Budget 2018

What it means for health and social care

November 2018

What was announced in the Budget?

The Chancellor re-stated the government's commitment to a multi-year funding settlement over the next 5 years. At the time of the announcement this amounted to £20.5bn extra for NHS England by 2023/24, a 3.4% increase per year on average. Higher than expected inflation means that, in real terms, the annual increase will be *less* than 3.4%. However, the Budget made clear that the government will confirm the final settlement, consistent with the £20.5bn real-terms increase, by the 2019 Spending Review.

The deal applies to the budget for NHS England only and not the overall budget of the Department of Health and Social Care (DHSC), which also includes important areas of health spending such as major capital investment, public health, and education and training.

This narrower measure of health spending is not consistent with that used by previous governments and endorsed by the Health and Social Care Select Committee. Our three organisations – the Health Foundation, Nuffield Trust and The King's Fund – continue to highlight that the DHSC budget is the best way of measuring health spending, as it provides the full picture of all the areas of health spending that affect patient care.

The Health Foundation
The King's Fund
nuffieldtrust

The NHS England budget

The increase applies to the funding set out in the mandate to NHS England. The mandate describes what the government wants the NHS to deliver for the year and sets its spending. The funding settlement announced in June amounted to 3.4% growth in real terms in the NHS England budget over the next 5 years, equivalent to £20.5bn by 2023/24.

Greater than anticipated inflation means that the cash-terms commitment made by the government to 3.6% growth next year, will now only be 3.3% at expected inflation levels. HM Treasury has confirmed that it will update the final settlement figure next year to be equal to the initial £20.5bn real-terms increase commitment.

As part of the 2018 Budget HM Treasury has allocated an additional £1.25bn adjustment to cover unavoidable increased costs for NHS staff pensions.

Table 1: NHS England Funding Settlement, 2018/19 to 2023/24

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Cash (£bn)	114.6	121.8	128.2	134.4	141.1	149.0
Real (2018/19 prices £bn)	114.6	119.7	123.5	127.1	130.9	135.6
Real change with pension adjustment		4.4%	3.2%	2.9%	3.0%	3.7%
Real change without pension adjustment		3.3%	3.3%	2.9%	3.0%	3.7%

Note: Figures in 2018/19 prices are deflated using the Office for Budget Responsibility's Economic and Fiscal Outlook deflators, published alongside the Autumn Budget 2018.
Source: Autumn Budget 2018

The DHSC budget

The settlement does not cover anything outside of the NHS mandate. The rest of the DHSC budget includes the following: spending on education and training for doctors, nurses and other health professionals; public health grant money to local councils to deliver services such as sexual health and children's services; and most capital funding for buildings and equipment. In addition, it covers the running costs of organisations like the Care Quality Commission and the National Institute for Health and Care Excellence (NICE).

The Treasury has committed to increase the NHS England budget to fund additional pension costs. Decisions on the overall DHSC budget and how to treat pension costs within that will be addressed as part of the 2019 Spending Review. The Spending Review will cover the period from 2020/21 onwards, while the Budget set out spending totals for DHSC for 2019/20. There was no uplift to the DHSC budget to match the commitment to fund pension costs for NHS England. Unless further changes are made, the DHSC budget, excluding the NHS England and capital budgets, will fall by £1bn in real terms in 2019/20. This would mean further squeezes on budgets like public health and training next year, even as funding increases for NHS England.

It is still possible for the Treasury to increase the DHSC budget for 2019/20 from reserves held by the Treasury but that would require a commitment either in a spring fiscal event (post-Brexit deal), or an in-year addition through the 2019 Spending Review. As things stand, the planned costs need to be met from within the current DHSC budget, meaning the increase to the remaining DHSC resource and capital budget combined (total DEL) will be just 2.7% in real terms next year, to £132.7bn. This is significantly less than the long-run average of 3.7%. These budgets will be confirmed at the 2019 Spending Review.

Looking beyond 2019/20, these budgets outside of the NHS England mandate – approximately 11% of DHSC's total budget – could be at risk of further cuts in the 2019 Spending Review, as occurred in the 2015 Spending Review when health spending outside the NHS England budget was reduced. The autumn 2018 Budget set an indicative path for overall public spending for the next 5 years. While this 'envelope' is larger than planned in March 2018, it still leaves little room for large increases in budgets outside the protected areas of NHS England, defence, and aid. However, the Budget confirmed Jeremy Hunt's statement that the government will 'consider' proposals for multi-year capital and transformation funding, as well as clinical training places. The Budget also committed to 'ensure that public health services help people live longer, healthier lives'.

Table 2 shows recent growth rates in the total DHSC Budget, with 2019/20 showing the highest real growth rate over the period.

Table 2: The Department of Health (and Social Care) budget, 2010/11 to 2019/20

	2010/11	2011/12	2012/13	2013/14	2014/15
DHSC total budget (real terms £bn)	114.4	115.7	116.1	118.9	121.2
Real-terms change in total budget	0.1%	1.1%	0.3%	2.5%	1.9%
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
DHSC total budget (real terms £bn)	124.4	125.1	127.4	129.2	133.9 (132.7 excl. pension revaluation)
Real-terms change in total budget	2.6%	0.6%	1.9%	1.4%	3.6% (2.7% excl. pension revaluation)

Note: Figures which exclude the pension revaluation show the growth rate if these costs are met from within the DHSC's stated budget, reducing the amount available. Figures in 2018/19 prices are deflated using the Office for Budget Responsibility's Economic and Fiscal Outlook deflators, published alongside the Autumn Budget 2018.
Source: Autumn Budget 2018

Where is the NHS money coming from?

Since the Prime Minister announced the NHS settlement in June, there has been speculation about where the NHS funding boost would come from, with many commentators expecting taxes to rise. Instead, the OBR's analysis showed better than expected tax receipts – a £68bn fiscal windfall – enabled the Chancellor to finance the NHS funding increase without raising taxes or increasing borrowing. This was not known at the point of the Prime Minister's announcement in June.

Alongside this, the Chancellor was able to announce a rise in income tax thresholds – a tax cut. As a result, the Institute for Fiscal Studies estimates that health will constitute 38% of all public spending by 2023/24, compared with 29% in 2010. The proportion would be lower if taxes had been raised to pay for the NHS settlement and release funds to increase spending in other areas, and this trajectory could yet be reversed with increased spending in the Spending Review.

It should be noted that the OBR's borrowing forecasts are predicated on assumptions about the UK's exit from the EU. They assume 'an orderly transition to a new long-term relationship'. This introduces substantial uncertainty into the OBR's positive borrowing forecasts that could be upset by Brexit.

What do we know about where the NHS money will be spent?

The funding announcement in June was an *offer,* contingent on the NHS coming up with a plan to spend the money well. This NHS long-term plan will set out how the new money is to be spent, and it is expected to be delivered before the end of the calendar year.

The Budget set out some tests for the NHS plan and how the new money should be invested, including that the NHS will need to return to financial balance and achieve at least 1.1% of cash-releasing productivity growth per year.

The Budget pledges that 'funding for mental health services will grow as a share of the overall NHS budget over the next 5 years'. This has been reported as an increase in spending on mental health by at least £2 billion per year by 2023/24. Around £10.3bn was spent by Clinical Commissioning Groups (CCGs) on mental health in 2017/18 (and £1.9bn by NHS England specialised commissioning) so adding at least £2bn to this total would increase mental health spending at a similar rate to the NHS England budget. Whether this constitutes an overall increase in the proportion of NHS England money spent on mental health will be dependent on the final confirmed increase.

The Chancellor also announced that £250m of this will go into new crisis services by 2023/24, including:

- mental health support in every major accident and emergency (A&E) department
- 24/7 mental health crisis service over NHS 111
- children and young people's crisis teams across the country
- more mental health specialist ambulances
- a greater number of community services, such as crisis cafes.

Additional support is being pledged for mental health support schemes in schools, as well as expanded access to the Individual Placement and Support programme, which helps people with severe mental illness find employment.

What's the deal for social care?

Social care is also outside of the NHS spending commitment, but it was the recipient of additional funds for 2018/19 and 2019/20 in this Budget. The government had already announced £240m of additional funding for local authorities to spend on care and support, with the aim of freeing up NHS beds this winter. The Chancellor announced that a further £240m in winter-pressures money will be available to councils in 2019/20.

Alongside this, £410m in cash terms in additional social care funds will be available for local councils for 2019/20. This is to cover both children's social care and services for working age adults and older people, leaving local authorities in the unenviable position of choosing which of these vital budgets to prioritise. If this is spent in line with current spending patterns then social care will see an estimated 2.9% real-terms increase next year. While welcome, this falls far short of rising pressures of 3.7% per year and offers little scope to address unmet need or improve quality. In addition, local authorities will face continuing pressure to increase the rates they pay for social care because providers' staff costs are increasing faster than inflation, due to the rise in the national living wage, from £7.93 currently, to £8.21 from April 2019.

The Budget also included an additional £55m for the disabled facilities grant in 2018/19. This grant can be used towards home adaptations for disabled children and adults on low incomes.

Together, these new announcements are the latest in a series of short-term cash injections, going only a small way to plugging the projected gap of at least £1.5bn in adult social care by 2020/21.

Funding of social care beyond 2019/20 will be set out in next year's spending review, while long-term reform of social care funding is expected to be addressed in a green paper, due later this year.

Is this the budget that ends PFI?

The Private Finance Initiative (PFI) and Private Finance II (PF2) are routes for public sector organisations to fund capital projects. They enable public organisations to access private sector money to pay for upfront costs on projects. This borrowing is then repaid over many years. In health care they have often been used to fund new hospitals, but they are also used in social care.

PFI and PF2 are controversial because of concerns about value for money, and also because of perceived poor management of these contracts. The Chancellor announced in the Budget that there will be no new PFI/PF2 contracts. He also announced a new 'centre of best practice' in the DHSC to improve management of existing contracts.

Although the Chancellor announced the end of PFI, there have, in fact, been no new schemes in the NHS since 2014. This is due to the squeeze on budgets making it more difficult to find the money to make repayments on PFI schemes.

The 2017 Naylor Review on NHS property and estates estimated that £10bn would be needed to fund maintenance and transformation of the NHS estate, with around £3bn set to come from private investment. Without PFI and PF2, the 2019 Spending Review will need to put forward a credible plan for supporting NHS trusts to reach this level of capital investment. This should support trusts to address the rising maintenance backlog, which now stands at £6 billion.

What's next?

With the NHS funding settlement confirmed, the next step is to see how the long-term plan intends to spend the new funding.

There is far more uncertainty around the non-NHS England part of the DHSC budget, which looks to be taking a £1bn hit in 2019/20, unless the Treasury covers all additional costs of pensions revaluation. This will be confirmed in the Estimates process, where the Treasury can make further changes to departmental spending totals.

For social care, the immediate consideration is the upcoming green paper, which will set out the options for a sustainable social care sector. There will be further decisions to be made in the financial settlement for local authorities – which affects both public health and social care – usually announced in December. Currently, the public health grant from the DHSC is expected to fall by around £200m, from £3.3bn in 2018/19 to £3.1bn in 2019/20. This follows real-terms cuts in public health spending of £690m since 2014/15. With the recent government announcement that there would be an increasing focus on prevention, more details are required to understand the impact this may have on the composition of the DHSC budget.

As the OBR's borrowing forecasts are based on a smooth transition out of the EU, there is a risk that a disorderly Brexit will force an emergency Budget in the spring. This could change forecasts significantly and force the Chancellor to look for other avenues to raise the money for the NHS financial settlement. There will be a fight ahead for budgets like public health, training and social care to be protected from further cuts in the 2019 Spending Review, let alone for much-needed increases.

The Health Foundation

The Health Foundation is an independent charity committed to bringing about better health and health care for people in the UK. Our aim is a healthier population, supported by high quality health care.

Nuffield Trust

The Nuffield Trust is an independent health think tank. We aim to improve the quality of health care in the UK by providing evidence-based research and policy analysis and informing and generating debate.

The King's Fund

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 health and care is available to all.