

Finance Committee

Demographic Change and Ageing Population

Submission by COSLA

Introduction

1. COSLA welcomes the opportunity to provide written evidence in response to the Finance Committee's inquiry into demographic change and ageing population. Planning for the impact of demographic change has been the focus of considerable modelling, analysis and policy development work over the last decade. Local Government for its part has long recognised the challenge presented by an ageing population and has been vocal in ensuring this issue is at the top of the agenda.

What our submission seeks to do

2. Our submission seeks to do two things. Firstly it highlights for the Committee what local government has done to proactively to respond to the demographic challenge. Secondly it seeks the Committee's support for stimulating the sort of wider debate we need about public sector services and how they are funded and delivered in the future.

3. Our key message is that, even with the actions taken by local government and our partners, there is a question as to whether any of this goes far enough. As we point out in the submission local government has long known about this challenge, however big questions remain to be fully debated about how increasingly scarce resources should be deployed into the future to improve outcomes for all citizens, in light of demographic change and an ageing population.

4. In the sections set out in the submission we have provided the Committee with detailed evidence on the key areas of interest, namely health and social care, housing and pensions and labour force and planning to mitigate the impact of demographic change. This is intended to support our key messages about the scale of impact of demographic change and what we believe needs to be done to address the challenge.

5. We would like to add that, whilst these are the areas of most interest to the Committee, demographic change impacts not just in these areas. For instance, services such as small island schools can become unviable as the demographic profile of the local population changes. A shrinking working age population can also affect the ability of smaller and rural councils in finding staff who can take on carer roles for an ageing population.

6. The Committee should also be aware that in areas of high deprivation the impact of demographic change is exacerbated as life expectancy is lower and social care needs are higher from a younger age. In other words, areas with significant deprivation often find that citizens have to endure longer periods of ill-health.

7. COSLA therefore welcomes the Finance Committee's interest in the issue of demographic change and an ageing population and we look forward to the Committee's support in taking the debate forward.

Demographic change – the financial challenge

8. As an introduction to the detailed evidence on the areas of interest to the Committee we would firstly like to draw the Committee's attention to the work which COSLA has undertaken to identify the scale of financial challenge presented by

demographic change, as well as what local government has been doing more widely to respond proactively to the challenge.

9. Local government has long been aware of the financial pressures which increased demand for services from an ageing population will bring. Even at a time when overall resources were increasing, we recognised the need to plan for this change. As we moved into an era of declining resources the need to understand the financial scale of demographic change became ever more critical. Therefore we undertook modelling work in 2010 to look at the future funding gap between the services we will need to provide and the amount of funding available, reflecting the future impact of demographic change and the anticipated reduction in resources. Through a joint Strategic Funding Review Group with the Scottish Government a financial model was developed and, subsequently this model has continued to be refined by the Improvement Service.

10. The modelling work has revealed that the funding gap between demand for services and the resources available will rise to almost £3bn by 2016/17. Whilst around half of this can be attributed to the amount of funding available, the other half more alarmingly can be attributed to rising demand for services, in large part driven by demographics and the rising numbers of older people who will need services in the future.

11. COSLA highlighted the extent of the financial challenge in our evidence to both the Scottish Government's Independent Budget Review (IBR) and the Christie Commission on the Future Delivery of Public Services. At the time we said that the gap between resources required and funding available into the future will widen exponentially, if we continue to provide the same services, and that actions by local government alone could not bridge the gap. We called therefore for a wider policy review which would recognise that the whole public sector needs to look again at the way in which services are provided. We welcomed the willingness for a debate on a challenge which we all recognise needs to be addressed and we supported the Christie recommendations, which recognised that public sector reform is needed to respond to the demographic pressures and that a preventative approach is key to taking demand out of the system and improve outcomes for people.

12. In our submissions to the IBR and Christie we asked some fundamental questions about the willingness to look seriously at the capacity of the public sector to provide services universally, that communities have responsibilities to play their part and that transformational change is needed to take demand out of the system. These are difficult questions and, whilst there has been good progress not the least being the move to establish change funds, the questions still need to be asked. For example whether universal provision can continue in its current shape without at least considering that such policy choices need to be founded with a full understanding of the opportunity cost in making these choices.

13. We are not sitting back though, local government is pushing forward with a wide range of actions to try to close the gap. These include re-designing services and modernising working practices, driving through efficiencies and engaging in sensibly planned shared service arrangements where appropriate. We say a little more about what we have been doing to establish change funds in the sub section below.

14. However, even with the actions taken by local government and our partners, there is a question as to whether any of this goes far enough. Local government has long known about this challenge, as have others, however big questions remain to be fully debated

about how increasingly scarce resources should be deployed into the future to improve outcomes for all citizens, in light of demographic change and an ageing population.

Change Funds

15. The Committee should be aware that we are actively working in partnership with the Scottish Government and our Community Planning partners to re-focus funding toward preventative approaches, this in our view being the right way forward in making inroads into closing the funding gap and ultimately a better use of resources to improve outcomes for older people. An older people's change fund of £70 million was established in 2011/12 and, whilst the sums involved are modest, we believe that this does demonstrate a willingness to begin to address these issues more effectively. More can be done and we anticipate that future spending reviews will reflect the direction of travel already initiated.

Key areas of interest to the Committee

16. The rest of this submission covers key areas of interest raised by the Committee with regard to the impact of demographic change on the provision of health and social care, housing and pensions and the labour force. The work being undertaken by local authorities to plan to mitigate the budgetary impacts is drawn out under each of these areas.

17. The sections of this part of the submission are set out as follows:

- Section A: older people health and social care
- Section B: demographic change and labour force
- Section C: demographic change and pensions
- Section D: older people and housing

Section A: demographic change, older people health and social care

18. Planning for the impact of demographic change has been the focus of considerable modelling, analysis and policy development work over the last decade. It is widely accepted that the impact of demographic change will be significant, with the number of people aged over 65 expected to grow by around 1.6% every year.¹ This growth is particularly concentrated among the 'older' old - those most likely to require long-term care.

19. The impact of demographic change has been the subject of political debate nationally and locally for some time, but it had particular political resonance when the sustainability of Free Personal Care for older people was questioned by Audit Scotland in 2007.² In the four years that passed between the policy's introduction in July 2002 and 2005/06, Audit Scotland identified a funding gap of up to £63 million.

20. Following the 2007 Scottish parliamentary elections and the publication of the Audit Scotland report, the Scottish Government commissioned Lord Sutherland to further explore the sustainability of Free Personal Care.³ Lord Sutherland came to the view that the policy was underfunded by £40 million and recommended that the Scottish Government should increase the local government settlement by that amount, while recognising that this would need to be reviewed again by 2013.

¹ Lord Sutherland's Review of Free Personal Care, 2008. Paragraph 216
<http://www.scotland.gov.uk/Publications/2008/04/25105036/0>

² Audit Scotland, 'A Review of Free Personal and Nursing Care', 2008
http://www.audit-scotland.gov.uk/docs/health/2007/nr_080201_free_personal_care.pdf

³ Lord Sutherland's Review of Free Personal Care, 2008.

21. The Sutherland Review provided a well-considered analysis of the likely challenges associated with the delivery of health and social care services within the context of an ageing population. The last chapter of the Sutherland Review, authored by Professor David Bell of Stirling University, concludes that “costs mainly payable by the Scottish Government... [will] increase from 1.4% of Scottish GDP in 2006 to 2.7% in 2031. Unless there is a marked increase in the share of taxation in the Scottish economy, quite significant cuts will have to be found in other programmes to continue to fund the present structure of care.”⁴ To provide some context for this, the same report estimated that a 1p increase in the basic rate of income tax in Scotland would raise £370 million or 0.4 % of GDP.

22. This conclusion highlights quite straightforwardly the choices we face as a result of demographic pressures: to deliver services differently; to provide less service in some areas; to ask the Scottish population to pay more; or a combination of all of the above.

23. Understandably, the focus of our efforts in Scotland has been on the first of these interventions: doing things differently. We started to focus on this change agenda with Reshaping Care for Older People⁵, which concluded that if we fail to change our service models “we will require an estimated annual increase in investment in health and social care services for older people of £1.1 billion by 2016 and £3.5 billion by 2031.”

24. The prospectus that Reshaping Care set out was based on stripping back demand by preventing high cost care which very often delivered poor outcomes. We needed to assist more people to live independently in their own home, supported by a network of professional and unpaid carers. This policy formulation was not necessarily new but it served to highlight the necessity of reform.

25. The last chapter of the Reshaping Care policy document sets out two key areas of work:

- To demonstrate that all of the current resources (approximately £4.5 billion per annum) spent on the care of older people is being used in the best possible way to meet agreed policy goals; and
- To consider how additional resources can be secured to support care services into the future. This might require the state to raise more money or to look at a range of options... influenced by the UK Government’s response to the recommendations of the Dilnot Commission.

26. The most recent iteration of our work to deliver maximum effectiveness is expressed through the Scottish Government’s health and social care integration proposals, which will deliver integrated budgets and - for the first time - the levers to shift the balance of care from secondary care to primary and community care. However, while the work on integrating health and social care is hugely important, as a result of the energy expended on that agenda, we have not been able to maintain our focus on the funding of care.

27. It is also true that we have held back while the UK Government reflects on work of the Dilnot Commission.⁶ Commissioned by the UK Government, this report makes clear

⁴ Ibid., paragraph. 231

⁵ Reshaping Care for Older People: A Programme for Change 2011-2021

<http://www.jitscotland.org.uk/action-areas/reshaping-care-for-older-people/>

⁶ Commission on Funding of Care and Support, 2011 <http://www.dilnotcommission.dh.gov.uk/our-report/>

that “we need to spend more on social care – both now and in the future. This needs to come from both individuals and the state.” Although intended to reform arrangements in England and Wales only, the work of the commission recommends that an individual’s lifetime contributions towards their social care costs – which are currently potentially unlimited – should be capped at £35,000. The cost to the Treasury of introducing this policy in England and Wales would have been £1.7 billion in 2010/11.

28. In the absence of a UK Government response, COSLA urges the Finance Committee to consider the work of the Dilnot Commission, which is a thoughtful and sober account of the type of investment required to sustain social care into the future. Irrespective of whether the UK Government endorses the approach recommended by Dilnot, we need a similar discussion about the funding of care in Scotland.

29. In the final analysis it is clear that this is a debate that cannot be postponed. Irrespective of the success of health and social care integration, it will not close a funding gap which will amount to billions of pounds within the next few years.

Section B: demographic change and labour force

30. Local government is one of Scotland's largest employers, employing over 280,000 people, including many of society's most valued workers. With around £8 billion spent on staff costs⁷, councils know that their workforce needs to be properly planned, skilled and rewarded if it is to deliver the best possible outcomes for communities.

31. Scotland’s councils are operating in a changing environment as they re-orientate towards managing outcomes and expansion of alternative methods of service delivery. In social care for example, greater emphasis on commissioning, partnership working and joint delivery means that councils themselves often do not directly employ large parts of the workforce.

32. These factors, combined with public funding pressures, mean that councils are taking forward a range of activities to re-design their workforces. The challenge they face is not simply to resize the workforce to reflect net resource reductions, it is to rebalance and reprioritise spending towards demand growth and a hard focus on the shape, size and structure of the workforce that is necessary.

33. The impact of demographic change and an ageing population are important factors within this complex mix. Amongst the many challenges, it means that local authorities will have to prepare for an ageing population, plan for large numbers of people to retire over the next few years, and ensure that they attract sufficient young, skilled professionals to the workforce .

Modelled estimates for age and gender profile of the public sector (excl. financial institutions), Scotland, Q2 2011

	16-24	25-34	35-49	50+	All
Male	9,600	36,100	84,800	63,100	193,700
Female	16,100	70,400	162,500	120,400	369,400
All	25,700	106,500	247,400	183,600	563,100

⁷ An overview of local government in Scotland - Challenges and change in 2012, Accounts Commission, March 2012 http://www.audit-scotland.gov.uk/work/local_national.php?year=2011

Modelled estimates for age profile of local government in, Scotland, Q2 2011

	16-24	25-34	35-49	50+	All
Male	5,000	17,600	38,500	34,300	95,300
Female	9,000	34,700	82,600	67,400	193,700
All	14,000	52,300	120,900	101,700	289,000

34. In terms of the local government workforce, the highest percentage (42%) of local government employees are in the 35 to 49 age bracket (and therefore likely to be affected by pension reforms with further years of work ahead). 35% of the local government workforce is aged 50 or over and facing the future of retirement in the short to medium term. There are significantly less employees in the younger age brackets in local government with 18% in the age 25-34 group and only 5% in the 16-24 age group. It is worth noting that there is a consistent split in terms of gender with approximately 65% of the workforce noted as female within every age range.

35. The figures for the wider public sector in Scotland are very closely aligned to those of the local government workforce. Again, the largest percentage (44%) is found in the 35-49 age group with the over 50s as the second largest on 33%. 19% of the workforce is found in the 25-34 range with again only 5% in the 16-24 category. And, again, there is a similar gender split of approximately 65% females in each age category.

36. These are difficult challenges, and although the contraction of the wider labour market associated with the economic downturn has to an extent allowed local government to position itself as an employer of choice in the recruitment of new talent, a significant workforce planning challenge has been around the sustainable recruitment, retention and development of skilled personnel to meet demand in some key areas such as social work and teaching, and in some of the more remote communities in Scotland.

37. Work by the Audit Commission⁸ suggests that stark figures in relation to English and Welsh local authorities, which have a close correlation to the Scottish experience:

- 87% of councils report difficulties in recruiting and retaining professional staff.
- More than 75% of the 2020 working age population is already over 16.
- Over 70% of the public sector workforce gained their qualifications more than 10 years ago.
- Over 30% of council employees will reach retirement age in the next decade.

38. At the same time, authorities' ability to predict future workforce needs has also been made more complex by wider pressures on public finances. Councils have understood that headcount cannot be maintained at historic levels if they are to ensure their workforces are affordable and sustainable for the longer term. They have been realistic about the steps they need to take, and made significant use of early or voluntary retirement schemes to downsize their workforce. Between 2007 and 2011, staffing numbers for headcount and full-time equivalent fell by 4.1 per cent (12,400) to 289,400 and 4 per cent (9,900) to 239,700 respectively.⁹ Many have therefore seen considerable

⁸ Tomorrow's people: Building a local government workforce for the future, Audit Commission, 2008
<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/tomorrowspeople.aspx>

⁹ Scottish Government staffing watch, September 2011.

reductions in the number of older people within their workforce. These schemes have meant that local government has widely delivered its commitment to avoid compulsory redundancies, but in this context, the challenge has been to ensure that councils have in place the right people with the right skills to meet current and future requirements, particularly as associated freezes on non-essential recruitment have significantly slowed the rate at which younger staff are recruited into the workforce.

39. In addition, although councils have long applied a flexible approach to retirement and strived to achieve a diverse workforce profile that reflects the communities they serve, the removal of the Default Retirement Age (DRA) in 2011 has formally given employees more choice about when they retire and made 'employer-forced' retirement unlawful. To date there is little evidence that significant volumes of staff are working for longer as a result, or that these changes are restricting younger workers from accessing opportunities. Nevertheless in the medium and longer term, increases in state pension age and uncertainty around the current economic climate make it more likely that employees will want to retire later in the future. This, in turn, may impact upon the likelihood that local government and their partners can use their own positions as key employers to address the rising figure of youth unemployment as part of their priority outcomes.

40. Effective workforce planning is therefore fundamental to councils' strategic planning process. Where a national approach can add value, this has been put in place, most notably in relation to teaching and social work staff (some 43% of the total workforce). Yet, although there are extensive and varied agencies involved in planning and development activities for local government, there is no evidence that a generic national workforce diagnostic and planning approach for workforce planning across Scottish local government would help prepare for these challenges. Rather, as the size, nature and timing of specific issues are dictated by local demographic profiles and individual councils' plans and priorities, the associated responses to these are similarly best determined at local level. Although national resources, tools and support can ensure that councils have consistent capacity, practical solutions, by necessity, demand work locally to understand workforce intelligence clearly and manage resources accordingly.

Section C: demographic change and pensions

41. Given that people are traditionally living longer, this in turn means that people will be receiving any pension entitlement for longer, both from their state pension or any private pension which an individual has accrued. The impact of growing life expectancy will mean that there is a need to ensure that all pension schemes are appropriately resourced in order to meet these increased pensions liabilities.

42. The Committee will be aware that public sector pensions are funded from contributions which are received from both employers and employees in order to pay for on-going pension liabilities. In addition, the LGPS is a funded scheme, and as such it uses the total contributions received from employers and employees to invest in assets in order to meet the long term cost of pensions.

43. Public sector pension schemes are subject to triennial actuarial valuations where the main purpose is to make a financial assessment around the current state of the public sector pension schemes, and to make recommendations as to the future contribution rates which are required in order to meet the long term funding requirements of the scheme. These valuations are underpinned by a number of projected actuarial assumptions, including the life expectancy of the membership of the scheme.

44. Unfunded schemes also rely on a discount rate which is set by HM Treasury and is used in addition to the valuations to determine the level of contribution rates which are required in order to meet future pensions liabilities. Whilst this has been subject to review, the discount rate is not reviewed on an on-going periodic basis. The impact of longevity assumptions can result in significant increases to required contribution rates, and therefore the Finance Committee may wish to keep a watching brief on future HM Treasury reviews, to ensure that the on-going pensions requirements of the scheme continue to be appropriately reflected.

45. In addition, funded schemes remain subject to market conditions and the extent to which the market conditions are favourable can have a substantial impact on the funds ability to meet any increased pension's liabilities. By way of example, between 1999 and 2011 the improvement in life expectancy in one of the main LGPS funds in Scotland has increased the pension fund liabilities by around 11%, or £214m across this time period. If the level of investments falls, this will have a substantial impact on the funds' ability to meet the extent of these future longevity projections, and in turn this will impact on the level of contribution rates which are required to meet on-going liabilities.

46. The impact of an ageing population has undoubtedly created challenges in terms of pension provision, and the UK Government has now embarked on a series of reforms in an attempt to address these challenges, including: changes to the amount of state pension individuals receive, an increase to the date at which an individual can receive a state pension, as well as much wider reforms to all of the main public sector pension schemes which are currently provided to the public sector workforce.

47. The Finance Committee will be aware that the Scottish Government has similarly embarked on a series of reforms to all of the main public sector pension schemes in Scotland. Local government remains committed to delivering public sector pension schemes to our workforce which are both affordable and sustainable to scheme members and employers alike. Local government's workforce can be members of either the Local Government Pension Scheme (LGPS) or the Teachers' Pension Scheme in Scotland, and COSLA will be working jointly with the Scottish Government to deliver these reforms.

Section D: demographic change, older people and housing

48. The practical immediacy of social care support for older people has to some extent overshadowed the existing discussions, planning and progress underway in meeting the housing needs of our aging population. This is partly because of the simplified approach as seeing older people as either needing care, or not, in care homes. The reality though is that many people, despite their increasing age, will need no or little support in terms of home helps and adaptations and that much need can be met through low levels of service provision, assuming that the design, size, condition and location of housing is appropriate.

49. Social landlords have already made considerable progress in the development of accessible housing with low and intermediate levels of support. However, the challenge facing us is how Scotland will size, plan and meet the housing needs of a rapidly growing retired population during a period where poverty is expected to increase significantly for some, and during a period when the capital investment in social housing has dropped and building in the private sector is at an all-time low. For Scotland to meet its aspiration on outcomes based on early intervention and prevention we need a planned and delivered housing supply that responds to people's needs as they get older. If new housing in Scotland is accessible and adaptable it will better meet the needs of older people and obviate the need for expensive adaptations later in the life cycle of a household.

50. Demographic considerations inform councils' local development plans. All relevant local planning policy and guidance is based on census and other official population data. Projections on future housing demand for older people is based on council's Housing Needs and Demand Analysis and covers all forms of housing including residential care provision. Planners understand the SG policy context of shifting the balance of care towards keeping people in their own homes/communities for as long as possible. Planning and building standards have a strong role in relation to modification or adaptation of existing accommodation wherever planning permission is required. However, developers may be reluctant to intervene if the obligations placed a risk on their profit margins. But it is important to be able to use the development plans and other documents if we are to shape localities to respond fully to the demographic challenges.

51. Case studies are available giving examples of how councils accommodate demographic issues particularly around older people, and the balance between residential care, care in the community etc., when developing their planning policy. (<http://www.moray.gov.uk/downloads/file76104.pdf> and <http://www.north-ayrshire.gov.uk/Documents/CorporateServices/LegalProtective/LocalDevelopmentPlan/LDPPart2.pdf>)

52. Scottish councils provide homes to some 320,000 households, with housing associations providing 275,000. There has been a slow decline in total social housing stock over the last six years from 613,000 to 594,000. Supported housing forms a small part of this and is provided by both councils and housing associations. In addition, councils provide housing support services to help meet specific housing needs of older and other vulnerable people to give them the opportunity to continue to live in their own homes. Housing for people with variable needs is currently mainly classified as very sheltered, sheltered, medium dependency, wheelchair and ambulant disabled, although figures can vary from year to year as dwellings may be adapted to suit the particular needs of tenants, or re-classified by providers.

53. The amount of very sheltered accommodation has shown consistent increases, rising seven fold between 1996 and 2010. Figures for sheltered accommodation have remained fairly constant over the same period at around 34,000 units. The less specialised medium dependency housing has shown an overall drop over the same period while Housing adapted for wheelchair use by disabled people has had a nearly threefold increase to 6,300 in 2010. Councils will expect demand to rise as the older population increases although private companies building retirement homes are expecting to meet some of the demand for medium and low dependency housing.

54. Councils will be in the position of making small incremental progress towards the housing strategy for older peoples' goals as resources allow. Whether this will be sufficient to meet the identified need and whether the longer term housing aspirations can be met will be dependent on the size of the envelope of resources available to local government. COSLA believes that for the future housing needs of older people to be met the emerging resource pressures on housing need to be addressed and further consideration given to the availability of funding in future years from the Scottish Government's affordable housing supply budget. In 2011/12 the Scottish Budget for affordable housing supply was £268 million, whilst for 2014/15 the budget is £160 million. However, in addition to the Scottish Budget, the Government is investing a further £100 million between 2012/13 and 2014/15 for affordable housing supply.

55. The need to make best use of Scotland's existing housing has never been more pressing. Responsive adaptations services; pro-active repairs and maintenance services; making best use of purpose built stock such as sheltered housing, are already clearly evident in local authority practice. Some local authorities complete adaptations on demand as the need arises. Needless to say, more can and will need to be done. It may be that a way of supporting this would be for housing authorities to gain access to resources available under preventative spending initiatives such as the Change Funds.

56. COSLA has raised with the Scottish Government the issue of the constraints placed on the removal and recycling of adaptations as being a wasteful drain on our scarce resources. This matter is currently being discussed at the Adaptations Working Group. In addition the Scottish Government is funding the development of the Accessible Housing Register to try to ensure that best use is made of adapted properties.

57. Home help or "homecare" services are an obvious example, but there are others: some councils operate "handyman" or similar type schemes in particular estates or sheltered housing complexes and many support local "Care and Repair" schemes with significant financial grants. Home safety campaigns are commonplace.

58. Relevant, good quality information and advice is a prerequisite for older people in making effective decisions about their housing choices. Local and Scottish Government have the 'Housing Options Hubs' which have been primarily used to assist people facing homelessness. They have been very effective in reducing the demand for temporary accommodation. It is likely that an extension of the housing options approach to older people as a group would help this, although the creation of a "one stop" website for care and housing information for older people should also be considered.