

Nuffield Trust Parliamentary Briefing

# Spending Review 2015: what it means for health and social care

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## Key Points

- The Chancellor's decision to 'front-load' £3.8 billion above inflation into the NHS in England for 2016–17 is welcome and will help to provide a stable platform for the NHS next year. The NHS has had a more generous settlement than other areas of the public sector, but this shouldn't lead to complacency over the scale of the challenge facing health and social care services.
- While the budget for NHS England was protected, the £15 billion-worth of the Department of Health's total £116.4 billion spending that lies outside NHS England was not. Almost £3.5 billion of this will be slashed – a cut of more than 20 per cent in real terms over the next five years. This could include cuts to public health spending and to clinical education and training. These cuts are likely to have knock-on implications for the NHS, so clarity is needed on where the cuts will come from.
- There will be real terms reductions to local authority public health grants, which suggests around £600 million of NHS England's 'extra' £8 billion will be funded through cuts from public health. This sits uncomfortably with the Chancellor's claims to have delivered "in full" NHS England's *Five Year Forward View*.
- Despite the extra investment in social care, care services in England remain on the brink of collapse. The move to allow local authorities to increase their council tax bills by up to 2 per cent in order to increase their social care funding has the potential to raise £2 billion a year by the end of the

Parliament only if every local authority imposes the increase. However, poorer areas of England will have to increase council tax far more for the same return than wealthier ones. In addition, the extra £1.5 billion of funding that will result from the extended Better Care Fund will not take effect until 2017/18, and will only fully arrive in 2019/20.

- We are concerned about the implications of ending student nurse bursaries and the possible real-terms cuts to funding for medical student placements. The abolition of bursaries could be cost-saving to the Department of Health, representing an annual saving to the Health Education England (HEE) budget of around £1.2 billion. However, the need to honour existing commitments means this saving will not transpire until the end of the five-year period, with only £650 million saved per year by 2018–19.

## Introduction

The Chancellor announced the Government's Autumn Statement and Spending Review to Parliament on 25 November. The day before the official launch, the Government outlined its Spending Review settlement for the NHS in a press release from HM Treasury.<sup>1</sup> This announced that the NHS would "receive an additional £10 billion a year above inflation by 2020, with £6 billion front-loaded by the first year of the Spending Review".

On the day of the Spending Review publication, the Chancellor gave further details of the Government's funding for health and social care in his Commons statement. He described his objective as being "to develop a modern, integrated, health and social care system that supports people at every stage of their lives", and announced two new measures to ease the pressures on local authorities with responsibilities for delivering social care. These comprised, first, a power for councils with responsibilities for social care to levy a new social care precept of 2 per cent on council tax bills, and second, an increase in resources for the Better Care Fund, which would see the Fund grow to £1.5 billion by 2019–20.

Leading up to the Spending Review, the Nuffield Trust had warned, in its official submission, that "over the Spending Review period, the NHS will increasingly struggle to maintain standards and meet growing demand". The pressures on the health service and social care are well documented – and growing. Emergency admissions to NHS hospitals in England have risen by 18 per cent in the last five years.<sup>2</sup> NHS trusts in England had overspent available funding to run up a deficit of £1.6 billion by the end of September.<sup>3</sup> Social care for older adults in England has been cut by 16 per cent since 2010.<sup>4</sup>

**So where does the settlement leave health and social care? In this briefing, the Nuffield Trust examines the extent to which the extra funding for both sectors will be sufficient to meet their immediate and longer-term needs, and looks at the small print behind the figures.**

## The settlement for the NHS

NHS England's *Five Year Forward View* document, published in October 2014, had calculated that by 2020, the NHS in England would require an increase in funding of £30 billion above inflation. This could be filled if £22 billion of efficiency savings over the five years were delivered, the report said, leaving a funding gap of £8 billion above inflation in 2020 to be addressed by Government. The Conservative and Liberal Democrat parties both committed during the General Election campaign to providing this sum at the end of the 2015–2020 Parliament.

The Nuffield Trust identified "bringing in the £8 billion minimum of extra funding **smoothly over the course of the Parliament**" [emphasis added], rather than only providing it in 2020, as one of its top health and social care priorities for the new Government<sup>5</sup>. Throughout the summer and autumn, other organisations – as well as the

<sup>1</sup> Her Majesty's Treasury, *Unprecedented Investment in the NHS*: [www.gov.uk/government/news/unprecedented-investment-in-the-nhs](http://www.gov.uk/government/news/unprecedented-investment-in-the-nhs)

<sup>2</sup> House of Commons Library briefing paper, July 2015

<sup>3</sup> Monitor/Trust Development Authority Quarterly Report on Performance, 12 November 2015

<sup>4</sup> Nuffield Trust: *Another Year of Cuts to Social Care*, July 2015

<sup>5</sup> Nuffield Trust, *Health and Social Care Priorities for the Government, 2015-20*, June 2015

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Chief Executive of NHS England, Simon Stevens – made the same call for the £8 billion to be ‘front-loaded’ at the start of the current Parliament in order to relieve the immediate financial pressures on the health service.

In announcing £3.8 billion above inflation for the next financial year (2016–17) alone, therefore, the Chancellor has heeded those warnings. The Nuffield Trust welcomed his decision: “The Government’s decision to put more money into the NHS upfront will provide a stable platform next year”<sup>6</sup>. The Department of Health and NHS England have had a much more generous settlement than some other Government departments.

However, the Trust has concerns that some details of the settlement could undermine the health service’s ability to cope with the cocktail of an ageing population, a rise in more complex, long-term conditions, and the need to pay for new drugs and technologies.

Firstly, the ‘£10 billion funding by 2020’ announced by the Chancellor includes £2 billion previously announced in NHS England’s spending for 2014–15, meaning that a more accurate figure up to 2020 is £8 billion.

More significantly, the Chancellor’s announcement to the Commons of the terms of the Spending Review revealed that just under £3.5 billion of this extra £8 billion would be funded through very significant cash reductions to the £15 billion-worth of the Department of Health’s total £116.4 billion spending that lies **outside** NHS England. (The Chancellor’s Commons statement simply announced “a 25 per cent cut in the Whitehall budget of the Department of Health”.)

That spending comprises:

- Over £3.5 billion in public health spending
- A similar amount in central and local NHS administration costs
- £800 million funding for arm's length bodies such as NICE, NHS Blood and Transplant, those overseeing medical and health research and development and the Care Quality Commission
- Almost £5 billion in NHS-wide capital investment – paying for new buildings, equipment and IT in the NHS
- Almost £5 billion in clinical education and training, including the salary costs of doctors who train on the job.

These budgets will now be slashed by over 20 per cent in real terms over the next five years, with the most severe cuts front-loaded to the next financial year, when an immediate cash reduction of £1.5 billion will be made – 12 per cent in real terms.

We urge parliamentarians and other key stakeholders to scrutinise where the £3.5 billion Department of Health axe will fall. The Spending Review Blue Book has so far announced average annual real terms reductions to local authority public health grants (currently around £3 billion) of 3.9 per cent. That would suggest in the region of £600 million of the NHS England’s ‘extra’ £8 billion will be funded through cuts from public health – a move which sits uncomfortably with the Chancellor’s claims to have delivered “in full” NHS England’s *Five Year Forward View*, which had at the centre of its plans to ensure the sustainability of the NHS a “radical upgrade in prevention and public health”.

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<sup>6</sup> Nuffield Trust press release, 24/11/15

### The knock-on effects of ending nursing bursaries

The Spending Review also announced plans to end NHS bursaries for student nurses – switching these instead to the Student Loan Company. If successful in expanding student nurse numbers, the switch could be cost-saving to the Department of Health, representing an annual saving to the Health Education England (HEE) budget of around £1.2 billion. However, the need to honour existing commitments means this saving will not transpire until the end of the five-year period, with only £650 million saved per year by 2018–19. (Net savings will be lower to the NHS, of course, if personal debt liabilities for newly qualified nurses translate into pressure on NHS pay rates.)

In the meantime – and following HEE’s indication that its budget for next year is likely to be frozen – there is a risk of stealth cuts to NHS hospitals if HEE is forced to respond by reducing or freezing the subsidies it currently pays to NHS providers to cover part of the salary costs of junior doctors and placement expenses for undergraduate medical trainees.

HEE is also involved in training and retraining allied health professionals (such as radiologists and physiotherapists) and healthcare support workers. Skills in these groups are integral to the *Five Year Forward View*’s vision of new models of care and ways of working. It is vital this work is not undermined.

### Provisions for social care

Before the Spending Review was delivered, the Local Government Association (LGA) had calculated that the funding gap for adult social care in England would reach £2.9 billion by 2020. Cuts to social care funding have been partly responsible for the large numbers of patients, many of them frail and elderly, continuing to occupy hospital beds despite being medically fit to return home (so-called ‘delayed transfers of care’). The most recent figures from NHS England showed that there were over 147,000 ‘delayed days’ in September: an increase of almost 10,000 since September 2014<sup>7</sup>.

As outlined earlier in this briefing, the Spending Review saw the Chancellor [announce](#) a new power for local authorities to raise council tax by two per cent, ring-fenced specifically for social care. His statement to the Commons announced that this power would “bring almost £2 billion more into the care system”. In addition, he announced a new grant of £1.5 billion through the Better Care Fund in the later years of the Parliament.

The headline gap, then, is closed. However, we are concerned that reading the ‘small print’ behind these two measures paints a different picture, and that the £2 billion from increased council tax receipts in particular may not materialise for the following reasons:

- First, the Chancellor’s speech to the Commons makes it clear that *every* local authority will have to use the new power to raise council tax by 2 per cent to achieve the £2 billion figure<sup>8</sup>. It is not at all clear that all councils will choose to do so.
- At the same time, the central grant to local government – which provides almost a third of the pot from which social care is currently funded – is to be cut by more than half. That translates into a reduction of around £2.1 billion in the underlying funding for adult social care. The Spending Review emphasises that the new council

<sup>7</sup> NHS England statistical press notice, 12 November 2015

<sup>8</sup> Spending Review and Autumn Statement 2015 speech p10: ‘...and if all authorities make full use of it, it will bring almost £2 billion more into the care system’.

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tax sources will help to offset these wider cuts. But this still means local authority spending falling by 1.7 per cent a year in real terms, and only then if all councils increase their council tax by the 2% maximum new precept allowed for social care **in addition to** a further 1.99% permitted at present without having to hold a local referendum.

- Finally, the Better Care Fund does not take effect until 2017–18, with the £1.5 billion increase announced by the Chancellor not due to be reached until 2020–21. As the Local Government Association pointed out after the Chancellor’s speech: “Councils will not see the money until 2017. We have got a crisis now in social care funding”<sup>9</sup>.

There are also troubling questions about the fairness of any council tax rises. In general, poorer areas of England will have to increase council tax far more, for the same return, than wealthier areas. As the Institute for Fiscal Studies has shown<sup>10</sup>, for some inner city councils, imposing the two per cent additional increase each year would cover less than a tenth of their current adult social care costs. Meanwhile other, often wealthier areas would find the new income covering almost a fifth of theirs.

The Nuffield Trust is therefore concerned that throughout this Parliament, despite the provisions announced in the Spending Review, the state of adult social care will still be a source of deep concern for those who fund, deliver and need it. The [need for a bigger solution](#) – along the lines of taking money from state pensions, compulsory private saving, or new taxes – will not have gone away.

### Our verdict

The Spending Review settlement for the NHS in England is more favourable than other areas of the public sector have received. The ‘front-loaded’ investment for 2016–17 will help to provide a stable platform for the health service next year. This is to be welcomed. However, the NHS is in the middle of its longest-running period of constrained funding at a time when demand for care services is rising. The challenge therefore remains substantial, and the settlement leaves a number of unanswered issues.

Of the £8 billion additional funding given to NHS England by 2020–21, some £3.5 billion will be funded through cuts to the £15 billion of the total health budget which lies outside NHS England. The first question is where the axe will fall here.

Second, wider cuts to public health – delivered through real terms reductions to local authority public health grants – sit uncomfortably with the Chancellor’s claims to have delivered “in full” NHS England’s *Five Year Forward View*. Where does this leave the NHS’s ability to deliver on ‘Chapter 2’ of the *Forward View* – i.e. the aim to deliver a radical upgrade in prevention and public health?

Finally, care services in England remain on the brink of collapse despite the extra investment in social care. None of the measures outlined in the Spending Review will plug the funding gap in social care expected over the course of this Parliament.

<sup>9</sup> Cllr Sharon Taylor, LGA Finance spokeswoman, *The Observer* 29/11/15.

<sup>10</sup> IFS, *Local government and the nations: a devolution revolution*, 26/11/15

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aim to improve the quality of  
health care in the UK by  
providing evidence-based  
research and policy analysis and  
informing and generating debate.

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