

FINANCE COMMITTEE

DEMOGRAPHIC CHANGE AND AGEING POPULATION INQUIRY

SUBMISSION FROM ROYAL SOCIETY OF EDINBURGH

Summary

- Variation in migration assumptions will make a considerable difference to fiscal sustainability. As the UK does not (yet) employ a systematic means of recording migrants, migration is difficult to measure and predict. Migration levels are currently influenced by factors out with the control of the UK and Scottish Governments, and should be kept under review.
- Fiscal sustainability is influenced by the extent to which, as a country, we embed healthy ageing and preventative interventions into our current and future priorities. While healthy life expectancy in Scotland has increased, it remains lower than the UK average; and there is a large variation in healthy life expectancy within Scotland. It is important that preventative measures are aimed not merely at avoiding death but also at reducing morbidity, enhancing quality of life, increasing people's contribution to society and reducing their demand on services. The economy as a whole will benefit from the adoption of this approach.
- With marked real term declines in public spending for the foreseeable future, the emphasis must be on securing best value from the available expenditure. To achieve this, radical reform of the current adult health and social care systems is required. We welcome the steps being taken by the Scottish Government to integrate adult health and social care services and budgets. In taking this forward, it will be important to ensure that local authorities, the NHS and their partners work closely together with voluntary and independent organisations.
- Personal choice in care provision requires that people are better informed about the care options available and empowered to make cost-conscious decisions that deliver the care support that is most appropriate for them. The Scottish Parliament's Health and Sport Committee has been considering the Social Care (Self-directed Support) (Scotland) Bill. The Finance and the Health and Sport Committees should work together and satisfy themselves that sufficient financial resources will be available to implement the provisions of the Bill.
- It is urgent that all central policies are re-evaluated with a level of realism as to what is absolutely essential to the Scottish public and economy. No policy should be protected until both the cost/benefits and opportunity costs – social, economic, and environmental – of its delivery are critically evaluated. The evaluation should apply across the board, including to policies involving universal benefits with consideration given to the extent of their preventative contribution to healthy ageing.
- Scotland's budgetary framework is in need of reform. The annuality of the current budget process should be reviewed as it restricts longer-term prioritisation of spend and reduction of costs at a time of tightening public expenditure. This was highlighted by Audit Scotland in 2009. The Finance Committee should instigate a rolling programme of performance reviews of major policy areas and whole systems of service delivery over the lifetime of a Parliament. Public bodies should have clear incentives to develop innovative ways of working, and the Scottish people confidence that services are being delivered as efficiently as possible.

- The Scottish Parliament Committee structure is well placed to institute a longer-term framework which takes cognizance of demographic change and befits an ageing population. Fundamental to this is the extension of Scotland's record-linkage to social care and benefits; and detailed, sophisticated, cross-sectoral longitudinal analyses. The Finance Committee and the Scottish Government should engage with the Healthy Ageing in Scotland (HAGIS) project and support the establishment of a Scottish longitudinal survey of ageing.

Background

1. The Royal Society of Edinburgh (RSE), Scotland's National Academy, welcomes the invitation to respond to the Scottish Parliament Finance Committee's inquiry on *Fiscal Sustainability: Demographic Change and Ageing Population*. The Finance Committee has already hosted a series of leading discussions on the topic of fiscal sustainability and considered a number of the issues raised by the current inquiry. Demographic change and ageing population are a major issue for Scotland and, indeed, of worldwide significance.

2. The RSE is well placed to respond to the wide-ranging issues raised by the inquiry because of the multi-disciplinary breadth of its Fellowship. This permits RSE readily to draw upon, in preparing this paper, advice from experts from the fields of economics, statistics, population change, population health and public policy. We comment on the broad issues raised by the inquiry before addressing the questions posed in the call for evidence; see appendix to this paper. We would be pleased to discuss further any of the comments made in our response with members of the Finance Committee.

General Comments on Demographic Trends

3. Population ageing, defined as increases in the proportion of the population who are in older age groups, is dynamic and influenced by fertility (which increased for a time after 2004) as well as other aspects of population change (e.g. the age profile of net migration). Population ageing may decrease as the smaller cohorts currently of working age reach older ages. But, the age structure of the Scottish population beyond 2035 will also be influenced by future trends in fertility and migration.

4. Variation in migration assumptions will make a considerable difference to fiscal sustainability. As the UK does not (yet) employ a systematic means of recording migrants, migration is difficult to measure and predict.¹ Whereas the Office for Budget Responsibility (OBR) paper² refers to projected migration flows, the Finance Committee's inquiry does not make explicit reference to migration (though it is encapsulated within demographic change). Migration levels are currently influenced by factors out with the control of the UK and Scottish Governments, and should be kept under review.

5. The old age dependency ratio (i.e. the ratio of those over retirement age to those in work) is relatively straightforward to calculate and can be adjusted to

¹ The spending implications of demographic change (10/60); SPICe; 17 September 2010
<http://www.scottish.parliament.uk/SPICeResources/Research%20briefings%20and%20fact%20sheets/SB10-60.pdf>

² Fiscal Sustainability report; Office for Budget Responsibility; July 2011
<http://budgetresponsibility.independent.gov.uk/fiscal-sustainability-report-july-2011/>

incorporate increases in state pension age (as in the SPICe paper³). What the ratio means for fiscal sustainability is less clear, however, because it does not directly measure 'dependency' - as in demand for health and social care. Indeed, a substantial number of those over retirement age provide informal care to others (often spouses). This important contribution to the care of the older population is likely to reduce the pressure on the statutory social care and health providers but there is a need to provide these carers with basic support such as respite services.

Healthy Ageing

6. 'Healthy ageing' is therefore a central issue in the fiscal pressures of demographic change, particularly in relation to the direct costs of health and social care. While healthy life expectancy in Scotland has increased, it remains lower than the UK average; and there is a large variation in healthy life expectancy within Scotland.⁴ Tackling levels of obesity, smoking and alcohol and drug misuse remains a significant challenge.⁵

7. We recognise that reducing health inequalities in Scotland is a priority for the Scottish Government, which has provided around £1.8 billion between 2008/09 and 2010/11 to help address this major issue. Audit Scotland is assessing Scotland's performance in tackling health inequalities and the effectiveness of its current approaches.⁶ We hope both the Finance Committee and the Health and Sport Committee will consider Audit Scotland's report (due later in 2012) as part of their ongoing work in this important area.

8. Fiscal sustainability is influenced by the extent to which, as a country, we embed healthy ageing and preventative interventions into our current and future priorities. In a number of fora, both in the UK⁷ and internationally, focus on healthy ageing ranges from genetic and molecular perspectives (the underlying biological mechanisms) to social and cultural dimensions. It is important that preventative measures are aimed not merely at avoiding death but also at reducing morbidity, enhancing quality of life, increasing people's contribution to society and reducing their demand on services. The economy as a whole will benefit from the adoption of this approach.

9. Two major drivers of healthy ageing are diet (quantity and quality) and physical activity - both over the lifespan and specifically during the later years of life. A nutritionally balanced diet, together with an active lifestyle which encompasses a good level of exercise, is likely to prolong the period before poor health becomes a significant burden, both to the individual and to society as a whole.

10. Markedly to improve the Scottish diet and to increase physical activity levels are considerable challenges. In the long-term, successful interventions will not only

³ Ibid. 1

⁴ Overview of the NHS in Scotland's performance 2010/11; Audit Scotland; December 2011
http://www.audit-scotland.gov.uk/docs/health/2011/nr_111215_nhs_overview.pdf

⁵ Ibid. 4

⁶ Health Inequalities project brief; Audit Scotland; April 2012
http://www.audit-scotland.gov.uk/docs/fwd/pb_health_inequalities.pdf

⁷ See the Lifelong Health and Wellbeing (LLHW) programme which was launched in 2008. This is being led by the Medical Research Council on behalf of the other Research Councils
<http://www.mrc.ac.uk/Ourresearch/ResearchInitiatives/LLHW/about/index.htm>

reverse the current epidemic of obesity, but increase healthy ageing and alleviate health and social care costs.

Integration of Health and Social Care

11. We note that at present supported care is provided for 90,000 older people in Scotland and the total cost of this care is estimated to be £4.5 billion per annum.⁸ Unplanned admissions to hospital are estimated to account for approximately £1.5 billion of this amount.⁹ We are aware of inequality, and the variable delivery of support services in different areas of Scotland.¹⁰

12. With marked real term declines in public spending for the foreseeable future, the emphasis must be on securing best value from the available expenditure. We applaud the Scottish Government for recognising that, in order to achieve this, radical reform of the current adult health and social care systems is required. We welcome the steps being taken by Government to integrate adult health and social care services and budgets. The aim is to make better and more consistent use of the substantial resources that are committed in these areas for the benefit of older people in Scotland; and aligns with the notion of supporting people to stay at home or in another homely setting, as independently as possible, for as long as possible. The Government is currently consulting on its proposals,¹¹ with a view to introducing legislation to implement the reforms, which is an extremely positive development – albeit much detail has still to be worked out.

13. Public bodies pay the voluntary sector around £1.9 billion a year and over half of this is spent on social care and development services and 11 percent goes on healthcare services.¹² To ensure that packages of care are put together to meet the needs of individual users, it is important that local authorities, the NHS and their partners work closely together with voluntary and independent organisations.

14. Personal choice in care provision requires that people are better informed about the care options available and empowered to make cost-conscious decisions that deliver the care support that is most appropriate for them. The Scottish Parliament Health and Sport Committee has been considering the Social Care (Self-directed Support) (Scotland) Bill, which aims to give people more choice and control over the support they receive. We note that clarity is being sought about the cost of implementation and we encourage the Finance and the Health and Sport Committees to work together on this issue until they are both satisfied that sufficient financial resources will be available to implement the provisions of the Bill.

15. It will also be essential to ensure that professional staff in local authorities and the NHS are adequately trained to give their clients the support they need in deciding the packages of care best suited to their individual circumstances. This is likely to

⁸ See The Report of the National Care Service Expert Panel, March 2011

<http://www.scottishlabour.org.uk/arbuthnott-publishes-report-on-national-care-service>

⁹ Ibid. 8

¹⁰ Ibid. 8

¹¹ Integration of Adult Health and Social Care in Scotland: Consultation on Proposals

<http://www.scotland.gov.uk/Publications/2012/05/6469/>

¹² Scotland's Public Finances: Addressing the challenges; Audit Scotland; 2011

http://www.audit-scotland.gov.uk/docs/central/2011/nr_110825_scotlands_public_finances.pdf

involve changes in organisational culture for those social work services which have concentrated in the past on directly providing services.

Budget Setting Process

16. Achieving a fundamental shift in spending priorities at a time of exceptional pressure on public expenditure is extremely difficult. Nevertheless, Scotland must ensure that it can deliver improved outcomes in key areas, including health, social care and education, and the consequences of decisions made in this difficult period will be felt for years to come. It is urgent that all central policies are re-evaluated with a level of realism as to what is absolutely essential to the Scottish public and economy. No policy should be protected until both the cost/benefits and opportunity costs – social, economic, and environmental – of its delivery are critically evaluated. The evaluation should apply across the board, including to policies involving universal benefits with consideration given to the extent of their preventative contribution to healthy ageing.

17. As financial pressures grow, local authorities and other public bodies, understandably, are concentrating resources on people with the greatest needs. However, if others with more limited needs do not receive support, there is the risk that their level of dependency will increase more quickly than would be the case if they received some preventative support in their own homes at an earlier stage. The Marmot Review¹³ into health inequalities in England refers to ‘proportionate universalism’ whereby universal actions should be proportionate to the level of disadvantage, and, to the effectiveness of redress.

18. The allocation of resources within Scotland can be brought in line with patterns of need but this will require reform of Scotland’s budgetary framework. In this context, the annuality of the current budget process should be reviewed as it restricts longer-term prioritisation of spend and reduction of costs at a time of tightening public expenditure. This factor was highlighted by Audit Scotland in 2009 and remains relevant today.¹⁴ The current approach does not allow the rigorous assessment of value for money and opportunity cost which we recommend in paragraph 16, and it is unlikely to take full account of the longer term demands arising from an ageing population and demographic change.

19. We support Audit Scotland’s view that year-end reports should relate outturn spending to resource allocations and performance targets. The long-term nature of many of the desired outcomes requires annual information on the cost, activity and quality of services delivered. The Finance Committee should instigate a rolling programme of performance reviews of major policy areas and whole systems of service delivery over the lifetime of a Parliament (or which overlap parliamentary terms). Public bodies should have clear incentives to develop innovative ways of working, and the Scottish people confidence that services are being delivered as efficiently as possible.

¹³ Fair Society, Healthy Lives (The Marmot Review); February 2010

<http://www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review>

¹⁴ Scotland’s Public Finances: Preparing for the future; Audit Scotland; November 2009
http://www.audit-scotland.gov.uk/docs/central/2009/nr_091105_scottish_public_finances.pdf

Planning and Data Linkage-Based Research

20. While Governments will always be pressurised to deal in the shorter term, the Scottish Parliament Committee structure is well placed to institute a longer-term framework which takes cognizance of demographic change and befits an ageing population. Planning for the longer term properly puts demands on the provision and analysis of a richness of data to increase our understanding of the issues. We recognise that Scotland is almost unparalleled in its collection of administrative health data with record linkage already embedded in Scotland's health sector. There is, however, scope for extending data linkage within, and beyond, the health sector, to include social, educational, criminal justice and other areas. In this context, we are pleased that the Scottish Government is working with others to develop a Scotland-wide Data Linkage Framework,¹⁵ which should deliver an improved cross-sectoral evidence-base to inform public policy and spending decisions. We suggest that the Finance Committee engages with the Scottish Government and research community on the development of the Framework to ensure that its needs in this area are met.

21. The Data Linkage Framework aims to promote longitudinal research. While there is the English Longitudinal Survey of Ageing (ELSA) and the Irish Longitudinal Study on Ageing (TILDA), Scotland is unusual in Western Europe as it does not currently have such a cohort-study and is reliant instead on its record-linkages. However, there is added value when record-linkage is supplemented by bespoke biological samples, behavioural and cognitive function data, carer information, and quality-of-life assessments, the provision of which needs participants' informed consent. We are aware that Professor David Bell and colleagues have put together a bid for a Scottish longitudinal survey of ageing: the Healthy Ageing in Scotland (HAGIS) project. There is considerable value not only in understanding aspects of ageing in Scotland but also in exploring international comparisons and analysis.

22. Like the UK, Scottish society is characterised by a high level of inequalities in income, health and other areas of public policy which can be compounded as people grow older. We need to understand better why this is the case, and importantly, what can be done preventatively. The ability to track changes of residence/migration, along with health indicators and socio-economic data (such as benefits claims), would be particularly valuable and could refine projections of future demand for social care at local authority level. We encourage the Finance Committee and the Scottish Government to engage with HAGIS and support the establishment of a Scottish longitudinal survey of ageing.

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?

23. The implications of an ageing population will depend on whether the present trend is sustained; this being the basis of many current predictions. Life expectancy has been increasing and the general expectation is that this trend will continue.¹⁶ However, an alternative prediction is that the increase in longevity of the past decades will not be maintained. Recent trends in diet, lifestyle factors and physical

¹⁵ See <http://www.scotland.gov.uk/Topics/Statistics/datalinkageframework>

¹⁶ Ibid. 1

activity might lead to historical health gains being reversed. The longer term effect of this could be a reduction in life expectancy. While this scenario could mitigate the funding issues associated with pensions and housing, it is likely that it would lead to an increase in demand upon the health service and disability and benefit requirements due to increased incidence of diseases associated with obesity, such as type 2 diabetes, coronary heart disease and strokes.

24. Society as a whole needs to recognise the importance of ensuring healthy life expectancy. The effects of demographic change and an ageing population on the sustainability of funding for a) to c) will be influenced by the extent to which, as a society, we give thorough consideration to healthy ageing and preventative actions or care.

25. The Dilnot Commission on Funding of Care and Support in England estimates the risk at age 65 of needing residential care during future lifetime is 1 in 5 for men and 1 in 3 for women.¹⁷ Scotland is particularly vulnerable in terms of public expenditure because personal care is currently free to the recipient. The Dilnot Commission outlines a new model of shared responsibility for the costs of care, which are to be capped for the individual (at a level to be determined). The ability to downsize, or obtain deferred loans on the value of, a home in order to finance sheltered accommodation of one form or another is critical. Dilnot notes that care costs can be high and unpredictable – a quarter of those aged 65 today can expect to spend over £50,000 on care in their lifetime. Private insurers will not provide cover for this because of uncertainty about the final costs. Those without private savings and private pensions are particularly vulnerable.

26. The above implies that the need to build up savings and invest in private pensions while in work will increase. The UK has the fourth lowest state pension net replacement ratio for average earners among 34 developed countries.¹⁸ The move from defined benefit to defined contribution pensions means that the risk is transferred from the employer to the employee, which may make employers less averse to hiring older applicants. Increases in the retirement age already in train are an important defence mechanism, but the Government needs to examine whether the current provision for health services, social services and affordable housing is appropriate to changing demands. For example, there are substantial regional differences in health and mortality rates.

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

27. Planning will depend on trend detection and both short and long term predictive modelling. Short term responses based on present values will tend to lead to oscillation rather than a smooth adjustment appropriate to need. Accurate detection of trends or oscillations is related to the length of retrospective data. Any model used for trend prediction should include the possibility of adding random variable (stochastic) events.

¹⁷ Dilnot Commission on Funding of Care and Support; July 2011.
<http://www.dilnotcommission.dh.gov.uk/>

¹⁸ Fiscal Sustainability: Issues for the Finance Committee work programme 2012; Professor David Bell; January 2012

28. While governments will always be under pressure to deal with the shorter term, the Scottish Parliament's Committee structure is well placed to institute a longer term framework as demographic change and ageing population require. Longer-term planning should be an area for co-operation and consensus between the main political parties to maximise continuity of longer term policies when there is a change of Government.

29. Provision needs to reflect differences in incidence of cost-generating morbidities in different localities, which will increase the burden on some local authorities and some health boards more than others. Differences in the costs of different types of provision also need to be taken into account.

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

30. We refer the Finance Committee to our comments on the budget setting process in paragraphs 16-19. It is essential that the Scottish Government and Parliament have access to, and heed, the latest demographic trends and projections when evaluating and setting budgets. The weighting given to trends and projections will depend on the circumstances at the time budgets are being set. Decisions on both short term and long term priorities, policy and budgets must be considered and an appropriate balance struck.

31. However, as indicated in paragraph 5, the implications of trends and projections on fiscal sustainability may not be clear.

What data are 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 them (or should be made) to forecast what funding will be needed?

32. The provision of statistics is essential to inform this process and we refer the Finance Committee to our comments on data linkage in paragraphs 20 to 22. Fundamental is the extension of Scotland's record-linkage to social care and benefits; and detailed, sophisticated, cross-sectoral longitudinal analyses.

33. These need to distinguish urban versus rural provision, low income versus high income areas, and high mortality versus low mortality areas, as well as shifts of population between areas. The term 'working age population' implies that work over the traditional retirement age is unusual, but this will become increasingly inaccurate. Thus, the longitudinal element in the Labour Force Survey currently excludes those over retirement age, some variables are only collected for those of working age or in employment, and there is an upper age limit on whether certain data are collected. There are also significant gender differences that should be taken into account.

34. While Scotland is well placed in terms of work force planning data, surveys by employers should seek to capture employees' values and expectations e.g. their views on working longer into old age, and what sorts of working arrangements might facilitate this.

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?

35. Achieving a fundamental shift in spending priorities at a time of exceptional pressure on public expenditure is extremely difficult. Nevertheless, Scotland must ensure that it can deliver improved outcomes in key areas including health and social care, and the consequences of decisions made in this difficult period will be felt for years to come. However, the obvious difficulty in shifting to a more preventative approach is that, in the short to medium term, this will require more public spending, not less. Where evidence shows that interventions will be effective preventatively, such actions should be prioritised.

36. Scotland's Reshaping Care for Older People Change Fund is a laudable initiative. However, given that the annual financial commitment to the Change Fund represents less than 2% of the yearly expenditure on health and social care provision for people aged over 65 (expenditure of about £4.5 billion), it faces a significant challenge. Depending upon its evaluation, consideration could be given to re-directing a greater proportion of the health and social care expenditure into the Change Fund.

37. RSE notes that randomisation is a fair means of allocating a scarce resource (e.g. one which is presently unaffordable for all). Randomisation allows the uncertainty about the effectiveness of a proposed new policy intervention to be reduced. This would provide new, robust evidence on preventative effectiveness, for example to underscore the affordability of universal provision. RSE suggests that greater attention be given to formal experimentation in public policy in order to gain a better understanding of effectiveness.¹⁹

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?

38. The age distribution of the population and lifestyle related problems such as obesity cannot be separated. Both lead to an increased need for health care and benefits. As with healthy ageing, diet and physical activity are also key drivers in the development of obesity. In 2010, 28% of adults in Scotland were obese (Body Mass Index ≥ 30),²⁰ one of the highest rates in the developed world. Thus, measures to improve diet (reduce energy intake and increase nutritional quality) and to increase activity, thereby to reverse obesity, will also promote healthy ageing. It is noteworthy that, in Scotland, the proportion at risk of obesity increases with age and obesity is most prevalent in the 55-64 age group.²¹ The consequence is that many entering retirement do so when obesity as an underlying cause of ill health is at a peak, so that the ability to age healthily is already compromised.

39. It should be emphasised that apart from its important effects on mobility and physical activity, obesity matters primarily because of the diseases with which it is

¹⁹ Test, Learn Adapt: Developing Public Policy with Randomised Controlled Trials; Haynes *et al* (2012): Cabinet Office

²⁰ The Scottish Health Survey 2010; The Scottish Government; 2011
www.scotland.gov.uk/Publications/2011/09/27084018/

²¹ The Scottish Health Survey; topic report on Obesity; Scottish Government; 2011

associated – particularly type 2 diabetes, coronary heart disease and certain cancers. Being obese leads to a ~10-fold increase in the risk of developing type 2 diabetes for men, and an even higher risk for women – relative to those with a BMI of 22. And the more obese, the greater the relative risk.

40. As individual longevity increases, the number of illnesses each person experiences also tends to increase. Multimorbidity is the norm for people with chronic disease, and although its prevalence increases with age, more than half of all people with multimorbidity are younger than 65 years. Another point particularly relevant to Scotland is that the most socioeconomically deprived young and middle-aged people have substantially more multimorbidity than do their most affluent peers. The appropriate management of long-term disorders is a key challenge for health systems internationally, but there is scope to improve the efficiency of disease management by reducing the complexity and cost of polypharmacy.

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?

41. The housing stock will need to reflect the changing composition of the population and the proportion of older people, many of them living on their own and with restricted mobility. The Scottish Government's national strategy on housing for older people²² aims to support its policy of people remaining at home independently for as long as possible and reduce unplanned hospital admissions. Local authorities have a legal duty to address housing needs for their area and, as most of them are also social landlords, they maintain the public housing stock. As such, many demands will be placed upon them and it is important that they work in partnership with other organisations involved in delivering housing services to older people.

42. In its strategy, the Scottish Government has recognised the need to ensure that older people are able to access high quality information and advice about housing options and support for them to make informed choices about the services that can best support them.

43. In this context, consideration must be given to the extent to which the voluntary sector can be expected to provide housing interventions and how the sector will be supported at a time of a reduction in public expenditure. There is a risk that over-reliance on this sector could lead to unevenness of provision, potentially leaving gaps in coverage. We welcome the Government's statements on the need for strategic planning processes and partnership working. The Finance Committee should investigate the extent to which this is being reflected in practice.

44. Audit Scotland is undertaking an audit of public spending on Scotland's housing,²³ including the costs of different types of support and services provided, which is due to be published in spring 2013. The Finance Committee may wish to seek further information from Audit Scotland.

²² Age, Home And Community: A Strategy For Housing For Scotland's Older People: 2012 – 2021
<http://www.scotland.gov.uk/Publications/2011/12/16091323/0>

²³ Housing overview project brief; Audit Scotland.
http://www.audit-scotland.gov.uk/docs/fwd/pb_housing_overview.pdf

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?

45. The Scottish Government's strategy on housing for older people (chapter 5) refers to evidence for the cost-effectiveness of housing adaptations in supporting independent living and reducing accidents in the home: specifically, a Social Return on Investment study on adaptation in sheltered housing found that, for an average cost of £2,800, each adaptation was estimated to save the Scottish health and social care systems over £10,000.²⁴

46. The strategy acknowledges the investment in housing adaptations made to-date and recognises the need to ensure that investment is available to those who need adapted homes in the future. The Scottish Government's review of current arrangements indicates that there are opportunities to improve the adaptations' services and their cost efficiency. Equality in housing adaptations across Scotland should be a goal.

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?

47. Changes in the financial (and indeed regulatory) environment have had major repercussions for all pension schemes, in both the public and private sectors. This applies primarily, but not solely, to defined benefit (DB) schemes, which are becoming extremely rare across the private sector, with most companies moving to some form of defined contribution (DC) scheme. For DB schemes in particular, the problems have arisen because of issues related to both assets and liabilities. Assets are at risk as a result of the decline in, and unpredictability of, equity markets and the low values of other assets traditionally held by pension trusts. At the same time, liabilities have increased markedly due to a combination of increased longevity of scheme members and the much lower discount rates now perforce being applied to calculate the present value of liabilities, in virtue of historically low gilt yields. These 'double whammy' impacts on assets and liabilities have threatened the viability of many private sector schemes and accelerated the moves from DB to DC. Similar effects apply to many public sector schemes; and, for all such schemes, enhanced longevity has worked to increase the forecast liabilities and hence the cost of provision. In large part, the cost of increased longevity falls upon the active members of the scheme rather than those in retirement, which has implications for inter-generational equity.

48. The issue of public sector pension provision in Scotland is addressed in a 2011 paper from Audit Scotland²⁵ and by Professor David Bell in a set of papers on

²⁴ Bield, Hanover (Scotland) and Trust Housing Associations commissioned Social Return on Investment study; 2011

<http://www.trustha.org.uk/news/newsdetails.php?newsID=110>

²⁵ The cost of public service pensions in Scotland; Audit Scotland; 2011 http://www.audit-scotland.gov.uk/docs/central/2010/nr_110210_public_sector_pensions.pdf

public sector remuneration published earlier this year by the David Hume Institute (DHI).²⁶ On the basis of UK data (which probably can be taken to reflect Scotland's story), both employers and employees in the public sector contribute much more to pensions than their private sector equivalents. The switch from DB to DC has been much slower and more limited for the public sector. In 2010, 79% of public sector employees in the UK belonged to DB schemes as compared to 11% in the private sector. The difference in the scale of contributions and the type of schemes needs to be taken into account in public/private comparisons.

49. Recently a range of changes to public sector pension provision has been proposed, and in some cases implemented, all essentially to reduce public expenditure. These have generally been at the UK level. However, in some instances decisions regarding public sector pensions are already taken in Scotland, or could already be taken here under the terms of schemes. In all other instances, separate decision-making could only take place following full fiscal devolution or independence. As stated by Bell in his DHI paper: - 'A Scottish Government faced with very substantial potential liabilities from public sector pensions would have to be prepared to take some tough decisions around the equitable sharing of public sector pension costs between scheme members, public sector employers and the tax payer'.

50. Given the importance of these issues to sustainability of the public finances and their complexity, a specific study of public sector pension issues appears justified.

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?

51. In terms of improving current and future societal well-being, addressing the underlying trend of youth unemployment is an urgent priority. We note the Scottish Government has developed a Youth Employment Strategy. However, it is simplistic to assume that younger and older workers are directly substitutable. What appears important is for older workers to remain in employment for as long as possible, consistent with individual preferences. Those older workers who leave the labour force are unlikely to return. Employers with well developed internal labour markets may pay workers less than the value of their productivity in their early years, but compensate with payments greater than individual productivity in their later years in order to encourage a long term attachment. This currently encourages employers to offer early retirement deals. Attention needs to be paid also to the relative productivity of younger and older workers. Empirical evidence is somewhat contradictory: in some cases it may be more effective to move older workers into less stressful jobs or reduce their hours of work.

²⁶ Public Sector Remuneration in Scotland; Hume Occasional paper No 93; The David Hume Institute; May 2012
http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP_93_Public_Sector_Remuneration.pdf