

nuffieldtrust



TheKingsFund>

# The Autumn Budget

**Joint statement  
on health and  
social care**

November 2017

# 1 Introduction

Since 2015, our three organisations have come together around major fiscal events to assess the state of health and social care funding. Our aim in doing so is to inform the debate with a clear, authoritative and independent analysis of the funding position and its implications for health and care services. Ahead of the Autumn Budget on 22 November, we have updated our analysis in light of the government's current spending plans and to reflect recent developments.<sup>1</sup>

The last government changed its definition of NHS spending from the totality of the Department of Health's budget<sup>2</sup> to NHS England's budget only. The Conservative Party also used this definition as the basis for the spending commitments outlined in its election manifesto. This is a significant change, which excludes important areas of NHS spending that are not in NHS England's budget such as major capital investment, public health, and education and training. Our three organisations continue to rely on the previous definition of NHS spending – ie, the totality of the Department of Health budget – and have used this as the basis for the analysis in this statement. This approach has been relied on by previous governments and has been **endorsed** by the Health Committee. The government's narrower presentation of health funding has also been **criticised** by the Committee and the UK Statistics Authority.

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<sup>1</sup> Unless otherwise stated, all financial data have been adjusted to 2017/18 prices using HM Treasury gross domestic product (GDP) deflators – a whole-economy measure of inflation as of June 2017.  
<https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-september-2017-quarterly-national-accounts-september-2017>

<sup>2</sup> The total departmental expenditure limit – TDEL.

## 2 Key points

- Seven years of austerity and rising demand for services is taking a mounting toll on patient care. Waiting times are rising, with patient rights under the NHS Constitution routinely breached; access to some services is being restricted; general practice, mental health and community services are under huge pressure.
- The amount the government currently plans to spend is not enough to maintain standards of care and meet the rising demand for health services. 2018/19 will be a crunch year for the NHS with funding growth slowing to just 0.4 per cent, the lowest rate of growth of this parliament and one of the lowest in NHS history.
- Based on projections from the Office for Budget Responsibility (OBR), we estimate that NHS spending would need to rise from £123.8 billion to at least £153 billion between 2017/18 and 2022/23 (a 4.3 per cent average annual increase) to keep pace with demographic pressures and other increasing cost pressures.
- On current spending plans, we estimate that NHS spending would increase to only £128.4 billion in 2022/23 (a 0.7 per cent average annual increase). This falls a long way short of what is needed.
- Throughout this parliament there will be a significant and growing gap between the resources given to the NHS and the demands it faces. In 2018/19 alone, we estimate that NHS spending will be at least £4 billion lower than the level required, based on our analysis of historical funding growth and the OBR projections.
- In the short term, the government must use the Budget to fulfil its manifesto commitment to give the NHS the resources it needs. The minimum requirements for 2018/19 are to:
  - make an immediate and substantial down-payment on its promise to increase NHS funding by £8 billion by the end of the parliament. This will not be enough, however, to close a projected funding gap of at least £20 billion by 2022/23 based on the government's current spending plans
  - meet the pledge to increase NHS spending per head of the population in real terms in every year of this parliament.

- ensure that any increase in the pay of NHS staff is fully funded, rather than being met from within the existing NHS funding settlement
  - respond to the Naylor review by outlining a plan for meeting its commitment during the election to provide an additional £10 billion in capital investment above current spending plans.
- While delivering on the manifesto pledges is essential, this will not come close to providing the funding needed to meet the pressures facing the NHS in 2018/19 or to close the projected funding gap by the end of the parliament. Unless additional funding is provided, staff shortages will grow, patients will wait longer for treatment and quality of care will deteriorate, with significant consequences for patients and their families.
- Productivity in the NHS is improving by 1.7 per cent a year and is outperforming the wider economy. The NHS must continue to focus on improving productivity by tackling variations in care, improving clinical practice and making better decisions about how money is spent. Even so, this will not be enough to bridge the gap between rising pressures and planned funding.
- Underinvestment in capital projects has left the NHS with deteriorating facilities, including a £2.8 billion cost simply to improve estate that has high or significant maintenance risks. Capital investment is also vital to achieve the scale of productivity improvements and transform services in the way set out in the *NHS five year forward view*. In addition to meeting the funding requirements of the Naylor review, the policy of switching capital funding to support the day-to-day running of services must come to an end.
- Social care remains on the brink of crisis and is facing a funding gap of £2.5 billion by 2019/20. Unless additional funding is found, more people will be denied access to local authority-funded care, increasing pressures on service users, their families and carers.
- The need for social care reform remains as urgent as it was when the Prime Minister made the case for it during the election campaign. Having committed to act 'where others have failed to lead', the government should use the Autumn Budget to reiterate its commitment to publish a Green Paper on social care that sets out proposals for wide-ranging reform and costed options for a sustainable funding settlement.
- The reductions in public health budgets announced by the last government are resulting in cuts to key services. This is a false economy,

putting people's health at risk and storing up problems for the future. The government should use the Budget to reverse planned cuts to public health budgets and renew its commitment to prevention as a fundamental priority of its health policy.

- Too much reliance has been placed on trading-off different elements of health spending - spending on prevention, capital investment and day-to-day running costs of the NHS are all essential. The government must ensure sufficient funding is provided to address previous underinvestment in capital programmes; meet the costs of future policy decisions such as increasing NHS staff pay and the increasing running costs of delivering frontline NHS services; returning performance against waiting time standards to the levels promised in the NHS Constitution.
- There is a need for a more strategic and independent assessment of the pressures facing services, in place of the short-term approach that has plagued health and social care funding decisions. A new independent body – modelled on the OBR – should be established to identify the long-term health care needs of the population and the staffing and funding required to meet these needs.

## 3 Health spending

*Summary of health spending plans in the Conservative Party's general election manifesto 2017*

- A commitment to increase NHS spending in real terms by £8 billion in 2022/23 compared to planned spending levels in 2017/18.
- A pledge to increase funding per head of the population in real terms in each year of the parliament.
- An additional £10 billion for **capital spending**, committed during the election campaign, with some of this paid for by private finance and land sales rather than from the public purse.

### **The NHS does not have the resources it needs to maintain access to high-quality patient care**

An unprecedented seven-year funding squeeze and rising demand for services are taking a mounting toll on patient care. The Care Quality Commission (CQC) 2017 **State of Care** report warns that health and care services are at full stretch and that some services have deteriorated. There is also growing evidence that access to some treatments is being rationed and that quality of care in some services is **being diluted**. All areas of care are affected, with acute hospitals, **general practice**, **mental health** and **community services** under strain.

Key waiting time standards are now being missed all year round, and the deterioration in performance shows few signs of stopping. The four-hour standard for treating patients in A&E has not been met since **July 2015**; the 62-day standard for beginning treatment for cancer following an urgent referral has not been met for more **than three years**; the 18-week referral-to-treatment target for planned care has not been met **since February 2016** and has been given lower priority from March 2017. In July 2017, nearly 900 patients with acute mental health needs were inappropriately placed outside their local area due to a lack of available local inpatient beds. Patient satisfaction with GP services **has dropped** from 88.4 per cent in June 2012 to 84.8 per cent in July 2017, while in a **recent survey**, more than half of GP practices said that pressures are so great they would consider temporarily preventing new patients from registering with them.

The CQC notes that the quality of care that patients actually receive across England is mostly good. This is due to the efforts of NHS staff in delivering compassionate care in challenging circumstances. But this resilience is limited and the situation increasingly precarious. Without additional funding, the NHS will not be able to achieve the commitments made to patients in the NHS Constitution.

The implications of the funding squeeze on patients' access to care are already clear – the dramatic improvements achieved over the previous two decades, which were hard fought and required considerable investment, are now slipping away. If this is not rectified, patients will wait longer to access the urgent and routine clinical care they need.

### **Austere levels of health funding will continue over this parliament**

On current plans, health spending in England, as measured by the total Department of Health Expenditure Limit, will rise from £123.8 billion in 2017/18 to £126.5 billion in 2020/21, at 2017/18 prices (Table 1). This is an average increase of 0.7 per cent a year in real terms, compared to the historical average of **approximately 4 per cent**, and continues the unprecedented period of austerity in NHS funding that began in 2010.

**Table 1** Health spending in England (£ billion, in 2017/18 prices)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	15/16 to 20/21 change
<b>Total Department of Health expenditure limit (TDEL)</b>	<b>121.8</b>	<b>122.5</b>	<b>123.8</b>	<b>124.3</b>	<b>125.2</b>	<b>126.5</b>	<b>4.6</b>
Revenue expenditure limit (RDEL)	117.0	117.9	117.7	118.4	119.4	120.9	3.8
Capital expenditure limit (CDEL)	4.8	4.6	6.1	5.9	5.8	5.6	0.8
NHS England	104.6	107.9	109.5	110.3	111.5	113.3	8.7
Department of Health spending, excluding NHS England	17.2	14.7	14.3	14.1	13.8	13.2	-4.1

Source: Department of Health Annual Report and Accounts 2016/17; NHS England board paper 2015 [PB.17.12.15/04](#) and personal communication; HM Treasury GDP deflators at market prices and money GDP, September 2017. Notes: Spending is expressed in real terms at 2017/18 prices

The 2015 Spending Review provided a real-terms funding increase of £8 billion between 2015/16 and 2020/21. This was based on estimates of the NHS funding challenges set out in the *NHS five year forward view*. However, this extra £8 billion was for NHS England's budget only and relied on real cuts of 24 per cent in other areas of NHS spending within the Department of Health's budget. These include public health, capital investment, and education and training of the NHS

workforce. Overall, the real increase in health spending is only £4.6 billion over this period (Table 1).

**Table 2** Estimated NHS funding gap in each year of this parliament (£ billion, in 2017/18 prices)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Department of Health total expenditure limit (TDEL)	124	124	125	126	127	128
Estimated TDEL based on historic average growth of 4.0%	124	129	134	139	145	151
Difference from current growth rate		4	9	13	17	22
As percentage of DH TDEL		4%	7%	10%	14%	17%
Estimated TDEL at OBR central projection growth rate of 4.3%	124	129	135	140	146	153
Difference from current growth rate		5	9	14	19	24
As percentage of DH TDEL		4%	8%	11%	15%	19%

Source: Department of Health Annual Report and Accounts 2016/17; HM Treasury GDP deflators at market prices and money GDP, September 2017. Notes: Continuation of current plans is a forward projection, based on average annual growth in Department of Health total departmental expenditure limit in real terms from 2015/16 to 2020/21. OBR counterfactual is an estimate based on the central projection methodology and data used by the OBR. Historical growth counterfactual assumes 4 per cent per annum growth above inflation (average between 1949/50 and 2010/11).

The context for the NHS and the funding gap it faces has changed significantly since the *NHS five year forward view* was published. The investment in social care and public health it was predicated on have not materialised, demand for services has continued to increase, and cost inflation and workforce pressures are far greater than planned. In the public’s mind the NHS – and the funding pressures it faces – is clearly at the top of the important issues facing Britain, judging by the prominence of the issue in [polling](#), in the EU referendum, and in the general election.

Throughout this parliament there will be a significant and growing gap between the resources given to the NHS and the demands it faces. In 2018/19 alone, we estimate that NHS spending will be at least £4 billion less than would be needed compared to historical growth in health spending, or our estimates based on the OBR methodology for projecting rising health costs. By the end of this parliament, the gap will grow to at least £22 billion (Table 2).

Current NHS funding levels, even including the additional funding promised in the government’s manifesto, are not enough to maintain standards of care and meet rising demand for services. The government must take further action to increase NHS funding to reflect the scale of the pressures the NHS faces.

## 2016/17 was a challenging year and financial pressures are mounting in 2017/18

The Department of Health underspent its revenue budget<sup>3</sup> in 2016/17 – by just £55 million or 0.05 per cent of the entire budget. This was achieved only after transferring £1.2 billion out of planned capital investment and, as noted by the Comptroller and Auditor General, there are significant underlying financial difficulties within the NHS.

These ongoing problems are clear in the financial position of NHS trusts, which account for the majority of revenue expenditure in the Department of Health. The NHS provider trust sector as a whole reported a net deficit of £791 million<sup>4</sup> in 2016/17. However, this position was supported by £1.8 billion from the ring-fenced Sustainability and Transformation Fund, which was established at the 2015 Spending Review to reduce provider deficits in the short term and thereafter to fund investment in service transformation to implement the *NHS five year forward view*. Trusts also remain overly reliant on non-recurrent savings, such as selling land or leaving staff vacancies unfilled, which accounted for £789 million (25 per cent) of savings in 2016/17 (compared to the original plan for only 8 per cent of savings to be made this way). Trusts were also asked to review opportunities for technical measures such as removing prudence from their handling of bad debts, deferred income and a range of other balance sheet items. One-off measures like this do not tackle the underlying financial position of the sector, as they only reduce the in-year deficit.

It was originally intended that the NHS provider sector would achieve financial balance in 2017/18. However, the sector is forecasting a deficit of £523 million, even with recourse once again to £1.8 billion in Sustainability and Transformation Fund money. Providers are also expecting a similar level of reliance on non-recurrent savings. In previous years, the deficit recorded by NHS trusts was partially covered by underspends for commissioners. But increasing numbers of clinical commissioning groups (CCGs) are in financial distress and at risk of missing their financial targets.

There is an increasing risk that financial pressures in the NHS are limiting its ability to invest in the new and more effective ways of delivering services

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<sup>3</sup> This refers to the non-ring-fenced revenue departmental expenditure limit.

<sup>4</sup> The provider deficit of £791 million rises to £935 million once other adjustments are made to reflect income and depreciation of donated assets, PFI spending and provisions, as reported in the Department of Health accounts.

outlined in the *NHS five year forward view*. While focusing additional funding on the day-to-day running costs of services may be sensible in the short term, failing to invest in transforming how services are delivered leaves the NHS underprepared to meet the future needs of the population. After seven years of austerity, the NHS will enter its most challenging funding period in a fragile state.

### **The two most difficult years for NHS funding are immediately ahead of us**

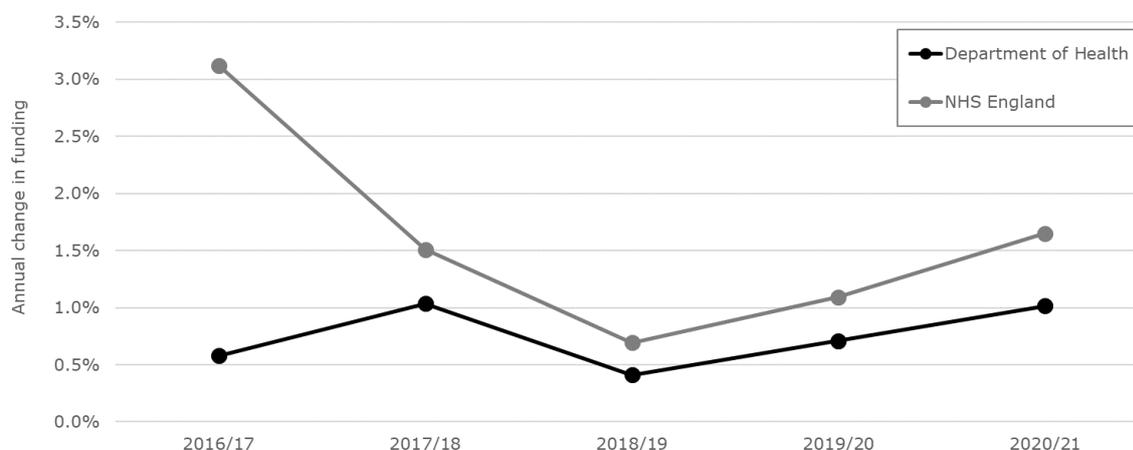
Under current spending plans, 2018/19 will be the most difficult year for the NHS in this parliament and one of the most challenging in NHS history. Funding for the Department of Health is set to grow by just 0.4 per cent – equivalent to £508 million – in real terms (Figure 1). This growth will not keep pace with the growth and ageing of the population, so spending on health care per person will fall by 0.3 per cent in real terms (Table 2). Although spending per head will rise by 0.1 per cent in 2019/20, spending per head will still be 0.2 per cent lower than in 2017/18.

**Table 3** Change in NHS spending per head of population, England (£, in 2017/18 prices)

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Health spending per head of population	2,217.3	2,225.8	2,220.2	2,221.7	2,230.5
<i>Year on year change</i>		0.4%	-0.3%	0.1%	0.4%

Source: Department of Health Annual report and Accounts 2016/17; HM Treasury GDP deflators at market prices and money GDP, September 2017; ONS Mid-2016 population projections. Notes: Health spending refers to Department of Health total departmental expenditure limit, expressed in real terms (in 2017/18 prices)

**Figure 1** Change in Department of Health and NHS England funding



Source: Department of Health Annual report and Accounts 2016/17; NHS England Board paper [PB.17.12.15/04](#) and personal communication; HM Treasury GDP deflators at market prices and money GDP, September 2017.

Notes: Department of Health funding refers to the total departmental expenditure limit (TDEL).

The government’s manifesto commitment to increase NHS spending per person in each year of this parliament would require increased funding of just over £314 million in 2018/19 and a further £231 million in 2019/20 based purely on population growth. However, the number of people aged 65 and over is projected to grow by 9 per cent over this parliament, and taking account of the [additional pressures on health services](#) as the population ages as well as grows would require further increases to NHS funding. We estimate that meeting the additional cost of the ageing population requires further funding of approximately £500 million in 2018/19 and £1 billion in 2019/20<sup>5</sup>.

The government also has a manifesto commitment to increase NHS spending by £8 billion in real terms in 2022/23 compared to 2017/18. This £8 billion should also, at a minimum, be added to the Department of Health budget. If it is added only to NHS England’s budget it will require cuts in other important areas of health spending. It should also be phased to raise spending from 2018/19.

However, we are clear that while delivering on these manifesto commitments is essential they will not provide the resources needed to maintain standards of care, meet rising demand and make necessary improvements to services. Even with the addition of £8 billion by 2022/23, NHS funding will be far below levels

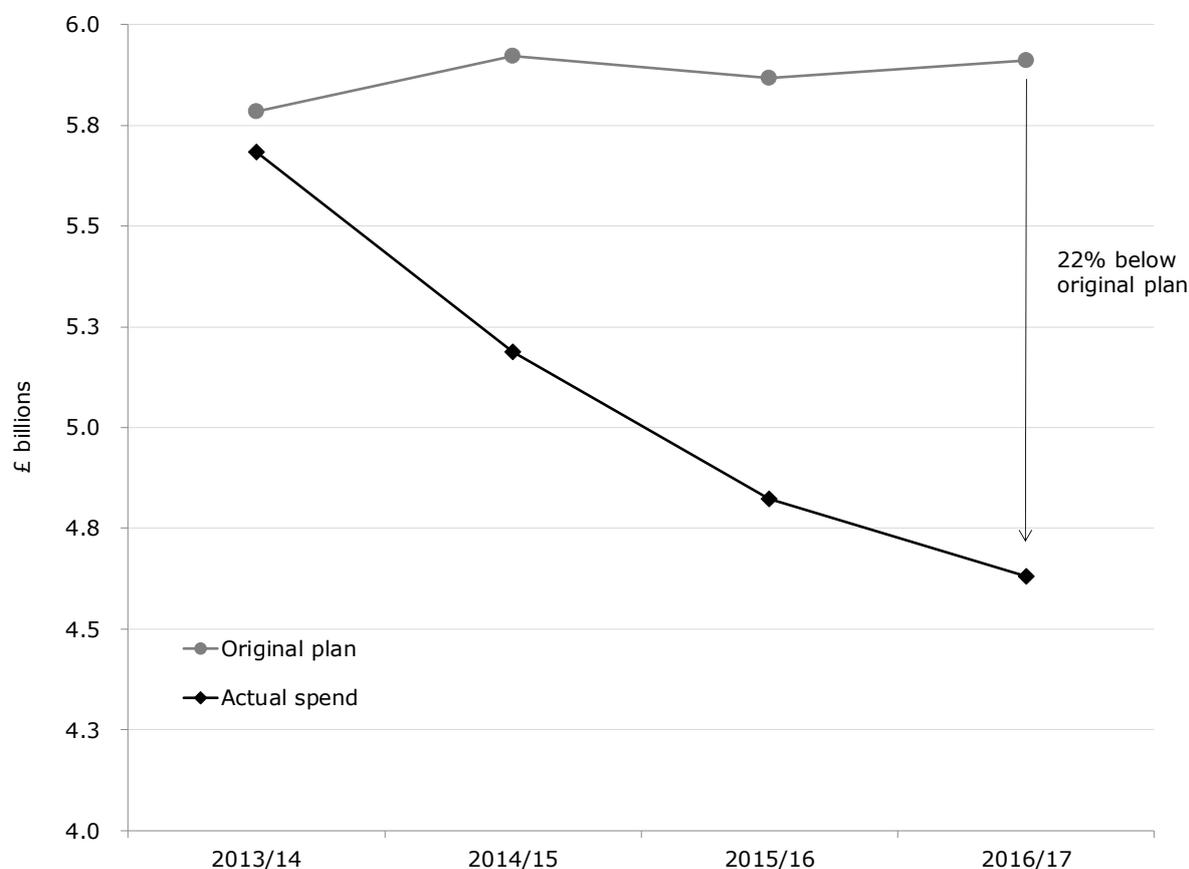
<sup>5</sup> Health Foundation analysis using OBR 2017 fiscal sustainability report, Department of Health annual report and accounts 2016/17, ONS mid-2016 population projections, HM Treasury GDP deflators as of June 2017

required based on our analysis of historical funding growth and the OBR projections. Without sufficient levels of additional funding, the quality of and access to care for patients will suffer.

### **Continuing the current cuts to NHS capital funding will impact on patient safety and limit opportunities to modernise services**

Over recent years, funding for capital investment has been reallocated to prioritise day-to-day running costs. The Department of Health transferred £1.2 billion in capital funding to its revenue budgets in 2016/17 (the third year in a row of transfers out of capital funding), and these transfers **will continue** until 2020/21 (on a declining profile). As a result, the capital budget fell by more than 20 per cent between 2013/14 and 2016/17 in real terms (Figure 2). Although the Spring Budget provided an additional £325 million in capital funding over 2017/18 to 2019/20, this was given to only a small number of the most advanced sustainability and transformation partnerships (STPs), and is far below the levels of funding **required** to deliver capital plans within all STPs.

**Figure 2** Department of Health capital spending, following transfers to the resource budget (£ billion, in 2017/18 prices)



Source: Department of Health annual report and accounts 2016/17; HM Treasury GDP deflators at market prices and money GDP, September 2017. Notes: Planned figures refer to capital budgets before transfers from capital to revenue budgets. Spending is expressed in real terms at 2017/18 prices.

Reducing the capital budget in real terms means investing less in buildings and equipment for the NHS, and this comes with a financial and human cost. The total cost of eradicating **backlog maintenance**<sup>6</sup> rose to £5.6 billion in 2016/17 (greater than the total health care capital spending), an increase of 9 per cent on 2015/16. Within this, the cost of addressing high or significant risk maintenance issues with the estate is estimated at £2.8 billion alone. These estimates were also made before recent assessments of any additional maintenance and estates work that would be needed to further improve **fire safety in the NHS**.

<sup>6</sup> Backlog maintenance costs refer to the additional investment needed to complete maintenance work that should already have taken place to restore NHS facilities to a suitable standard.

In March 2017, the [Naylor review](#) of NHS property and estates estimated that the NHS will need at least £10 billion of additional capital investment to address the backlog of maintenance and modernise the service in line with the vision set out in the *NHS five year forward view*. The Naylor review suggested around £2.7 billion of this funding could come from the NHS selling or renting its real estate, with further savings of around £0.5 billion through the reduced running costs of a smaller NHS estate. Even if this was achieved in full it would leave around £7 billion of investment to be largely funded from central government. While the government has [publicly backed](#) the recommendations from the Naylor report, its response so far has been piecemeal and the continued strategic uncertainty in NHS capital funding has been [described](#) as akin to 'driving in fog' by a senior figure in the NHS.

Reallocating capital spending may be pragmatic and sensible for a short period to support pressures on budgets for essential day-to-day running costs. However, seven years into the most austere decade in NHS history, it is well past the point of being sustainable. Failing to give the NHS the investment it needs means staff and patients will increasingly be exposed to safety risks from unreliable equipment and deteriorating facilities.

Underinvesting in capital programmes stores up problems for the future, and there is also a significant opportunity cost from failing to invest in the transformational change needed to deliver new and more productive models of care. The government must set out a more coherent and sustainable capital investment strategy as part of the multi-annual capital programme promised for the Autumn Budget.

## **Long-term NHS funding is falling further behind required levels**

The health funding pressures in the UK are similar to those faced by all health systems across the Organisation for Economic Co-operation and Development (OECD). Recent data from the OECD suggests UK health spending<sup>7</sup> as a percentage of GDP is marginally above the average for the other 14 original members of the European Union. However, health spending in the UK remains lower than in countries such as Germany and France, which spend more than 11 per cent of their GDP on health care. In terms of absolute spending on health

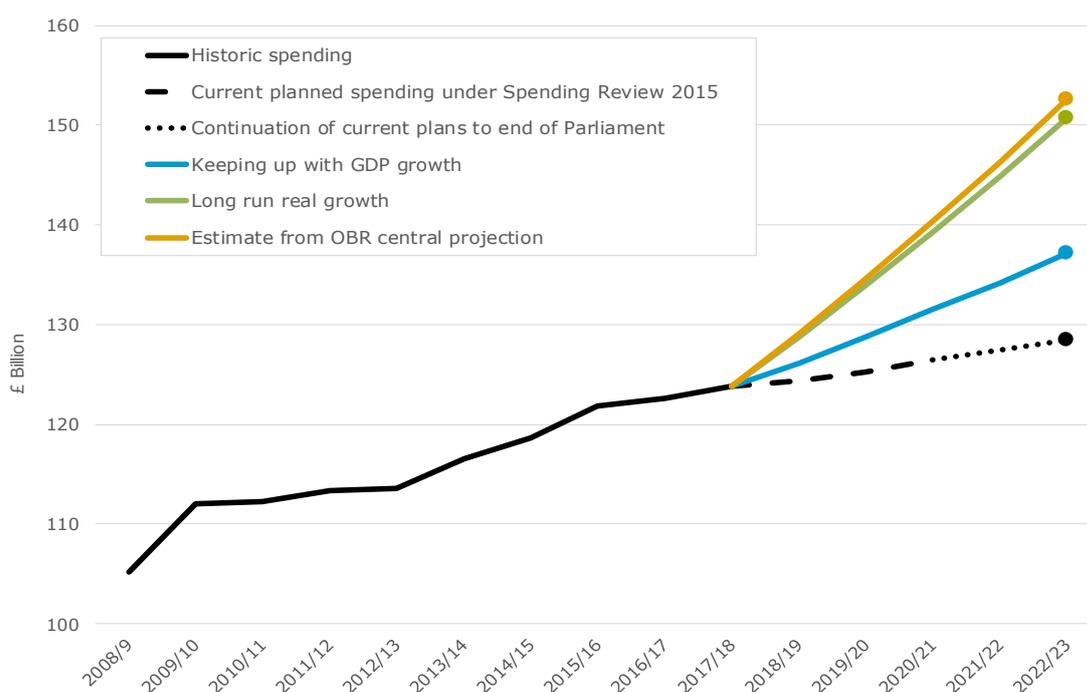
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<sup>7</sup> This data uses a relatively new definition of health spending that includes much more of what is traditionally regarded as 'social care' and excludes spending on capital projects

care per person, the UK is also **just below the average** of the other 14 original EU countries.

On current spending plans, health spending in the UK will fall as a share of GDP over this parliament, moving the UK further away from the level required to keep pace with rising costs and demand for services. Based on the projections methodology used by the OBR, we estimate NHS spending would have to rise to at least £153 billion in 2022/23 to keep pace with demographic change and other increasing cost pressures. On current plans, however, it will rise to only £128 billion<sup>8</sup> (Figure 3). Even if the government met all its manifesto commitments to raise NHS funding, this would still not come close to giving the NHS the resources it needs to maintain and improve standards of patient care.

**Figure 3** Health spending in England, projections for this parliament (£ billion, in 2017/18 prices)



Source: Nuffield Trust analysis of multiple sources. Notes: Continuation of current plans is a forward projection, based on average annual growth in Department of Health total departmental expenditure limit in real terms from 2015/16 to 2020/21. OBR counterfactual is an estimate of based on the central projection methodology and data used by the OBR. Historical growth counterfactual assumes 4 per cent per annum growth.

<sup>8</sup> Based on our estimate of extending 2016/17-2020/21 spending plans from the 2015 Spending Review to cover 2021/22 and 2022/23. This does not include an adjustment for the extra funding promised in the Conservative Party manifesto 2017, as the profile of this funding has not been set out.

Experience from the new care models programme demonstrates that these novel ways of delivering care can improve the value of health services, but they require sufficient investment and resources to deliver. If the NHS is to be equipped to meet the rising and changing demands that it will face in the future, funding would need to increase by significantly more than the government set out in its manifesto.

There is a need for a more strategic and independent assessment of the pressures facing services in place of the short-term approach that has plagued health and social care funding decisions. We support the conclusions of the House of Lords Select Committee on the [Long-term Sustainability of the NHS](#) that a new body, independent of government, should be established to identify the health care needs of the population and the staffing and funding the health and care system will require to meet those needs.

### **Workforce challenges are growing as the NHS enters its most difficult funding period**

There are serious staffing pressures in the NHS, including a [shortage of 29,000](#) nurses. Troublingly, despite long-term ambitions to move care into the community, there have been striking reductions in mental health and community nursing, and the GP workforce has [dropped](#) by 2.3 per cent in the past two years.

Growing staff shortages mean the health and care system has become increasingly reliant on international recruitment. However, since October 2016 the number of nurses from the European Economic Area (EEA) registering to practise in the UK [has dropped](#) by 89 per cent. The result of the EU referendum and changes to language testing rules (which have only recently been made more flexible) have contributed to this. Since financing of nursing students was switched from bursaries to the student loan scheme, applications to undergraduate nursing places in the UK have [also dropped by 23 per cent](#) for students applying from England. To date the number of students applying from England to start a nursing degree this autumn also appears to have [fallen](#) by 5.5 per cent.

Various factors are contributing to increasing challenges in retaining and recruiting staff, including poor workforce planning, increasing workloads and continued pay restraint. More urgent and co-ordinated action is needed to make employment in health and care services more attractive.

Since the recession, pay awards for the public sector have either been frozen or capped at 1 per cent for all but the lowest paid workers. As a result, NHS pay scales have not kept pace with inflation and have **fallen** by 6 per cent when compared to the consumer price index (CPI) measures of inflation.

Although public sector pay restraint is not due to end until 2020/21, **recent announcements** have suggested the public sector pay cap has been lifted and flexibility to negotiate future pay rises for NHS staff will be linked to further productivity improvements in the NHS. It is not known yet whether pay will be increased and, if so, by how much. However, if it was to keep pace with **CPI inflation** – which the OBR in its latest economic forecast projected to be 2.2 per cent in 2018/19, falling to 2 per cent the year after – the additional costs to NHS employers would be in the region of £600 million for 2018/19, and more than £1 billion in 2019/20.<sup>9</sup> This figure would be still higher if increases also applied to the funding that GPs and dentists receive.

The suggestion that this could be paid for through further increases in productivity is not credible. It is essential that any pay rises for NHS staff are fully funded by the government, otherwise NHS employers would be forced to choose between overspending their budgets and employing fewer staff.

Care must also be taken to co-ordinate proposals for pay in health and in social care to manage the risk of pay rises for NHS staff leading to an exodus from the social care workforce. Removal of the pay cap for NHS staff would be welcomed, but is not a substitute for the further action that is needed to address more fundamental issues around work-life balance and morale – extra funding for health and care services will deliver limited benefits if there are not enough staff to deliver those services. The health and care system needs a new, comprehensive workforce strategy.

### **The NHS continues to improve its productivity, but this will not be sufficient to redress the funding shortfall it faces over this parliament**

The *NHS five year forward view* estimated that the NHS would need to make efficiency savings of 2-3 per cent in each year to 2020/21 to close the funding

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<sup>9</sup> Estimate refers to the extra costs relating to NHS staff, as reported in the Department of Health annual report and accounts 2016/17, rising in line with inflation (as measured by the consumer price index), compared to the current 1 per cent cap.

gap it faces. NHS productivity improved by **1.7 per cent a year** between 2009/10 and 2014/15. This **compares favourably** with the service's historical performance (of around 1 per cent growth) and the performance of the wider economy (0.2 per cent growth over the **past five years**), indicating that providing additional funding for health services is a worthwhile investment.

There is still scope for more fundamental improvements in productivity by tackling variations in how care is delivered, improving clinical practice and making better decisions about how funding is spent. A recent **OECD study** suggests that, internationally, up to one fifth of health care spending makes little contribution to improving people's health. An NHS efficiency review led by **Lord Carter of Coles** identified £5 billion of potential savings for hospitals, while the **Getting It Right First Time** programme promises to deliver significant savings by reducing variation in clinical and operational processes.

However, the learning from these programmes demonstrates that redesigning and improving clinical services safely and effectively takes both investment and time. The NHS has improved productivity and can make further progress. But it is unrealistic to expect the NHS to outperform whole-economy productivity on a long-term basis or to improve productivity at the level and pace required to close the funding gap it faces.

## 4 Social care

*Summary of adult social care plans in the Conservative Party's general election manifesto 2017*

- Proposals to introduce a single higher means test threshold of £100,000 for local authority-funded care and to include the value of the family home along with other savings and assets in assessing how much people pay towards the cost of home care, bringing this into line with the means test for residential care.
- A proposal to extend the existing deferred payments scheme to those receiving care at home.
- The proposals were later clarified, after the publication of the manifesto, to include a cap on the lifetime costs of care from 2020 in line with current legislation.
- The manifesto also confirmed that a Green Paper on social care will be published.

### **Social care funding is failing to keep pace with rising costs and demands on services**

Demands for social care services are rising due to an ageing population and increases in the costs of caring for people with disabilities. Coupled with years of underfunding, this has left social care services on the brink of crisis. In its annual State of Care report for 2017, the Care Quality Commission warned that the social care system remains close to a tipping point, with demand rising, capacity **falling** and providers finding it harder to maintain quality improvements.

Significant cuts to local authority budgets have led to gross spending on adult social care services<sup>10</sup> by councils falling from £19.1 billion in 2009/10 to £17.8 billion in 2016/17, a real-terms cut of 7 per cent. As a result, councils have

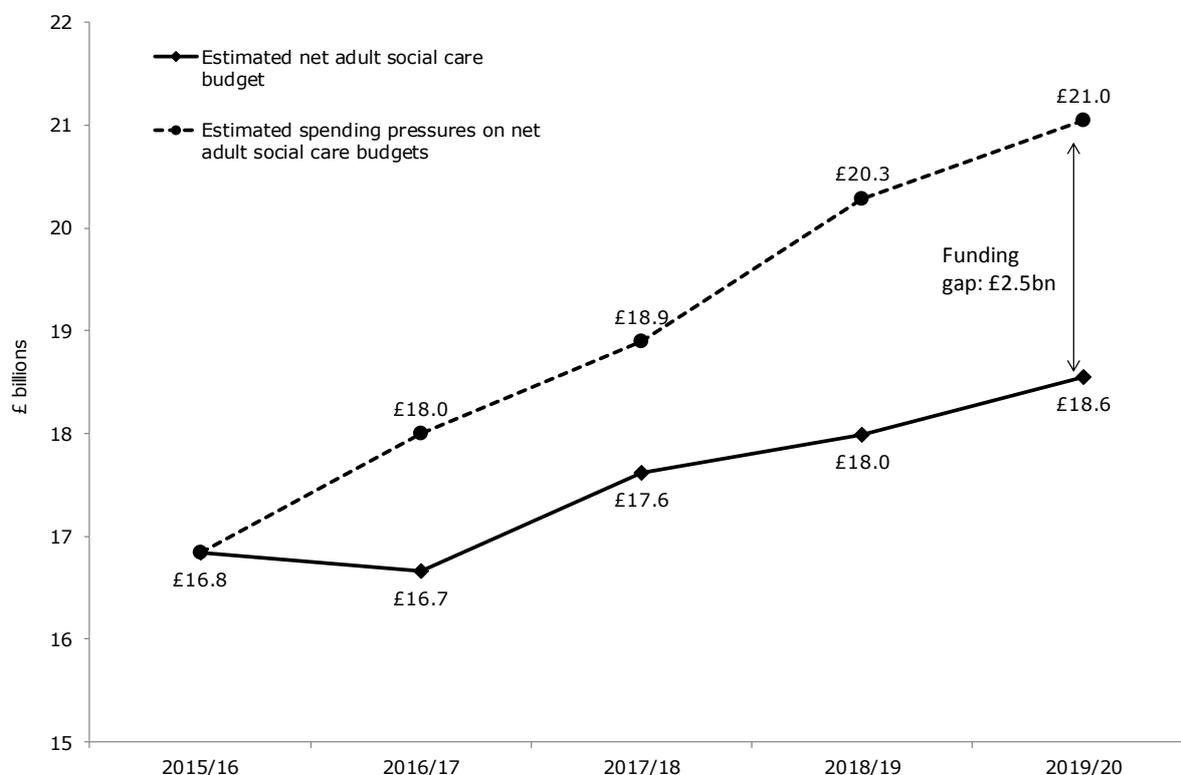
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<sup>10</sup> Measured on a gross expenditure basis, which accounts for spending by social care departments and includes client contributions.

tightened eligibility criteria, leading to a reduction of at least a quarter – more than 400,000 people – in the number of older people accessing publicly funded social care. This has led to people in need of care and support, their families and carers being faced with either losing access to care or being exposed to the potentially catastrophic costs of self-funding. As a result, many people are relying on unpaid care, with an estimated 9.5 per cent **increase** in hours of unpaid care between 2009 and 2014, and nearly 1.2 million older people are estimated to have unmet care needs (up 18 per cent from last year).

The introduction of the Council Tax precept and the additional funding over the next three years announced in the Spring Budget have provided some breathing space for councils, many of which would otherwise have come close to financial collapse last year according to ADASS. However, while social care funding has begun to rise slowly again, there has been '**minimal change in activity**' delivered by services – indicating the extra investment is not sufficient to keep pace with the rising demand and costs of services. As a result, we estimate that there will still be a social care funding gap of £2.5 billion by 2019/20 (Figure 4).

**Figure 4** Adult social care funding gap (net expenditure £ billion, in 2017/18 prices)



Source: Health Foundation analysis based on multiple sources. Notes: Gap between estimated net public spending on adult social care and funding pressures (2017/18 prices). Cost pressures include updated estimates for the cost of the National Living Wage, sleep-ins pay (both backpay, and future costs), and updated assessments of social care demand. The estimated budget assumes social care spending maintains its share of local authority core funding, after subtracting new funding from the social care precept and improved Better Care Fund<sup>11</sup>.

The health and care systems are interlinked, and pressures in social care funding are exacerbating pressures on the NHS. In August 2017, hospitals lost 180,100 bed days as a result of delays in discharging patients who were medically fit to leave; 67,000 of these (37.3 per cent) were attributable to issues with social care. Delays in discharging patients due to social care have **increased sharply** since 2015. In recent months, this growth has slowed, although this will not be enough to meet the target set out in the 2017/18 Mandate from the Department

<sup>11</sup> These estimates are based on the latest published figures for the amount raised by the social care precept, and assume the original profile of a maximum increase of 2% a year. However, councils are now allowed to raise up to 3% in 2017/18 and 2018/19, provided they do not increase the precept in 2019/20. This would have no material impact on the estimated gap for 2019/20, but may change the profile of the assumed budget. For example, it is estimated that the increase via the precept for 2017/18 may be £552m, rather than the stated increase of £431m (figures in cash terms).

of Health to NHS England (a **reduction** of delayed transfers to no more than 3.5 per cent of hospital bed days by September 2017), it demonstrates that the health and care system is delivering a return on this investment. However, there is a real risk to both further progress and system-wide collaboration if urgent action is not taken to relieve the pressures on social care funding.

### **Pressures on the social care provider market are rising**

As cost pressures for local authorities are often passed through to care providers through lower fees or below-inflation fee increases, the fragility of the social care provider market is also an increasing concern – particularly for providers who receive most of their income from local authority contracts rather than from self-funders. This year's annual budget survey from the Association of Directors of Adult Social Services found that 50 councils have had contracts handed back to them by providers and 64 councils had experienced closures of service providers in their area. The recent rise in future social care spending is welcome, but will not make up for the lost ground and the significant impact of previous year-on-year cuts to social services. This further demonstrates the need for urgent action to reform social care.

Social care providers also face longstanding recruitment and retention difficulties. In 2016/17 the overall staff vacancy rate across adult social care was 6.6 per cent, with a 10.4 per cent rate for domiciliary care. Staff turnover was 27.8 per cent – a **rise of 4.7 percentage points** since 2012/13. Immigration from the European Economic Area has been a **key source of growth** in recent years – 95,000 people from Europe now work in the sector compared to 67,000 five years ago. As a result, Brexit is likely to compound these staffing challenges in social care. The introduction of the National Living Wage and compliance with HMRC rulings on sleeping-in payments are also having a significant impact on costs for providers and commissioners of social care. A recent **survey** of directors of adult social care found that 55 councils (more than half of those surveyed) are expecting to overspend their adult social care budgets in 2017/18.

### **More fundamental reform is needed of how adult social care is financed and delivered**

The need for change in how social care is funded remains as urgent as when the Prime Minister made the case for it during the election campaign. In its **State of Care** report, the CQC noted 'the future of care for older people and the adult care system is one of the greatest unresolved public policy issues of our time'. Having **committed** to act 'where others have failed to lead', it is essential that the government now proposes substantial and wide-ranging reform, setting out costed options to put social care on a sustainable footing and striking a fair

balance between public and private funding. This consultation should also address workforce challenges and the opportunity to improve service models.

The need for a cross-party consensus to deliver fundamental reform of social care has been recognised for more than 20 years. While the government must have the courage to succeed where its predecessors have failed by living up to its promises to tackle one of the burning injustices of our time, politicians from all parties must now engage constructively to find the consensus needed to deliver radical reform.

## 5 Public health

The cost to the NHS of preventable diseases is considerable. In the UK, more than a quarter of adults are obese, and one in five reception-class children in England are **obese or overweight**. It is estimated that in the UK the costs to the NHS of obesity, smoking, alcohol and physical inactivity are **more than £12 billion**.

Evidence suggests that public health interventions are often cost effective, and many offer a significant **return on investment** in terms of savings, delayed spending and healthier lives for the population. Despite this, cuts to public health budgets continue at pace and scale. The Spending Review 2015 announced reductions in public health funding of nearly 4 per cent a year, adding up to a real-terms cut in spending of at least £600 million a year by 2020/21, on top of £200 million already cut from public health budgets in 2015/16.

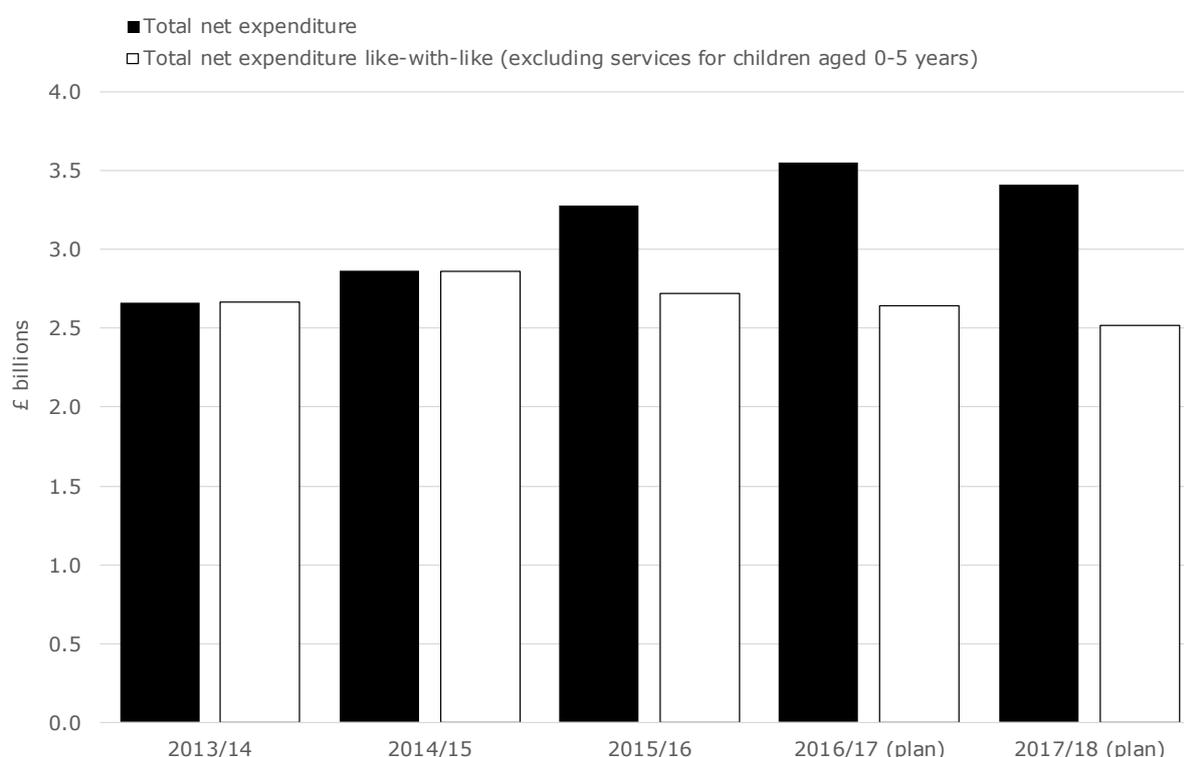
Local authorities are planning to spend £2.52 billion on public health services in 2017/18, around 5 per cent less in real terms than in 2013/14 (Figure 5).<sup>12</sup> As a result, councils are implementing cuts to a wide range of services including smoking cessation, drug misuse and sexual health services. This is a false economy, putting people's health at risk and storing up problems for the future.

The plans set out in the *NHS five year forward view* assumed there would be a 'radical upgrade' of efforts to support prevention and public health. However, following the Spending Review 2015, NHS England Chief Executive Simon Stevens **noted** that this remained 'unfinished business'. This underinvestment has continued: data published by NHS England for the final quarter of 2016/17 showed that public health net expenditure was 4 per cent **lower than budgeted**.

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<sup>12</sup> Based on actual outturn expenditure for 2013/14 through 2015/16, planned budgets for 2016/17 and 2017/18. Data is presented on a like-for-like basis, taking out the transfer of children's 0-5 services from the latter years.

**Figure 5** Local authority spending on public health, England



Source: King’s Fund analysis of [revenue account budget 2017/18, DCLG](#). Notes: Data are presented in real terms at 2017/18 prices using the GDP deflator. Data on a like-for-like basis exclude spending on young children’s (0–5 year olds) public health services, as responsibilities and funding for these services transferred to local authorities partway through 2015/16.

The longer that prevention and public health continue to be ‘unfinished business’, the greater the costs for the UK population and the more other services will continue to pick up the pieces. The government should use the Budget to protect public health budgets and reverse the cuts currently planned. Following on from the success of the Soft Drinks Industry Levy in encouraging the industry to reformulate products, the government should make more use of the levers it has at its disposal, including taxation and regulation. With evidence emerging that health inequalities are widening, a cross-government strategy to improve the population’s health and address the root causes of poor physical and mental health is urgently needed.

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**The King's Fund** is an independent charity working to improve health and care in England. We help to shape policy and practice through research and analysis; develop individuals, teams and organisations; promote understanding of the health and social care system; and bring people together to learn, share knowledge and debate. Our vision is that the best possible care is available to all.

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