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28 APR 1989

Dear Paul

COMMUNITY CARE

In your letter of 20 April you asked my Secretary of State to circulate a paper about local authority responsibilities for community care for discussion at the Prime Minister's next meeting on 4 May.

I attach such a paper. I ought to enter the reservation that although my Secretary of State saw and discussed with officials an earlier draft, there has not been an opportunity, given your deadline, to clear the details of this final version with him. Similarly, while the Departments of Health and Social Security and the Treasury have been consulted in its preparations, it has not been agreed in detail with their Ministers, who may have different views on some of the proposals in it.

I am copying this letter to the Private Secretaries of the Secretary of State for Wales, Scotland, Health, Social Security, the Chief Secretary and to Trevor Wooley (Cabinet Office).

Yours

A D RING  
Private Secretary

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COMMUNITY CARE: THE LOCAL AUTHORITY OPTION

Paper by the Secretary of State for the Environment

At the last meeting of the Group I was asked to prepare a paper, in consultation with Health, Social Security and Treasury colleagues, setting out how local authorities might be given overall functional and budgetary responsibility for community care.

Objectives

2. The great majority of care in the community for elderly people and others in need is provided informally by families, friends, neighbours and voluntary agencies. Our objective is to encourage and assist people to continue to maintain themselves in their own homes as much as possible, looking in the first instance for support from this informal network.

3. The role of the public sector is to encourage and strengthen this informal support, to arrange for supplementary domiciliary services where these are needed, and to arrange for the provision of residential care only when this becomes absolutely necessary or arrangements in the home become completely uneconomic. In order to enable the public sector to play this role properly we have reached the provisional conclusion that Sir Roy Griffiths was right in recommending that the public sector responsibilities need to be united in a single body and that the least worst alternative might be the local authority.



4. With a unified responsibility and a unified budget local authorities will have a real incentive to make the right decisions on community care and support for residential homes since they will be faced with the expenditure implications. And the accountability pressures which the community charge will introduce will ensure that they are fully aware of the need to find the most efficient solutions.

#### Extent of Responsibility

5. The public sector currently gives three types of support to elderly people and others in need when they are still in their own homes:

- (i) Income support, on a means tested basis towards basic living expenditure. This is provided by DSS.
- (ii) Housing benefit, on a means tested basis, as a support towards housing costs. Housing benefit is administered by local housing authorities but 97% of the benefit payments are reimbursed to the authorities by a grant from DSS
- (iii) Care services of various kinds. These are provided by local social service authorities. This includes meals on wheels, home helps, day centres etc. (The total net cost of domiciliary and day care, including administration, provided by local authorities in 1986/87 was £936 million.)

6. Residential homes are of two kinds - private or voluntary homes, and local authority homes. At present local authorities are not responsible for providing care service for people in private sector and voluntary homes nor do they have to provide any other financial support. Public support for people in these homes is provided by the Department of Social Security through income support. This support is not cash limited and has therefore been one of the fastest growing areas of public spending. Expenditure on income support for people in private

and voluntary homes totalled nearly £900 million in 1988/89. The Audit Commission considered that some of these people might be capable of being maintained in their own homes in the community at lower cost.

7. In 1987 local authorities did however still support 132,000 people in their own residential homes, at a net cost of £780 million. This expenditure covers the living, housing and care costs of the residents in these homes, having taken account of their ability to meet charges. (A person with only a basic pension is required for example to contribute four fifths of their pension towards the costs of their place in the home.)

8. The following schema summarises the above arrangements (in a somewhat simplified way):

|   | <u>Basic Living</u><br><u>Costs</u> | <u>Housing Support</u>  | <u>Community Care</u><br><u>Services</u>                    |
|---|-------------------------------------|---|---|
| People in their own homes                         | DSS                                 | DSS fund 97% of housing benefit via LAs (Housing Authorities)   | LAs (Social Service Authorities) (supported by block grant) |
| People in private and voluntary residential homes | DSS                                 | <div style="border-top: 1px solid black; width: 100%; margin-bottom: 5px;"></div> a single income support payment covering all these elements |   |
| People in LA residential homes                    | DSS (eg pension payments)           | LAs   | LAs   |
|   |                                     | <div style="border-top: 1px solid black; width: 100%; margin-bottom: 5px;"></div> (supported by block grant)                                  |   |



9. The main change implied by the unified budget proposal is that local authorities should become responsible for at least the care part of the cost of supporting people in private and voluntary homes, as well as in their own residential homes or private residences.

10. In order to establish a level playing field between their own homes and those provided by the private and voluntary sector we also need to ensure that any support still to come from the Department of Social Security should be provided on the same basis to those in local authority homes and those in private and voluntary homes. Otherwise there will be perverse incentives.

11. John Moore will no doubt want to advise us further on this. One possibility might be an arrangement whereby local social service authorities support the housing element of a place in a residential home (on a means tested basis) as well as the care element, but are able to secure reimbursement from DSS of a flat rate amount towards the housing element for each person in a residential home. The flat rate amount might be related to the level of rents normally allowable for housing benefit purposes in the area. But all this will need more detailed examination and exemplification.

#### Grant Support for the local authority role

12. The size of the necessary transfers between DSS and local authorities will depend on precisely how we provide for existing income support recipients and what new social security arrangements should underpin the local authorities' acceptance of 'care' costs. There will clearly need to be more detailed work and costings on this. On the basis I am suggesting however I do not think there will turn out to be a major net initial transfer to local authority spending.



13. If this is confirmed by further analysis I would see no problem in principle in supporting this additional local authority expenditure through the new needs grant as far as is appropriate. We should need an equal initial addition to the total of grant to ensure that the change was broadly neutral in its effects on the level of community charge. (There would also need to be transitional arrangements to protect the position of those at present supported by DSS in private and voluntary homes.) After that it would be for discussion year by year in the grant negotiations what level of support to give to local authorities. There are of course strong demographic pressures which may lead to a need for increased expenditure over time and we should need to ensure that authorities have the resources to maintain satisfactory standards both in community care services, and in residential homes. But it should be possible to offset at least some of the spending pressure through the efficiency savings which the new arrangements are designed to achieve.

14. The additional grant support would be distributed in line with needs assessments. These would need to be adjusted to take account of the additional responsibility being given to local authorities in this area. Our present proposals for assessing the need to spend on social services for the elderly take account of such factors as the proportion of old people (both over 75 and over 85) in an authority, those living alone, and those in receipt of supplementary benefit. This provides a good starting point from which to make an adjustment to reflect the proposed change in the responsibility of local authorities. Further detailed work would, of course, be needed to develop firm options. However, I see no reason why the needs assessment and grant arrangement should not be sufficiently robust to provide local authorities with an adequate level of support.



15. I do not favour Sir Roy Griffiths' proposal for supporting a substantial proportion of local authorities' expenditure on care services in this area through a specific grant from the Department of Health. A specific grant of this kind would lead to too much central responsibility and detailed intervention. It would put all the pressures for increased expenditure and standards on central government, and would undermine the local discipline of the community charge. But I think it would be reasonable to maintain the present specific grant for training in the social services field.

#### Promoting diversity of provision

16. The general pressures on local authority spending through the community charge will ensure that local authorities have the strongest interest in encouraging the development of informal and voluntary care wherever possible, and in seeking economical care arrangements where public spending is necessary.

17. In order to reinforce this discipline we should require them to apply elements of the competitive tendering regime that we have been developing for other local authority services in those cases where they are now the direct providers. In particular we should:

- (i) Require the separation within the authority of providers of services and residential homes from the care managers who will advise individuals and their families on appropriate care packages.
- (ii) Require the local authority providers to operate as budget centres or arms length undertakings with full costings and accounts including the use of capital assets. We could then require competitive tendering for increasing proportions of certain services,

such as operating residential homes or meals on wheels, as it became clear that they could be covered by specifications without detriment to proper standards of care.

- (iii) Where competitive tendering operated authorities would be required to prepare accounts and to meet an appropriate financial target under the supervision of the Audit Commission with the Secretary of State having a power to direct contracting out in cases of failure or anti-competitive practice. This would encourage management buy outs or privatisation of individual institutions or service provision.
- (iv) Operate capital expenditure controls to discourage the provision of new residential homes by local authorities, and to encourage the disposal of existing ones.

18. In addition at the level of individual choice we could require the care managers, who will be the budget holders, to compare prices of the services available within and outside the authority in advising clients on what is available and to look for larger contributions from individuals or their families if the individuals can afford it and wish to choose higher cost services.

#### Regulating standards

19. At present local authorities have the main responsibility for regulating standards in their own residential homes and in the private and voluntary sector. There is a conflict of interest between this regulatory role and their responsibility for providing homes, and a suspicion that in some areas local authorities have let standards slip because they are unable or unwilling to improve conditions in their own homes.



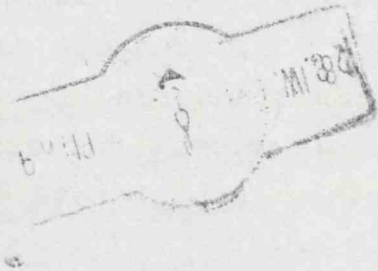
20. One solution to this problem might be to remove the regulatory role for both public and private sector residential homes to some other agency. I would not favour this because any such agency might attempt to push up standards excessively without regard to the financial consequences for the local authority. A better solution is gently to push authorities increasingly towards privatisation of provision as at para 18 above. Meanwhile in order to ensure reasonable standards, and consistent practice in applying them I would suggest that we should reinforce the regulation of standards by local authorities under the oversight and professional direction of the Department of Health's Social Services Inspectorate.

### Conclusion

21. I am sure that decisions on the most appropriate and cost-effective community care arrangements for individuals who need public support should be taken at local level. Local authorities have the main experience in this field and the twin pressures of the community charge and competitive tendering in cases where otherwise they would be the providers are most likely to ensure that decisions to incur costs are taken in the context that higher costs will mean higher charges for local electors. If colleagues agree that we should pursue this approach I suggest that officials should be asked to prepare detailed papers on the benefit aspects and on the grant arrangements.

28 April 1989

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