

FINANCE COMMITTEE

DEMOGRAPHIC CHANGE AND AGEING POPULATION

SUBMISSION BY AUDIT SCOTLAND

Introduction

1. Audit Scotland carries out the external audit of the majority of public sector bodies in Scotland. We do this on behalf of the Accounts Commission (for local government) and the Auditor General for Scotland (for the NHS and central government). We welcome the invitation to submit written evidence to assist the Finance Committee's inquiry into fiscal sustainability, with particular reference to the implications of demographic change and an ageing population.

Overall comments

2. Audit Scotland has carried out audits that concern, directly or indirectly, how public bodies are responding to the implications of an increasingly ageing population. In particular our reports *A review of free personal and nursing care*, *The cost of public sector pensions in Scotland*, *Review of Community Health Partnerships*, *Scotland's Public Finances* and *Commissioning Social Care Services* have commented on the challenges faced by the public sector from demographic changes and the ageing population.¹

3. The demographic changes in Scotland mean significant and pressing challenges for the public sector. There is a wide recognition that services need to change but in reality services have been slow to adapt and we have found it hard to see evidence of meaningful shifts in the way resources are used over time, for example in moving resources from the NHS acute sector to the community.

4. In *Commissioning Social Care Services* we reviewed how effectively the public sector commissions social care services and how partners work together to provide high quality, sustainable social care services. We highlighted indications that councils are continuing to focus resources on people who need more intensive support, tightening eligibility criteria and increasing charges. The report also noted that current services are not sustainable and that progress with strategic commissioning has been slow.

5. A major theme emerging from Audit Scotland reports is the lack of good performance information across the public sector. We find that the public sector generally does not have sufficient information on cost, activity and quality of services to inform decisions and support performance management. This has major implications given the pressures arising from demographic changes.

6. Audit Scotland publishes a number of checklists aimed at decision makers alongside our reports which are available for downloading from our website. We published self-assessment checklists for partners alongside our reports on *Commissioning Social Care* and *Review of Community Health Partnerships*. These are designed to help partners check, monitor and support their organisations in delivering efficiency and productivity improvements. Similarly, our report *Using cost information to*

¹ All Audit Scotland reports referred to in this evidence can be downloaded from our website at <http://www.audit-scotland.gov.uk>

improve performance highlighted key points to help councillors and council officials use cost information more effectively.

Responses to the Committee's specific questions

What is your view of the effects of demographic change and an ageing population on the sustainability of funding for (a) health and social care and (b) housing services and (c) public pensions and the labour force? What public services will individuals increasingly call on and in what way?

(a) Health and social care and (b) housing services

7. The Scottish Government and public bodies recognise that current models of health and social care services are not sustainable given the demographic challenges ahead. We highlighted in *Commissioning social care* and *A review of free personal and nursing care* that demand for these services is likely to increase because of an ageing population.

8. In our overview of NHS services in 2011, we highlighted that demographics would have a significant impact on NHS services. The Scottish Government has reported that the amount spent on health and social care services for older people would need to increase by £3.5 billion by 2031 if the systems remain as they are now (a real-terms increase of 74 per cent from 2008). The impact of demographic change in the NHS alone will be significant, for example, the number of hospital beds for emergency admissions would need to increase by more than 6,000 (nearly 80 per cent) from 2007 to 2031 if NHS and social care services remain as they currently are.²

9. The impact of demographic changes and welfare reforms will also have an impact on the housing sector. Demographic challenges are likely to lead to increased demand for aids and adaptations to housing, and a need to continue to develop different models of housing for older people. There will be an impact from increased demand for all types of housing, including sheltered housing, but also on demand for other support for older people with their housing needs, such as aids and adaptations and advice services. For example, in 2011, the Scottish Government estimated that in order to maintain current ratios of provision to probable need, the combined numbers of sheltered and very sheltered housing stock would need to rise from 38,000 in 2008/9, to 45,900 in 2018 and to 61,400 in 2033, a rise of 23,400 units over the period. We are currently carrying out an overview of housing, which we will publish in early 2013.

10. The type of services that people want to access is changing, and moves to give people more control over the services they receive also represents a major shift for the public sector. A greater focus on self-directed support will have major implications for councils, NHS boards and other partners, not least as this will make it more challenging for them to plan the services that are needed in the local area. We noted in our report on *Commissioning social care* that councils are likely to need a significant amount of support to implement self-directed support efficiently.

c) Public pensions and the labour force

11. Demographics and the ageing population will affect the sustainability of public sector pensions. *The cost of public sector pensions in Scotland* report drew attention to the significant costs of and potential changes in the six main public sector pension

² *Overview of the NHS in Scotland's performance 2010/11*, Audit Scotland, 2011.

schemes in Scotland (for local government, the NHS, teachers, civil servants, police and fire fighters). One million people (one in five) have a direct interest in these pension schemes, as either current or future pensioners.

12. The report identified significant cost pressures in all the schemes, both in the pensions paid out and the money paid in towards the costs of providing pensions.

- The annual amount paid to pensioners, £3 billion in 2009/10, has risen by 30 per cent in real terms over the past five years. Schemes are paying out more than anticipated because people are living longer and because growth in the size of the public sector has increased the number of pensioners.
- Employers' contributions to meet their share of the cost of pensions, £2.2 billion in 2009/10 have increased by 19 per cent in real terms over the past five years, reflecting the growth in the public sector and underlying cost pressures.³

13. The sustainability of funding for public pensions in Scotland partly depends on the financial relationship between the Scottish Government and councils, and on the funding policy of the UK government for the devolved administrations.

- Local government employers' and employees' pension contributions, and investment returns, provide the funding for the local government pension scheme (LGPS). The LGPS currently achieves a cash surplus each year. This means higher payments to LGPS pensioners may not immediately affect council budgets or the Scottish or UK budgets. However, higher pension payments may reflect a longer-term cost pressure which may require more funding from employers. This may create further pressure on the Scottish budget as local government receives the majority of its income from the Scottish Government.
- For most of the other schemes in Scotland, the UK Treasury accepts responsibility for funding any increased current spending on pension payments to retired members. However, the UK Treasury will not fund changes in public sector employers' pension contributions, and therefore higher contributions will require funding from the Scottish Government.⁴

14. The 2011 report of the Independent Public Service Pensions Commission has prompted major changes in UK pension policy, with the aim to mitigate cost pressures and promote the fairness and sustainability of all the schemes.⁵ Changes envisaged include higher employee pension contributions, linking pension age in occupational schemes to the state pension age, changes in the indexation of pensions and moving from final salary to a career average pension.

15. These changes could have a major effect on the sustainability of funding for public pensions in Scotland, but there is some uncertainty about when and how these changes will be implemented in Scotland.

³ In addition, employees' contributions cover on average around a quarter of total pension costs in Scotland.

⁴ The spending consequences of pension payments reflect current UK government funding policy for devolved administrations. Any change in constitutional arrangements – an independent Scotland – would require a fundamental re-examination of how public sector pension costs are funded, afforded and accounted for.

⁵ *Independent Public Services Pensions Committee: final report*, Independent Public Services Pensions Committee, March 2011.

16. Demographics and the ageing population may affect the public sector workforce in other, more gradual ways without directly affecting the funding required for it. The *Scotland's public finances* report identified that the Scottish public sector employed around 493,000 staff at a cost of £15.2 billion in 2010/11. Longer lives may mean longer public sector careers with greater retention of experience but less flexibility for employers in managing staff turnover and replacement.

What public services will individuals increasingly call on and in what way?

17. The move to greater personalisation of services and more people living longer in their own homes mean that there is likely to be less demand for institutional services and more demand for tailored support services. There will still be a need for care homes, but organisations will increasingly target these services at people with the most intensive needs. There will also be a need for a more diverse range of housing, including more independent-living options, such as sheltered housing. These points are reflected throughout this response. Technological developments particularly in telecare will also affect the design of services and the range of support provided.

Further, what planning is being done, or should be done, to address this?

18. All these changes will require good strategic planning and a joined-up approach across public services, as resources may need to move to support new ways of working. There is also a need to plan for more preventative services, which should reduce the demand on expensive hospital and institutional provision. Audit Scotland has commented in a number of reports that the public sector needs to improve planning to make better use of available resources. There are often limitations in data, making it very difficult for us to form judgements about the value for money of particular schemes or service areas. More importantly, it makes it very difficult for the public sector to improve efficiency and effectiveness. Our recent report on CHPs highlighted that:

A more systematic, joined-up approach to planning and resourcing is required to ensure that health and social care resources are used efficiently. There are very few examples of good joint planning underpinned by a comprehensive understanding of the shared resources available.

Similarly, our report on commissioning social care noted:

Councils and NHS boards have been slow to develop strategic commissioning. Only 11 of the 32 council areas had commissioning strategies covering all social care services. Most of the strategies we reviewed did not include an analysis of local needs or the costs and capacity of in-house and external providers to meet those needs. Councils and NHS boards need this information to make informed decisions about which services to invest and disinvest in.

19. Organisations also need to consider the impact of any changes to the quality of the services they provide, and ensure that they maintain essential services. We noted in a previous submission to the Committee that there are additional pressures on organisations seeking to maintain performance, for example NHS waiting times, whilst addressing challenges from on-going financial pressures, an ageing population and rising demand for services. It is important that the public sector is clear about the outcomes it wants to achieve and the implications for resources and capacity in achieving these outcomes.

20. The Scottish Government's plans to create new Health and Social Care Partnerships are designed to address some of these concerns with a more consistent focus on core outcome measures and improvements in how partners, including councils, NHS boards and the third and independent sector, work together. We made a series of recommendations in our report on CHPs that may be of interest to the committee in this regard.

21. The changes prompted by the Independent Public Service Pensions Commission could have a major effect on the sustainability of funding for public pensions in Scotland, but there is some uncertainty about when and how they will be implemented.

- In response to the Commission, the UK government announced a range of changes to public sector pensions, including immediate increases in employee contributions. It also began consultation on proposed longer-term changes to the design of all the main UK schemes, with the objective of having new schemes by April 2015. Outside Scotland, these longer-term changes remain subject to consultation (ballots) with trade union members but in most cases the unions are recommending members accept them.
- In Scotland, consultation and negotiation between the Scottish Government, trade unions and other public sector employers on changes to the design of the Scottish schemes has not advanced as far as in the rest of the UK. The Scottish Government increased employee contributions in line with the UK government in 2012/13 and is engaging with stakeholders for each scheme about how to implement pension reform in Scotland (within a cost limit and other constraints set by the UK government). However, it has stated that the reform process has been constrained by disagreement with the UK government about the legislative basis of any change to schemes in Scotland.⁶

22. Overall pension contributions will remain a significant cost for public sector employers for the foreseeable future. The Scottish Government and councils are responsible for forecasting these costs; however pension reform introduces uncertainty into any forecasts.

What weight should be given during the annual budget process to demographic trends and projections?

What data is collected (and what should be collected) with respect to (a) health and social care and (b) housing services and (c) public pensions and the labour force, and what use is made of this (or should be made) to forecast what funding will be needed?

23. There is a need to improve financial planning and management in the public sector. We have reported concerns about the quality of financial information in many of our reports. In particular, we have commented on the need to take account of long-term financial implications in making policy decisions; and for good quality information on projected costs to support Parliamentary scrutiny. In our report on free personal and nursing care we raised concerns about the poor financial forecasting based on limited information, and that the costs were rising higher than anticipated within 4 years of implementation.

⁶ In May 2012, the UK government announced a plan for a Public Service Pension Bill to implement its proposed changes. This Bill is not expected to be published until Autumn 2012. In July 2012 the Scottish Government stated that it was concerned that proposed UK legislation would prevent it from making any changes to pension schemes that would differ from those in England.

24. In *National Concessionary Travel*, we reported that the scheme, which was introduced in 2006, is popular amongst users and has a high level of take-up – with around 80% of over 60's having a free bus pass. We reported the scheme had cost £199 million in 2009/10. Taking account of expected increases in the number of people in Scotland over 60, and recent trends in fare increases and inflation, we estimated that uncapped costs could reach as much as £537 million by 2025.⁷ This could add to financial pressures particularly in the current financial climate.

25. It is important that organisations have a good understanding of the costs of their services, local needs and the impact that changes such as the age of the population will have on their services in the medium to longer term. Our report on Scotland's public finances in August 2011 noted:

Previous Audit Scotland reports have indicated that public bodies often do not have a clear understanding of their cost drivers. For example, [our report] Improving public sector efficiency found that public bodies were generally aware of the total costs of their services and budgets are monitored regularly. However, there were variations across the public sector and within public bodies on understanding unit costs and monitoring how costs differ with changes in activity. Out of a sample of 15 bodies, we found that all had baseline information on costs but lacked unit cost information to help them measure improvements in productivity.

26. Without better information on costs and needs, there is a significant risk that organisations will take short-term decisions to reduce what they spend rather than focus on the longer-term picture. Such short-term decisions could include reducing funding for preventative services and focusing on providing care for those with the most intensive needs. This may add to future pressures for other parts of the public sector.

27. With regard to data for future pension costs, HM Treasury suspended the normal process for providing actuarial valuations of some pension schemes in Scotland in 2010.⁸ One of the main purposes of the valuations is to set future employer and employee contribution rates. HM Treasury have suspended them until changes under current pension reforms have been decided. Once the reforms are settled – the UK Government's target is for all revised schemes to be operational by April 2015 - valuations will be prepared but so far there is no precise timetable for when this will happen. Consequently, until the pension reform process is completed there will be some uncertainty about what employer contribution levels will be required from public bodies.

Health and social care

To what extent are preventative policies such as the Change Fund key to addressing demographic pressures on the provision of health and social care?

28. The Scottish Government introduced the Change Fund to help social care partners make better use of resources for older people's services. The Fund also aims to help move resources from institutional care to community services. These changes will be challenging and needs strong leadership at national and local levels. In our report on *Commissioning social care services* we noted that the lack of joint commissioning strategies, insufficient information about service costs and a recent rise in the number of people unnecessarily delayed in hospital all point to more progress being needed.

⁷ *National concessionary travel*, Audit Scotland, 2010

⁸ The exception is the LGPS, for which full actuarial valuations are available as at 31 March 2011.

29. There are some signs that partners are focusing resources on people with more intense needs, with less focus on developing preventative services to help maintain people for longer in their own home. We reported in *Commissioning social care services* that the number of people receiving home care of less than four hours a week has decreased by 41 per cent. We noted a survey of housing support providers reported that the number of older people receiving housing support of less than four hours a week fell from 84 per cent in 2008/09 to 47 per cent in 2009/10.

To what extent are the pressures on health and social care a consequence of an ageing population as opposed to other health challenges such as obesity?

30. Scotland faces a number of significant health-related challenges, many of which are complex and interrelated. The NHS cannot tackle these challenges alone and needs to work more effectively with other public bodies to make the best use of resources.

31. In our 2011 overview of the NHS we noted that there remain significant health inequalities across Scotland; for example, there are challenges in tackling levels of obesity, smoking, and alcohol and drug misuse. We are currently carrying out a review of health inequalities, which we will publish later in 2012 and may carry out further work in this area.

32. The public sector needs to have a much greater focus on preventative services to address these wider public health challenges. We have commented on this need for a shift towards prevention in previous reports on drug and alcohol services and mental health services.

Housing

What is likely to be the main pressures on both the public and private housing stock arising from the demographic change and what action should government and other public bodies be taking now to address this?

What adaptations will be required to the existing housing stock to provide long-term care and to what extent should the design of new builds take into account the possibility that the home may be used for care purposes in the future?

33. The ageing population will have an impact on housing provision in Scotland in a number of ways and the sector is already seeing an impact. For example, the number of very sheltered housing units for older people and those with disabilities almost trebled from 1,820 in 2001 to 5,320 in 2010. Demographic pressures mean that the housing sector will need to do more to ensure that there is available housing to meet the needs of older people, be that adaptations to their existing home or new schemes of housing built to better meet needs.

34. Helping people to live more independently and improve their quality of life requires a joined-up approach across council services, including social work, housing, education and leisure, as well as with NHS boards. We are currently carrying out an overview of the housing sector which we will publish early in 2013.

Pensions and labour force

What is the likely impact on the public finances within Scotland of demographic change on public sector pension schemes and what action is required by the Scottish Government and other public bodies to address this?

35. In summary, pension contributions will remain a significant cost for public sector employers for the foreseeable future. While all public pension schemes face significant

longer-term cost pressures from demographic change, all are also subject to significant reform to mitigate the cost pressures. But the scope and timescale for pension reform in Scotland is uncertain.

36. Given the large funding requirements for public sector pension schemes, £2.2 billion a year, it is important that this uncertainty is resolved. This can only happen when the Scottish Government has completed current negotiations with the UK government and with a wide range of pension stakeholders to decide the extent of reform to each of the schemes.

What should be the balance within public policy of support for older people who wish to remain in employment versus creating opportunities for youth employment?

37. As this concerns a matter of policy, we have no comments to offer in response to this question.