

# The Spending Review: what does it mean for health and social care?

December 2015

This briefing provides an independent assessment of where the Spending Review leaves the NHS and social care. Now that the dust has settled on the Chancellor's announcements, our three organisations have come together to help ensure the debate is informed by a clear and objective analysis of the funding position and its implications for health and social care services.<sup>1</sup>

## Key points

- Total health spending in England will rise by £4.5 billion in real terms between 2015/16 and 2020/21.
- Looked at over the whole of this parliament, this will result in an increase of 0.9 per cent a year, almost identical to the rate of increase over the last parliament.
- This is much less than expected following the announcement of the NHS settlement. This is because the Spending Review defined 'NHS' spending as NHS England's budget,<sup>2</sup> not the whole of the Department of Health's budget – the definition used by previous governments.
- While NHS England's budget will rise by £7.6 billion in real terms over the period, other health spending will fall by more than £3 billion, a 20 per cent cut.
- The additional investment will be front-loaded with a significant increase in 2016/17 which is very welcome. However, much of this money will be absorbed by dealing with deficits among NHS providers and by additional pension costs.
- With much smaller increases in later years, the NHS will struggle to maintain services, let alone invest in new models of care and implement seven-day services. This places even more emphasis on the huge challenge of finding £22 billion in productivity improvements by the end of the parliament.
- Public health spending will fall by at least £600 million in real terms by 2020/21, on top of £200 million already cut from this year's budget. This will affect a wide range of services including health visiting, sexual health and vaccinations.
- Overall, the NHS is halfway through the most austere decade in its history. Public spending on health in the United Kingdom as a proportion of GDP is projected to fall to

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<sup>1</sup> All financial data in this briefing has been adjusted to 2015/16 prices using HM Treasury's Gross Domestic Product (GDP) deflators published on 27 November 2015.

<sup>2</sup> NHS England oversees the commissioning of health services in England and is responsible for the bulk of health spending.

6.7 per cent by 2020/21, leaving us behind many other advanced nations on this measure of spending.

- A number of uncertainties make the settlement for social care difficult to gauge but spending is likely to be broadly flat in real terms over the parliament.
- New powers to raise Council Tax by up to 2 per cent to spend on social care will provide flexibility for local authorities but are unlikely to raise as much as the government suggests and could disadvantage deprived areas with low tax bases.
- Additional money for social care provided through the Better Care Fund from 2017/18 is welcome but risks arriving too late with the sector already on the brink of a crisis and a further significant cut in funding to follow next year.
- The additional funding will not be enough to close the social care funding gap which we estimate will be somewhere between £2 billion and £2.7 billion in 2019/20, depending on how much is raised through the Council Tax precept.
- Social care also faces additional cost pressures from implementing the National Living Wage which will add another £800 million to these estimates, leaving an estimated total funding gap of between £2.8 billion and £3.5 billion by the end of the parliament.
- Public spending on social care as a proportion of GDP will fall back to around 0.9 per cent by 2019/20, despite the ageing population and rising demand for services. This will leave thousands more older and disabled people without access to services.

## Health

The Spending Review announced that the NHS will receive a real-terms funding increase of £10 billion over the period from 2014/15 to 2020/21. It also announced that £6 billion of this funding would be front-loaded by 2016/17. The government argued that this delivers the £8 billion it had promised to fund the *NHS five year forward view*. The rest of the stated increase comprises additional funding for the current year announced in last year's Autumn Statement.

### Looking beyond the headlines

The figures announced in the Spending Review rely on a significant change in the interpretation of NHS spending. Previous governments have defined this as the totality of the Department of Health's budget, worth £116.4 billion in 2015/16. However, this Spending Review effectively redefines NHS spending to mean NHS England's budget only, £101.3 billion in 2015/16. Other health spending not included in NHS England's budget – for example, spending on public health, education and training, capital and national bodies such as the Care Quality Commission and the National Institute for Health and Care Excellence – is excluded.

All three of our organisations will continue to use the previous definition in our analysis of NHS funding. Using this definition, and taking 2015/16 as the baseline,<sup>3</sup> NHS funding in England will in fact increase in real terms by £4.5 billion by 2020/21. While this is still a welcome increase, it is clearly much less than was expected when the NHS settlement was

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<sup>3</sup> The Spending Review used 2014/15 as the baseline.

announced. The difference is largely accounted for by a reduction of more than £3 billion in spending that falls outside NHS England’s budget.

This is set out in more detail in the table below which estimates health spending in real terms up to 2020/21.

	£ billion in 2015/16 prices <sup>4</sup>						
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Change 2015/16–2020/21
NHS England	101.3	105.0	106.4	106.8	107.5	108.9	7.6
Other Department of Health	15.1	13.4	12.9	12.7	12.2	11.9	-3.1
<b>Department of Health DEL*</b>	<b>116.4</b>	<b>118.4</b>	<b>119.3</b>	<b>119.5</b>	<b>119.7</b>	<b>120.9</b>	<b>4.5</b>

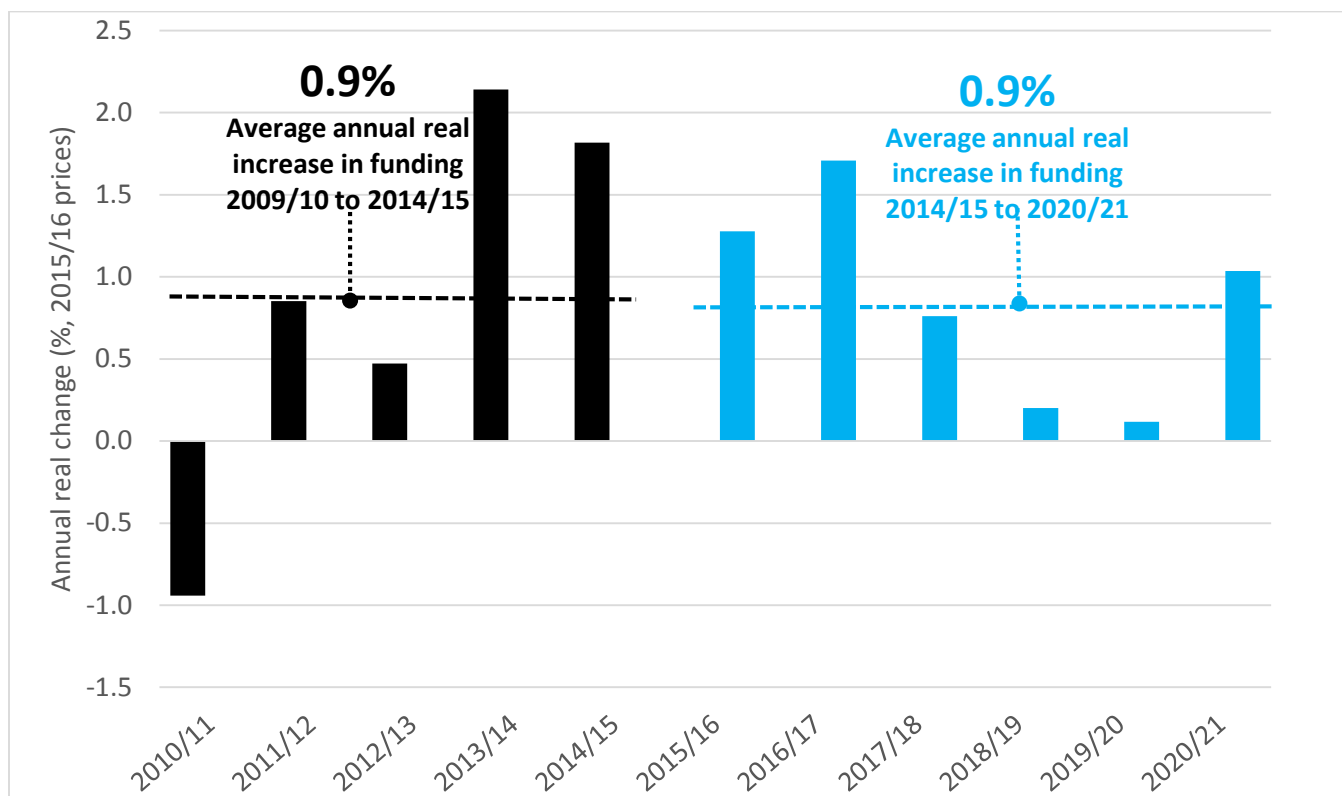
\* Departmental Expenditure Limit – the total budget allocated to the Department of Health

As the graph below shows, this means that health spending will increase in real terms by an average of around 0.9 per cent a year over the parliament (ie, using 2014/15 as the baseline), almost identical to the rate of increase over the last parliament. However, the context is also very different this time, coming after a sustained funding squeeze, with growing deficits among NHS providers, waiting times rising and several key performance targets being regularly missed. The impact of a further period of pay restraint is also unclear, with the service already struggling to recruit and retain enough staff, very high expenditure on agency staff and low staff morale.

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<sup>4</sup> All figures are expressed in real terms using 2015/16 prices. Unusually, the Spending Review used 2020/21 prices to estimate spending which results in higher forecasted spending in future years.

**Figure 1** English NHS spending 2010/11 to 2020/21, real annual changes



These increases compare with average annual increases of 3.7 per cent since the NHS was established, leaving it halfway through by far the most austere decade in its history. By the end of the parliament, public spending on health as a proportion of GDP is projected to fall back to 6.7 per cent, pushing the United Kingdom further into the bottom half of Organisation for Economic Co-operation and Development countries in terms of health spending and leaving us well behind many other advanced nations.

### Phasing of the funding increase

The government responded to calls for the additional funding to be front-loaded early in the parliament. The Department of Health budget will increase by £2 billion in real terms in 2016/17. While this is welcome, around £1 billion will be absorbed by additional pension costs incurred by the NHS as a result of the abolition of the second state pension. A substantial proportion will also be used to cover rising deficits among NHS providers. By the time rising demand for services is factored in, only a limited amount will be available for investing in the essential changes to services outlined in the *NHS five year forward view*.<sup>5</sup>

While the front-loading of the additional funding will help to stabilise services in the short term, smaller increases will follow later in the parliament, with real-terms increases of just

<sup>5</sup> On 16 December 2015, the government announced a £1.8 billion fund for 2016/17 which will be used to support NHS providers in reducing deficits and improving services.

0.2 per cent and 0.1 per cent in 2018/19 and 2019/20. This will stretch budgets to the limit, especially as the NHS will also be required to implement seven-day services – an additional commitment not factored into the *NHS five year forward view*.

Attention will now focus on the need to find £22 billion in efficiency savings by 2020/21, for which there is, as yet, no plan. While there are significant opportunities to improve productivity in the NHS, this will be a huge challenge, especially in a context where limited funds are available to support service change, the budget for prevention is being cut and funding for social care is falling short of meeting need (see below).

## **Other health spending**

As set out above, spending on activity that falls outside NHS England's budget will decrease by more than £3 billion in real terms by 2020/21 – a reduction of more than 20 per cent. The reductions will be more substantial in the earlier years, with a cut of more than £1.6 billion in 2016/17. How this decrease will be managed is not yet clear and it remains to be seen whether the Department of Health exactly follows the allocations outlined in the Spending Review when it sets NHS England's budget. However, some details have emerged.

- While the Spending Review commits to holding capital spending at £4.8 billion a year in cash terms until 2020/21, this represents a significant real-terms reduction over the period.
- Local authority public health budgets will be cut by 3.9 per cent a year. This adds up to a real-terms reduction of at least £600 million in public health spending by 2020/21, on top of £200 million already cut from this year's budget.
- The Spending Review announced reforms to the funding system for student nurses which will see grants for tuition fees replaced by student loans. This is projected to save £1.2 billion a year, although most of these savings will not be realised until the end of the parliament.
- In addition to these savings, it has been reported that the remainder of Health Education England's budget is likely to be frozen in real terms (Lintern 2015).
- The Care Quality Commission has signalled that it expects significant reductions to its budget. As a result, it is consulting on changes to its approach to regulation and inspection, and has proposed large increases to the fees it charges to providers.

While we await further details of the impact on specific budgets, it is clear that a large amount of the additional increase in NHS England's budget has come at the expense of other areas of health spending. Reducing the capital budget in real terms means investing less in buildings and equipment. This may be sensible if the money is used to support changes to services but we are concerned about the growing tendency in recent years to re-direct capital spending to shore up the revenue budget – cutting investment to meet short-term needs is not a sustainable strategy.

Of Health Education England's £5 billion budget, £3.5 billion goes straight back to the NHS front line to pay the salaries of doctors while they are undergoing training. Freezing this budget risks increasing pressure on hospitals if Health Education England is forced to reduce the subsidies it pays to cover these costs.

The reductions to the public health budget will affect a wide range of services including health visiting, sexual health and vaccinations, and will have a significant knock-on effect on the NHS. These cuts are a false economy, undermining the government's commitments on prevention and the *NHS five year forward view* which was predicated on a 'radical upgrade in prevention and public health'.

## **Social care**

The Spending Review announced a number of key changes that will have an impact on social care funding.

- A new social care precept will enable local authorities to increase Council Tax by up to 2 per cent a year to fund social care. The government estimates this could raise £2 billion a year in cash terms by the end of the parliament if all councils use it to raise the full amount every year.<sup>6</sup>
- An increase in funding for social care through the Better Care Fund which will see an additional £1.5 billion a year in cash terms (£1.4 billion in real terms) provided by 2019/20.
- A reduction in grant funding for local authorities of £6.1 billion by 2019/20 and significant changes to local government funding which will see councils retain all income from business rates, as grant funding from central government is phased out.
- A commitment to integrate health and social care across the country by 2020.

## **Looking beyond the headlines**

The new powers to increase Council Tax will provide some financial flexibility for local authorities. However, it seems unlikely that all councils will choose to levy the full 2 per cent, every year for the next four years, on top of any other rises for other services. To put this into perspective, around half of councils chose to increase Council Tax this year. And without measures to address the wide variations in how much councils can raise through their tax base, this will disadvantage deprived areas – often areas with the highest needs for publicly funded social care – which will be able to raise less income through the precept than wealthier areas.

The additional money provided through the Better Care Fund is welcome, especially as it appears to be genuinely new money for social care and will not be transferred from the NHS (the existing transfer from the NHS to social care through the Better Care Fund – currently £1.1 billion – will be maintained in real terms over the parliament). However, this money is back-loaded – it will not begin to come through until 2017/18 when reports suggest it will only deliver £100 million (Stothart 2015). This will increase in 2018/19 before the full £1.5 billion is delivered in 2019/20.

The changes to local government funding will see central government support for local authorities fall by 56 per cent by 2019/20, on top of a reduction of 37 per cent over the last parliament. Although the ability to retain income raised through business rates will

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<sup>6</sup> Estimates published by the Office for Budget Responsibility indicate that the precept could raise up to £1.6 billion.

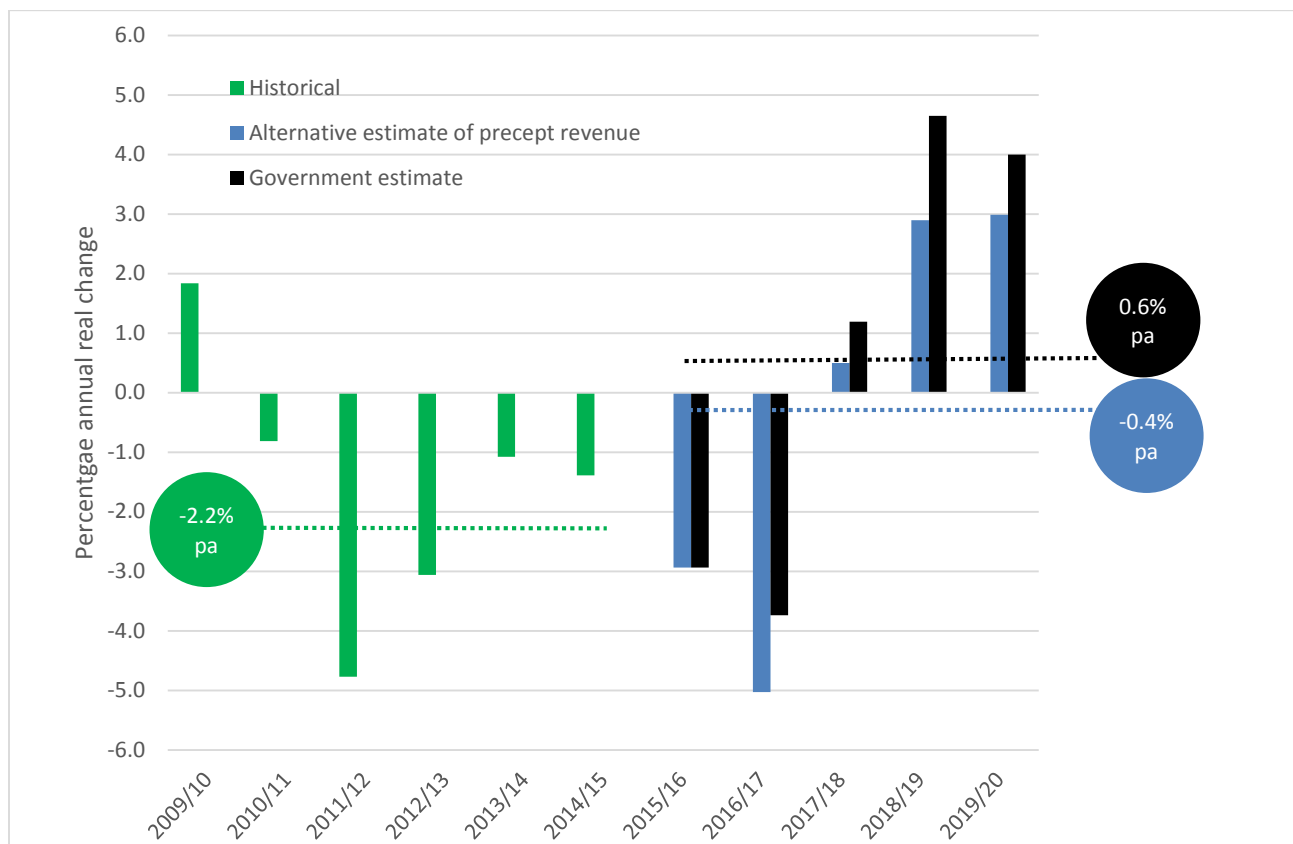
compensate for this, these changes will leave councils more dependent on their tax base, raising significant issues about equity given the wide disparities in income-generating potential between richer and poorer areas of the country. The government has indicated that it will consult on how these changes are implemented, including how to 'rebalance support to those authorities with social care responsibilities'.

We welcome the commitment to integrate health and social care across the country by 2020. However, the shift towards a social care system based on locally-raised revenue risks deepening the fault line in the way the two systems are funded, with the NHS continuing to be funded largely through general taxation and social care more reliant on local levels of property wealth and economic activity.

### What does this mean for social care?

The uncertainty about the impact of these changes makes the settlement for social care difficult to gauge. The full picture will not become clear until local authorities set their budgets next year. The graph below estimates spending on social care over the current parliament using two scenarios. The first is based on the projections used by the government and the Office for Budget Responsibility in the Spending Review, the second on only half of local authorities raising Council Tax by the full 2 per cent each year.

**Figure 2** Social care spending 2009/10 to 2019/20, real annual changes



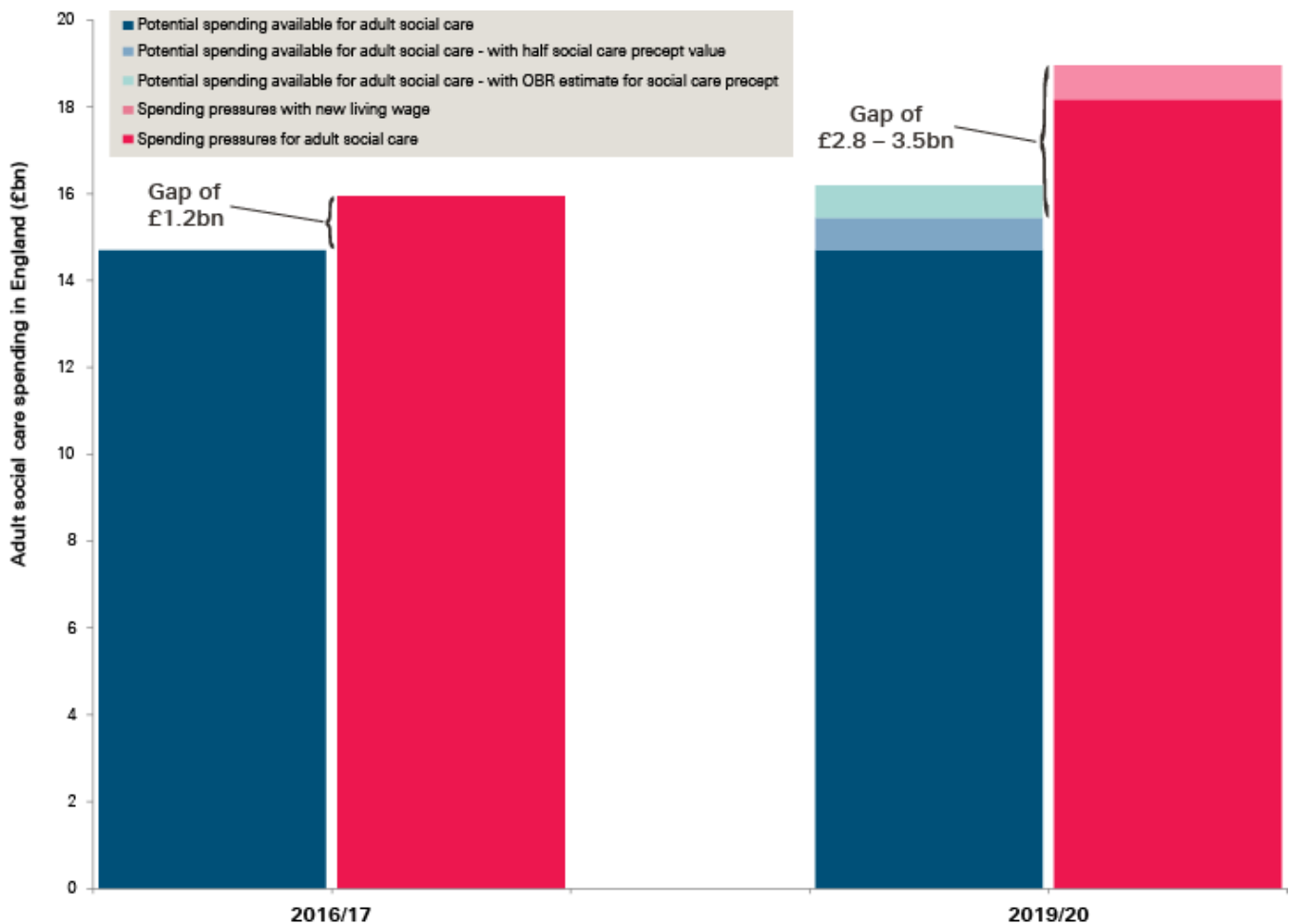
As the graph shows, spending on social care is likely to be broadly flat in real terms over the parliament, with the extent of any small increase or decrease depending on how much is raised through the council tax precept. Based on the first scenario, spending would rise

by an average of 0.6 per cent a year. Under the second scenario, spending would fall by an average of 0.4 per cent a year.

The graph also highlights the extent to which the social care settlement has been back-loaded. With social care already on the brink of crisis and a heightened risk of provider failure, next year – which will see a significant reduction in funding – will be particularly difficult. Further reductions to services are certain to follow and unmet need will increase.

Although this is an improvement on the past five years, when spending on social care fell by an average of 2.2 per cent a year, it will not be enough to meet projected cost pressures of 4 per cent a year (Wittenberg and Hu 2015). Under the first scenario, we estimate there would be a funding gap of £2 billion by 2019/20. This would increase to £2.7 billion under the second scenario. On a conservative assessment, implementing the National Living Wage will add another £800 million to these estimates (ADASS and LGA 2015). So, overall, the social care funding gap is likely to be somewhere between £2.8 billion and £3.5 billion by the end of the parliament.

**Figure 3** Potential funding gap for adult social care in 2019/20, with likely impact of new living wage\*



\*based on projections from the government, the Office for Budget Responsibility and the Personal Social Services Research Unit



The Spending Review has provided some recognition of the pressures facing social care. However, despite a growing older population and increasing demand for services, spending on social care as a proportion of GDP will slip back to around 0.9 per cent by the end of the parliament. Reductions in services have seen more than 400,000 people denied access to the care they need over the past five years. Thousands more older and disabled people now face this prospect, further increasing the pressures on families, carers and the NHS.

## Conclusion

In the context of deficit reduction and significant cuts to some departmental budgets, the NHS has received a comparatively favourable settlement and pressures on social care have been acknowledged. However, it is now clear that health spending will not rise by nearly as much as initially implied when the NHS settlement was announced, while social care funding will continue to fall short of meeting need, with the sector facing huge pressures in the short term. It is important that the government is honest with the public about the implications of the settlement for what the NHS and social care can deliver. Both services are now set for a decade-long funding squeeze which will see spending as a share of GDP fall and leave the United Kingdom behind many other advanced nations on this measure of spending. In the face of unprecedented financial pressures and rising demand for services, this is not sustainable. We reiterate the call we all made before the Spending Review for a new settlement which places health and social care on a sustainable footing for the future.

## References

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