge level would be acceptable.

9. The decision may however be influenced by the changes you are considering to the community charge regime. If charge capping were introduced for all the major authorities (which include all social services authorities) it would bite directly on community care expenditure. If a satisfactory method of comprehensive capping can be devised, it will remove the risk to community charge of going ahead with the community care reforms (though any additional spending needed to implement the new reforms would place additional strains on capped budgets).

#### Public expenditure implications

10. The DoH paper provides estimates of the net effect of the community care proposals on public expenditure for 1991/92 to 1996/97. These are based on their preferred option for setting need and AEF (estimate B above) and ignore the possibility that authorities may spend more. The figures for England only, in 1991/92 prices, are:

	91/92	92/93	93/94	94/95	95/96	96/97
Implementation						
April 1991	+179	178	143	34	-75	-184
Implementation						
April 1992	+ 30	148	153	117	30	- 57

11. These figures appear to suggest that there would be a public expenditure saving from delaying implementation - the cost in the



first three years would fall from £500m with implementation in 1991 to £420m with implementation in 1992 (£450m including additional costs incurred on preparation in 1991/92). This is almost certainly misleading, since all that is proposed is to push the pattern of expenditure back by one year; there are no other changes that would affect the overall total except demographic factors which would tend to increase costs. DOH have been asked to look again at the figures.

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12. Subject to revised figures, it seems that if the community care proposals are implemented on the basis DoH envisage, there will be net additions to public expenditure for the first four years after implementation, followed by net savings in later years. If the reforms go ahead in 1991/92 (option I), about £180 million will be added to public expenditure in what is already a difficult PES round. Deferral by one year (option II) would delay the bulk of these costs to 1992/93. Deferral by 2 or 3 years would delay the onset of costs to 1993/94 or 1994/95. But deferral would also delay the eventual public expenditure savings. So again, the choice between the options is a question of when the net PES costs can be accommodated, and when the benefits will begin to flow.

13. However the Treasury believe that the community care proposals can be introduced at no net cost, with local authorities spending no higher than DSS savings on income support. If that is feasible, there would be no (or no significant) net public expenditure costs even in year one, and savings would accrue much more quickly.

14. The Secretary of State for Social Security may suggest that there is a further risk to public expenditure, through pressure to make further increases in the income support limits for residential and nursing care, over and above the normal uprating. He may suggest that the risk would be exacerbated by delaying introduction of the community care reforms. This is an argument against deferral.



### Preparedness

15. One argument for delaying implementation is that it would give local authorities more time to prepare for the implementation of the reforms. But Mr Clarke says that, although there might be some advantages, they would be cancelled out by the effects of demotivation, uncertainty and loss of momentum. You will want to consider whether this judgement is right, or whether delay by at least a year could reduce the risk of teething troubles (see below).

### Presentational implications

16. You will also want to consider the presentational implications for deferral. On the one hand, the reforms have been welcomed by local authorities and others, and Mr Clarke says there is substantial commitment to implementing them. Delay could create disappointment and disillusion, accompanied by attacks on the Government. On the other hand, the effects of the policies for ordinary people who need community care services have yet to be tested. The reforms will make it harder for people to enter residential and nursing care homes, and this may be controversial. Implementation may also be accompanied by teething troubles, which may generate public criticism. You will want to weigh these presentational issues in deciding whether to go ahead in 1991 or defer implementation.

### Partial implementation in April 1991

17. If you decided to defer the main reform, relating to residential care, you could still decide to implement other elements of the community care package in April 1991. The main candidates are:

- i. the mental illness initiative. This would involve some additional local authority spending (DoH propose £30 million in 1991/92, rising to £60m, £90m and £100m in subsequent years). But this would be funded through the new specific grant for the purpose, paid via the health authorities, and



grant for the purpose, paid via the health authorities, and this may limit the risk that authorities will overspend. Mr Clarke says he would certainly want to go ahead with this part of the proposals;

ii. the requirement of local authorities to prepare community care plans. Introducing this requirement might be a useful preparatory step to implementation of the full package at a later date. On the other hand it could act as a lever for higher spending;

iii. independent inspection of local authority residential care homes. This reform would be welcomed by independent home-owners. But it would have some modest expenditure implications (perhaps £6m per annum).

18. You may wish to ask Mr Clarke to produce a paper urgently on the advantages and disadvantages of proceeding with these or other elements of the package in advance of the main changes.

#### VIEWS OF OTHER MINISTERS

19. We understand that Ministers at the Treasury, Department of the Environment and the Department of Social Security are all likely to be advised in favour of going ahead with the community care reforms in full in 1991.



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