A fright at the opera

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Everyone in local government is familiar with the 'graph of doom'. This shows that social care costs rise as a proportion of total local government costs over the foreseeable future.

Mostly this derives from an analysis that the population is both rising and ageing. However, that is only half the story. In truth there is another critical component to social care costs – over the long run their costs inevitably rise greater than the rate of inflation.

For almost fifty years economists have discussed 'the cost disease'. This asserts that the cost of health care, personal social care, education and the live performing arts inevitably rise at a rate significantly greater than the economy's rate of inflation.

The real cost of any commodity is calculated very simply. It is the nominal cost divided by a measure of the average change in cost for all the economy's commodities (or a representative sample of its commodities, such as in a consumer price index).

Obviously, some commodities will rise less than this average. There is nothing surprising about the fact that some services such as health care have rising real costs, while others such as computers and telecommunications have falling real costs.

This is principally because the quantity of labour required to produce these services is difficult to reduce. We all know that some sectors of the economy require more labour than others.

In the 1960s William Baumol studied the rising cost of live performing arts – theatre, music and dance and was struck by the universal upward movement of theatre production costs and ticket prices.

This occurred to me when I attended my first opera several years ago and was shocked at the numbers of performers on stage and the numbers of musicians in the orchestra pit.

Surely, I thought, this opera could be performed at lower cost? Well, the scope for doing so is marginal - there's only so many parts that one performer or one musician can play at any one time!

Think about how you would improve the productivity of a string quartet! That is why last year the Royal Opera House had a total budget of £112m and its box office receipts were just £37m despite the incredibly high costs of the tickets.

Well, social care is much like opera. Social care is a labour intensive business. It involves employing or engaging (through service contracts) people to provide personal care to other people.

Of course it is being redesigned and improvements in its productivity can be achieved. Adult social care managers are at the centre of service redesign and demand management in local government.

Moreover, the involvement of civil society and volunteer associations in supporting vulnerable people is a lesson to the rest of how local government in how services can be reformed.

But anyone studying 101 in economics will tell you that it is not feasible for productivity to be achieved in social care at a rate higher than it is for the economy as a whole.

Why is this excursion into economics and opera costs important to us in local government? Simply because in England half of the budgets of the 150 'top tier' councils is spent on social care.

In my own council, almost half of the council's net budget is to meet the costs of 8,000 people – out of a total population of nearly 290,000.

Of these 8,000 people, some 2,000 are children who have acute and complex needs or who need protection from the real and present risks in their lives; while 6,000 are adults who are vulnerable, frail or in need of personal care and assistance.

And yet these top tier councils face the highest percentage cuts in the public sector.

And while I recognise the real challenge to smaller district councils, believe me reducing budgets by 30% is much easier if 50% of your overall budget is not in social care.

Is this because the Department for Communities & Local Government (DCLG) is effectively the 'department for district councils' and is simply unaware of what top tier councils do? I hope not.

After all, one of the most practical and effective schemes of the past few years has been the 'troubled families' programme – a multi-disciplinary social policy project – and that emanates from DCLG.

But we now face four more years of planned reductions in council budgets. And we know that any change in Government will change the distribution not the total to be cut.

It is time for a serious independent review of whether top tier councils can deliver the scale of savings given the ratio of their spend that is in social care services and the practical limits to improving efficiency in those services.

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