

# Health and social care funding

## Priorities for the next government

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## Key points

- UK health spending has grown by 1.6% a year over the last 4 years. This is much less than half the historical average growth rate. Compared to similar countries, the UK's day-to-day spending on health is around average, but capital investment is notably low.
- In England, the strategy for the NHS – the [NHS long term plan](#) – is underpinned by a funding settlement up to 2023/24, with average annual increases of 3.3% a year, starting this year. But this is against a backdrop of significant hospital deficits, a maintenance backlog and workforce shortages – all flowing from previous inadequate investment.
- The funding settlement doesn't cover the full budget for the NHS in England. Budgets for workforce education and training, public health and capital continue to have neither a plan nor long-term funding. Without further investment in these areas, quality and access to care are at risk of deteriorating further. As things stand, the total health budget will increase by just 2.9% a year to 2023/24.
- Maintaining current standards of care will require funding for these areas to increase by at least 3.4% a year – £3bn of funding in 2023/24 above current announcements. Investing in and modernising the health service as set out in the *NHS long term plan* requires around 4.1% a year – a further £4bn above that figure.
- The focus on mental health, primary and community services in the NHS long term plan is welcome. But there remain real challenges to ensure that this is not undermined by staff shortages, which despite the extra funding will prevent the intended improvements to these services.
- The greatest challenge lies in adult social care. Increasing numbers of people are unable to access social care, and care providers are at risk of collapse. Funding has not kept pace with demand, falling in real terms for most of this decade. Restoring access to 2010/11 levels of service, and investing to stabilise the social care workforce, would require an increase of £12.2bn compared to estimates of funding available in 2023/24 for councils to spend on social care.

**Note:** In this long read, all amounts are expressed in 2019/20 prices using the GDP deflators at market prices, and money GDP September 2019 from HM Treasury, unless otherwise stated.

From 2019/20 onwards, additional funding exists in NHS England and Department of Health and Social Care budgets. This is to compensate for higher-than-expected employer contributions relating to public service pension schemes. When we refer to these budgets in this long read, we remove the impact of these pension changes to ensure a consistent timeseries – except where specified, such as Table 4.

## Context

Health care accounts for £1 in every £5 spent by the government – more than £150bn across the UK in 2019/20. Over the past decade of austerity, the NHS has been protected from the real-terms funding cuts other public services have seen. But its funding growth has been severely constrained, at just 1.4% per year since 2010 – less than half the long-run average, and just a fifth of the 6.5% it averaged the decade before. This growth rate is similar to that for health systems in other Western European nations over the same time period.

**Table 1: Annual average real growth rates in UK public spending on health care: selected periods**

Period	Financial years	Average annual real growth rate
<b>Whole period</b>	<b>1949/50 to 2018/19</b>	<b>3.6%</b>
Pre-1979	1949/50 to 1978/79	3.5%
Thatcher and Major Conservative governments	1978/79 to 1996/97	3.3%
Blair and Brown Labour governments	1996/97 to 2009/10	6.0%
Coalition government	2009/10 to 2014/15	1.1%
Conservative government	2014/15 to 2018/19	1.6%

Source: [Securing the future](#) (Health Foundation and IFS analysis); HM Treasury Public Expenditure Statistical Analyses (1991/92 to 2018/19).

Decisions about the funding and management of health services are devolved to the different UK nations. The remainder of this long read focuses on the NHS in England, which is the responsibility of the Department of Health and Social Care (DHSC).

## The current picture

Between 2014/15 and 2019/20 total health spending will have grown at 2% a year on average, from £124bn to £137bn.

This period has seen NHS pay growth constrained, staffing shortages grow, waiting times rise markedly and NHS provider deficits escalate, as the cost of delivering care has outstripped funding for hospitals. As a result, funding has focused increasingly on day-to-day spending at the expense of wider investment in the NHS.

NHS England's budget accounts for £9 in every £10 of health spending – spent largely through local commissioners. In 2018, the government set out (and updated, alongside the NHS long term plan) the funding increase that NHS England would receive between 2018/19 and 2023/24. Allowing for the latest inflation estimates, NHS England's budget is due to increase in real terms by £20.7bn – an average of 3.3% per year.

Within this funding, the NHS has ambitions for spending on mental health services to rise by £2.3bn over this period (4.6% per year) and primary and community health services by £4.5bn (3.8% per year). This represents a genuine increased focus on mental health and primary and community services. But there remain real challenges to ensuring that the NHS's ability to spend this money well is not undermined by understaffing in these areas.

Increasing funding for mental health, community and GP services at this faster rate means that, if the NHS is to live within this 3.3%, less money remains for growth in the funding for hospitals. If the NHS can't moderate the rate of growth in acute demand, [funding will need to be diverted back to hospitals or waiting times will increase.](#)

**Table 2: Department of Health and Social Care and NHS England spending since 2014/15**

*All figures are in £bn*

		2014/ 15	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	Annual average growth rate (2014/ 15– 2017/ 18)
	Total	£123.8	£130.0	£132.9	£136.5	£140.6				1.6%
DHSC	Resource	£118.4	£124.6	£126.8	£132.3	£136.4				1.7%
	Capital	£5.4	£5.4	£6.1	£7.1	£7.1				0.1%
NHS England	Resource	£106.0	£113.8	£116.8	£120.8	£124.7	£128.4	£132.2	£137.5	2.4%

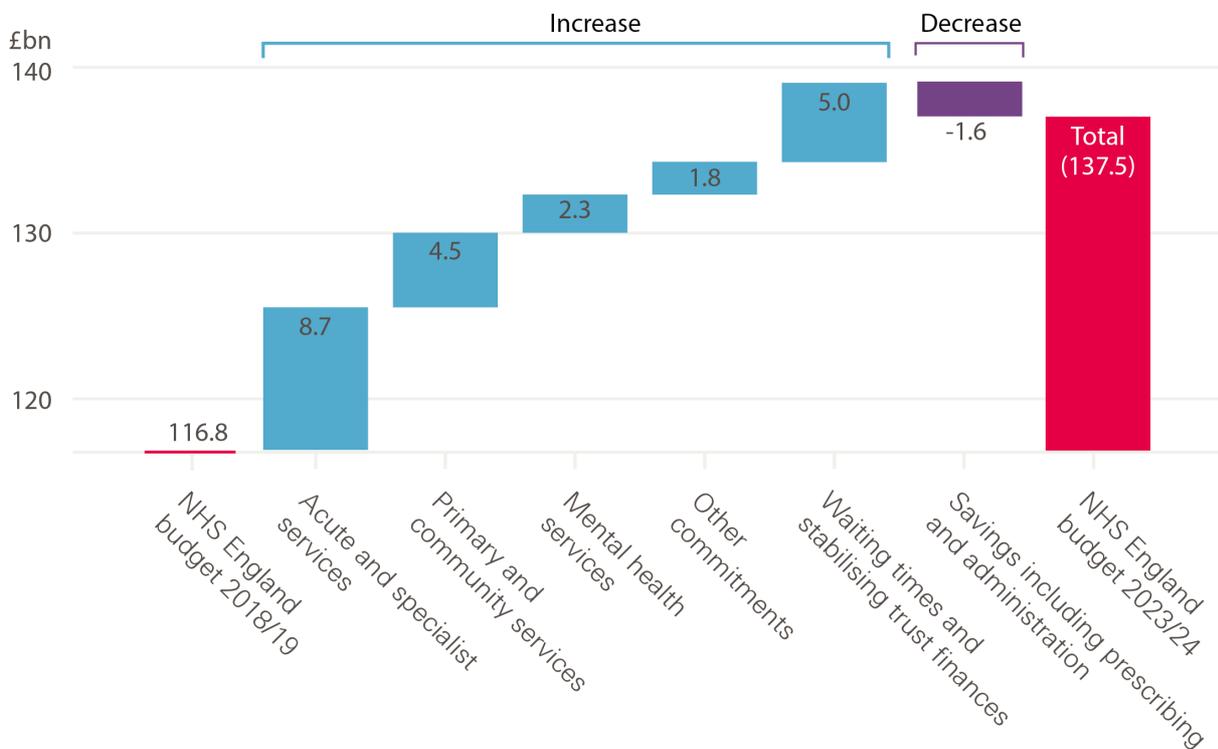
Source: Department of Health and Social Care Accounts; HM Treasury, Public Expenditure Statistical Analyses.

**Note:** ‘Total’ refers to the DHSC’s Total Departmental Expenditure Limit, the budget given to DHSC for its day-to-day and capital spending, which is different from the definition of health in Table 1. In this table we exclude the pensions adjustment for consistency with prior years, unlike Table 4.

Figure 1:

## NHS England funding growth

Planned and assumed allocation of NHS England funding growth 2018/19 to 2023/24



However, the current funding settlement only applies to the NHS England budget. This excludes key areas of NHS spending, such as health visiting, training doctors and nurses, and the investment needed to build, equip and maintain hospitals, community and primary care facilities. The full DHSC budget remains the most accurate way to define health care spending, as it provides the full picture of resources available for patient care.

Whether the NHS will be able to start to transform care and outcomes over the coming years will depend to a large degree on spending on the areas of health that fall outside NHS England's budget. If these budgets are not increased in real terms, total health spending will rise by an average of just 2.9% a year for the next 5 years. This is below the minimum level that [Health Foundation and Institute for Fiscal Studies \(IFS\) analysis](#) found is needed to maintain quality and access to care.

### Education and training

Health Education England (HEE), the body responsible for the education and training of NHS staff, has a budget of £4.2bn for 2019/20. Without investing more into two key areas of need – current

staff and the training pipeline of new staff – the NHS’s major staffing shortages will worsen (as outlined in [our recent analysis](#) with The King’s Fund and the Nuffield Trust).

Investing £900m in HEE’s budget would allow national investment in workforce development to return to previous levels. It would also provide financial support for student nurses to improve their retention and engagement.

In the 2019 Spending Round, the government announced an increase of 3.4% in HEE’s programme spending next year (2020/21). This included £150m for workforce development and £60m for priorities set out in the upcoming [People Plan](#). This falls short of the money required, but reverses some of the cuts to the development budget in recent years.

**Table 3: Estimated additional funding pressures for Health Education England resulting from the specific new policy measures to reduce staff shortages**

	Funding requirement (£m, 2019/20 prices)			
	2020/21	2021/22	2022/23	2023/24
Workforce development	190	200	210	230
Cost-of-living grants for nurses	330	360	400	420
Other funding support for nurses (tuition fees for postgraduates, placement costs)	40	60	110	140
Other	60	80	90	90
<b>Total additional cost</b>				

Source: Closing the gap (Health Foundation, The King's Fund and Nuffield Trust analysis).

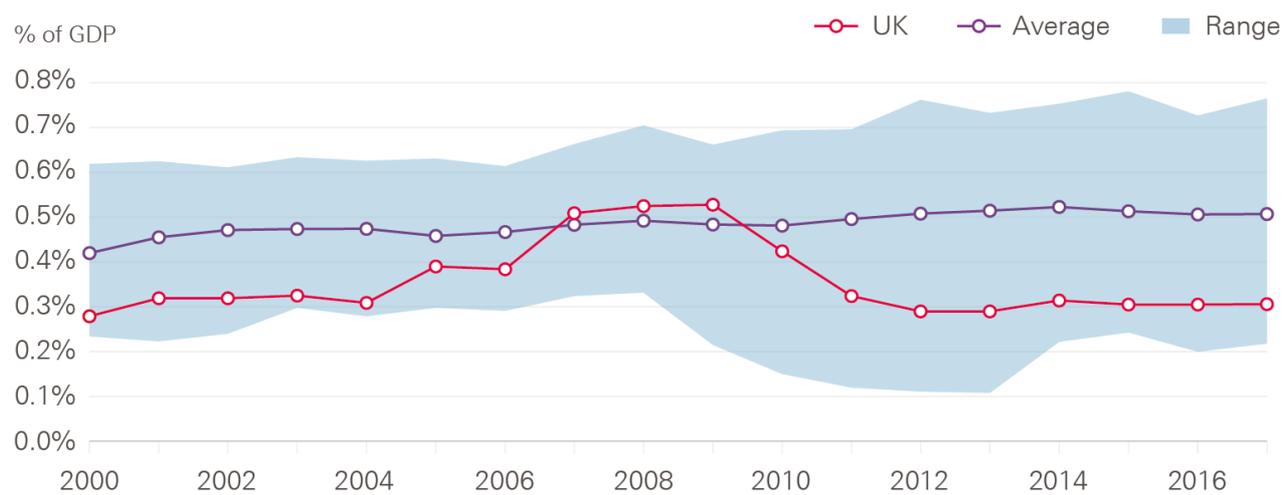
## Capital spending

In 2019/20, the government has allocated £7.1bn for capital investment in buildings, equipment and IT – spending vitally important to delivering high-quality patient care. As set out previously, the UK spends significantly less on health care capital than most other comparable countries as a share of GDP. As a result, the value of total health care capital per health worker – an estimate of the resources available to staff to deliver care to patients – has fallen [by 35% since 2000](#). In England, looking at NHS providers alone, capital per worker in NHS trusts [reduced by 17% between 2010/11 and 2017/18](#).

**Figure 2:**

### The UK spends significantly less on capital in health care than comparable countries as a share of GDP

Fixed capital formation in health care, 2000–2017, OECD countries



 **The Health Foundation**  
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Source: Health Foundation analysis of OECD data for countries for which data for all years were available. Countries included: Austria, Canada, Denmark, Finland, France, Greece, Italy, Norway, Sweden, United Kingdom, United States

In recent years, capital spending has been cut to meet pressures on day-to-day running costs, with 6 years of transfers from the capital budget to the revenue budget totalling more than £5bn. The result is a rising backlog of maintenance in NHS trusts valued at £6.6bn in 2018/19 – more than half of which are high or significant risk. This doesn't include outdated or inadequate facilities in primary care.

The government [recently announced](#) an increase to the capital budget for 2019/20, including an additional £1bn for upgrade programmes and 'tackling the most urgent infrastructure projects', £0.85bn of spending on 20 hospital upgrades, £200m to improve diagnostic capacity and a [Health](#)

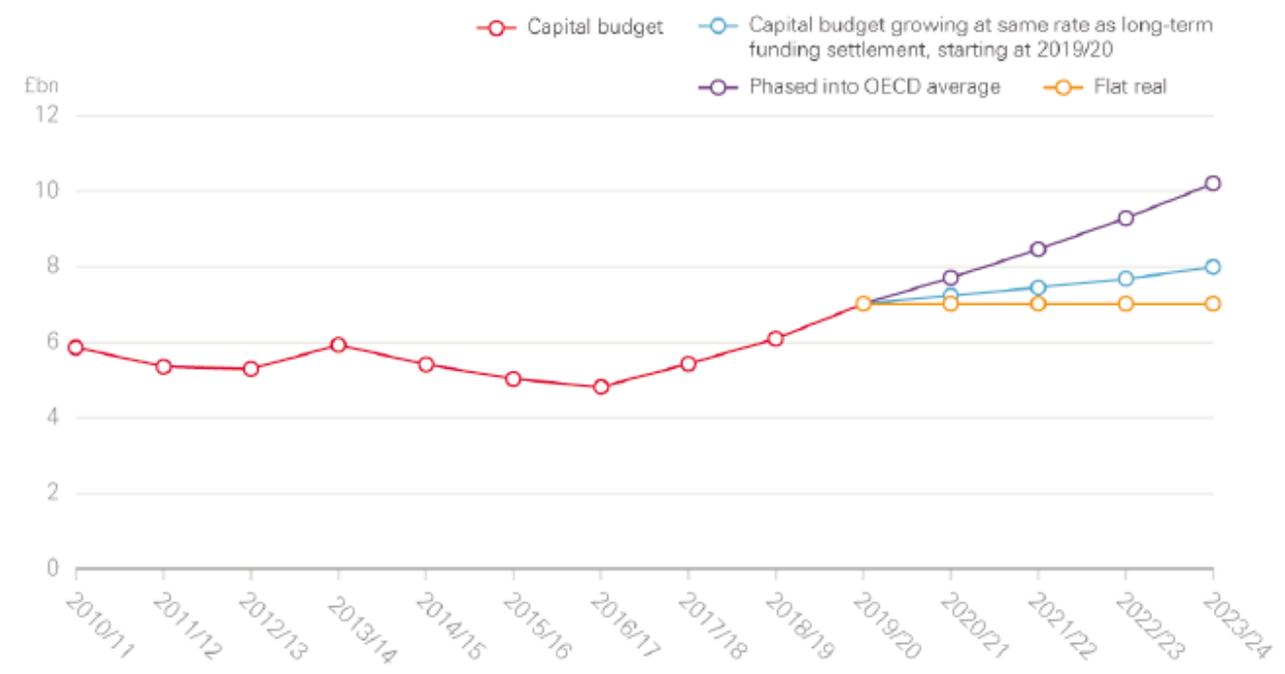
[Infrastructure Plan](#), albeit with no additional funding attached. However, there remains a lack of clarity about future budgets beyond 2020/21, and the lack of urgency around the scale of the issues is concerning. As capital projects are funded over multiple years, a long-term settlement is required to enable the NHS to plan projects effectively.

Despite this additional spending, we estimate that an extra £2.5bn is needed in 2019/20 to bring capital spending in England up to the average of comparable countries, growing to £3bn by 2023/24. We have assumed this would be phased in, as there may be challenges in a sudden jump to the OECD average.

**Figure 3:**

## Projected capital budgets

Based on NHS England long-term settlement growth rate and meeting OECD average



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Source: Department of Health and Social Care Accounts; OECD

## Total DHSC budget

If the areas of health spending beyond NHS England’s budget do not grow over and above current plans and inflation in the next 4 years, total health spending in England will increase from £139bn in 2019/20 to £156bn in 2023/24 (including the additional money to cover pension costs). This would be a growth rate of just 2.9% per year – below the level required to maintain current standards of care. As growth in demand and cost outstrip funding, these standards are likely to deteriorate.

If the DHSC's budget were to grow at 3.4% (the rate originally planned for NHS England in the 2018 government [funding announcement](#)), total health spending would rise to £159bn in 2023/24. This is roughly in line with estimates from [our projections with the IFS](#) of the funding levels required to maintain current standards of care, given the growing, ageing population and a rising burden of chronic disease. This would require an incoming government to commit to a further £3bn of health funding in 2023/24 over and above the current announcements on funding, both for day-to-day running costs and capital investment.

Investing in and modernising the health service would require growth of 4.1% a year, according to [our projections with the IFS](#). This will require an incoming government to commit to at least a further £8bn of health funding in 2023/24 over and above the current announcements. This would allow the government to restore the balance between day-to-day spending and investment in the wider budget (including [reinvesting at least £1bn](#) in the public health grant) which would require a growth rate of 3.9% per year.

However, when combined with the past 5 years of slow growth, even this would equate to just 3.0% per year over the decade to 2023/24.

Table 4: Department of Health and Social Care spending under different scenarios

		Spending (£bn)			Annual average growth rate (%) (2019/20–2023/24)
		2018/19	2019/20	2023/24	
The NHS long term plan	NHSE	116.8	120.8	137.5	3.3
Pensions adjustment*	NHSE	116.8	123.7	140.2	3.2
No further funding growth beyond current plans	Resource	126.9	132.3	149.1	3.0
	<b>Total</b>	<b>132.9</b>	<b>139.4</b>	<b>156.2</b>	<b>2.9</b>
	DHSC resource, <i>of which:</i>	126.9	132.3	151.2	3.4
	HEE	4.4	4.2	4.8	3.4
Annual funding growth rises in line with NHS England	Public health grant	3.4	3.1	3.6	3.4
	Capital	6.1	7.1	8.1	3.4
	<b>Total</b>	<b>132.9</b>	<b>139.4</b>	<b>159.3</b>	<b>3.4</b>

	DHSC resource, of which:	126.9	132.3	152.3	3.4
Investment in staff, public health and capital	HEE	4.4	4.2	5.0	4.9
	Public health grant	3.4	3.1	4.6	10.1
	Capital	6.1	7.1	10.3	9.7
	<b>Total</b>	<b>132.9</b>	<b>139.4</b>	<b>162.7</b>	<b>3.9</b>
Modernised NHS as in <i>Securing the Future</i>	<b>Total</b>		<b>139.4</b>	<b>164.5</b>	<b>4.1</b>

Source: Department of Health and Social Care accounts; Securing the future (Health Foundation and IFS analysis); HM Treasury, Spending Round 2019.

**Note:** After the long-term settlement, an additional £2.85bn has been allocated each year from 2019/20 to reflect extra costs expected from public service pensions. This is reflected in the DHSC's resource departmental expenditure limit (RDEL) and total departmental expenditure limit (TDEL) figures from 2019/20. RDEL figures in 2019/20 exclude one-off funding, such as budget cover transfers from other departments that are not expected to continue in 2020/21. We exclude these in line with the 2019 Spending Review to ensure compatibility in future years.

## Adult social care

Local authorities are the main source of public funding for adult social care services. In recent years, an increasing share has also come from the NHS (from around 7% to around 12% in the past 4 years). About half of adult social care spending provides services for older people, such as help with everyday tasks at home or placements in care homes. The rest (52%) is spent on working-age adults: mainly long-term support for people with mental health conditions or learning disabilities.

These services are means tested and funded through a mixture of locally raised taxation and central government grant, with some users also contributing and a relatively large number of self-funders.

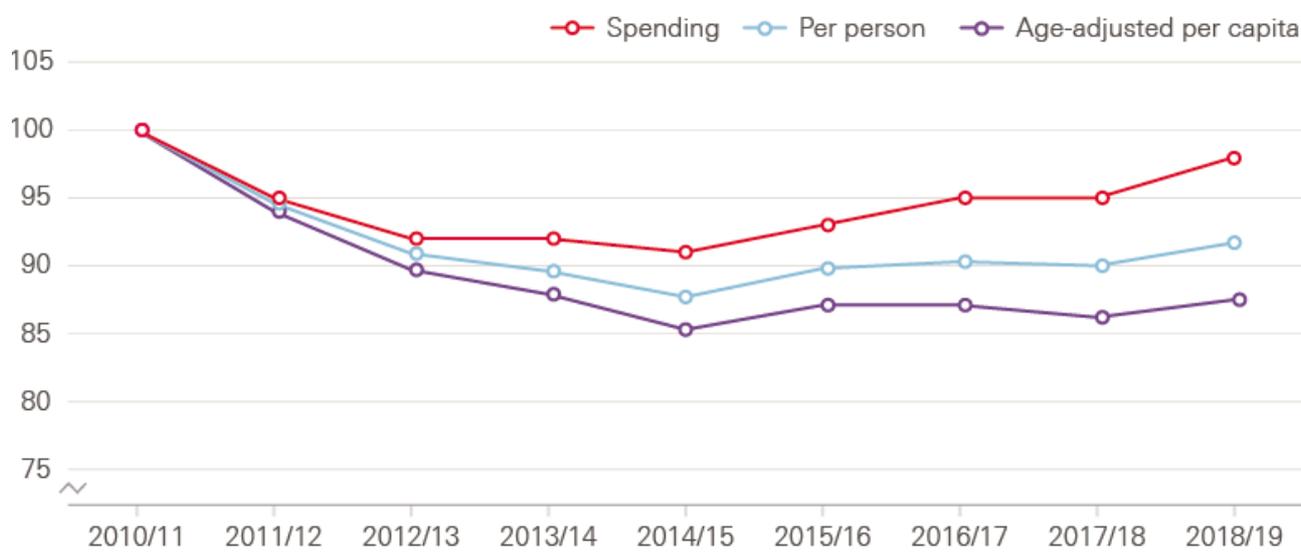
Public spending on adult social care is around £18bn. Funding for adult social care peaked in 2010/11, falling almost 2% per year from £18.7bn, until 2014/15. Funding has recovered in recent years, but the population is growing and ageing. This means the system is under greater pressure, with more people needing formal care and with reduced access to services. When adjusted for the size and age of the population, funding in 2018/19 is substantially lower than in 2010/11.

In the 2019 Spending Round the government announced an additional £1bn for adult social care in 2020/21. Of this, £500m is money that could be raised by councils increasing their adult social care precept, and the other £500m from a £1bn grant which is likely to be split evenly between children’s and adult’s social care. This is in line with our recommendation of providing an additional £1bn in 2020/21.

**Figure 4:**

## Trend in total spending on adult social care

Total spending adjusted for population size and age profile (2010/11=100)



We have identified five priorities for government to make up for the lack of funding growth and provide greater protection against social care costs. Of these, the immediate priority is to stabilise the current social care system, including by boosting staff pay and improving access to services.

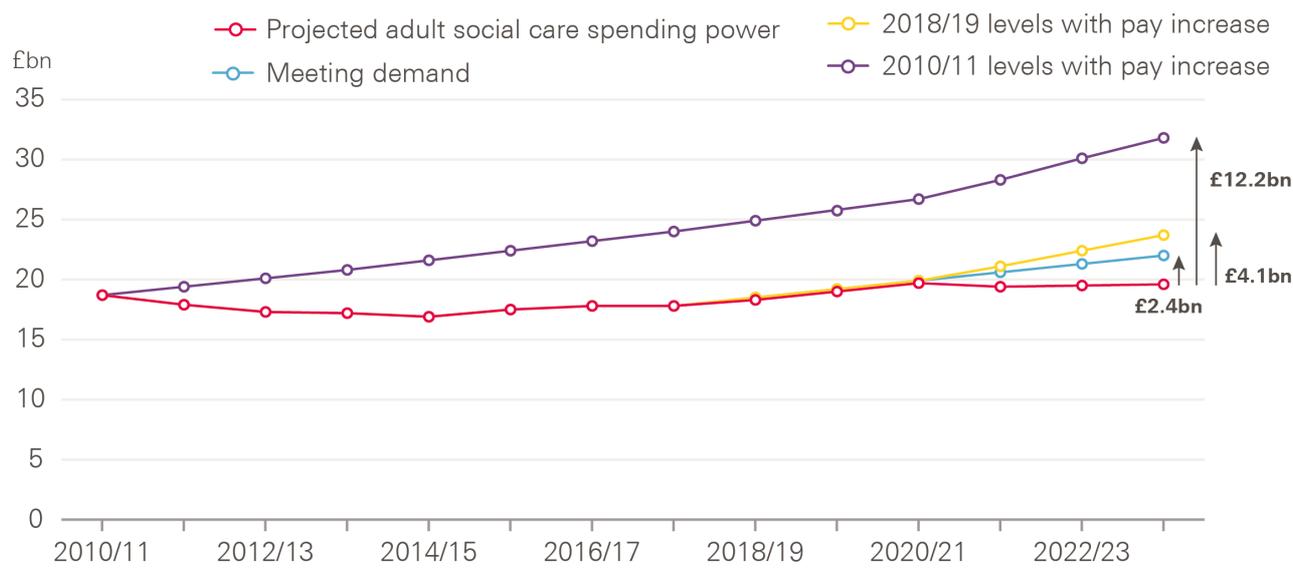
Addressing rising demand and matching NHS pay increases (where staff are generally paid more) would require total spending of £23.7bn in 2023/24. This is an increase of £4.1bn compared to the current projections of local authority adult social care spending power. Projected spending power represents an estimate of funding available to local authorities to spend on social care and assumes that adult social care services are protected.

Restoring access to 2010/11 levels of service and increasing pay would require total spending of £31.8bn by 2023/24: £12.2bn more than current spending power projections.

**Figure 5:**

## Social care funding gap by 2023/24

Compared with additional spending to meet projected demand pressures and increase staff pay



## Box 1: Reform options for adult social care

### **Capped cost (Dilnot-style) model**

The capped cost model, proposed by the Dilnot Commission in 2011, is designed to target additional state funding at individuals with the greatest and most expensive care needs over their lifetime. In this model, people with sufficient assets and income pay their own care costs up to a cap. After that, the state pays. However, some costs, such as care-home accommodation, are not included and the cap applies only to eligible needs as assessed by the local authority.

### **Free personal care**

In Scotland, people receiving free personal care at home are not charged for any personal care services. The package offered varies on a case-by-case basis, but the average payment is £161. Since April 2019, for people receiving care in residential homes, the local authority pays a flat rate of £177 directly to the care provider and an extra £80 for nursing care services if needed. Payment does not cover accommodation costs, which are subject to a means test. Overall, the free personal care allowance meets around 25% of the weekly cost of a residential care home.

More fundamental reform is also needed to make the funding system fairer and provide government protection against social care costs. Any credible option requires genuine government investment.

The cost of a Dilnot-style model depends on where you set the cap on spending. In the least generous scenario, it could be set at around £1.7bn in 2019/20, rising to £2.1bn by 2023/24 (a £78,000 cap). In the most generous scenario, where the state covers all costs of a person's eligible needs, it could start at £6.8bn in 2019/20, rising to £7.8bn in 2023/24.

The cost of implementing a Scottish-style model of free personal care could add around £4.4bn to spending in 2019/20, rising to £5bn by 2023/24 (see Table 5).

For more detail, see our [long read on social care](#).

**Table 5: Social care funding options**

**Additional cost of a Dilnot-style means test and capped cost model**

Cap level	2019/20	2023/24
£0	£6.8bn	£7.8bn
£10,000	£5.8bn	£6.6bn
£25,000	£4.0bn	£4.6bn
£46,000	£2.6bn	£3.1bn
£78,000	£1.7bn	£2.1bn

**Additional costs of free personal care (Scotland model)**

	2019/20	2023/24
	£4.4bn	£5bn

**Source:** [What should be done to fix in the crisis in social care?](#)

These estimates are based on increasing the upper capital threshold from £23,250 to £125,000 and an individual contribution of up to £13,000 to annual living costs. They do not include extra costs needed to improve quality and access. In practice, there would be a lag in implementing a capped cost or any new funding model. Under a capped cost model, the costs would be low until significant numbers of individuals reach the cap.

# Priorities for the next government

[Our major analysis with the IFS of health and social care pressures and funding needs](#) concluded that the government cannot continue to rely on cutting spending elsewhere to accommodate growing health and social care pressures. The UK is currently a relatively low-taxed country – significantly below the EU-15 and G7 average.

The choice we face therefore remains: higher taxes for a health and social care system that improves to meet our changing needs, or tax remaining the same and a more constrained health service that delivers less.

If the government chooses to invest there are two clear priorities:

- 1. Invest in the wider health and care system outside of NHS England.** This includes the w, education and training and a comprehensive, long-term funding settlement for capital that is driven by the needs of patients and staff.

The current approach of looking separately at funding pots for NHS England and wider health care spending is deeply unhelpful and runs contrary to the approach used by governments in the past. The government should set out funding for the entire DHSC budget, and increase other budgets at least in line with NHS England's, if it wants to maintain current standards of care, and by around 4% a year to make improvements.

- 2. Stabilise, improve and reform social care.** First, the government needs to stabilise and improve the current system, which is on the edge of collapse – including boosting staff pay to alleviate problems around recruitment and retention, which may be exacerbated by Brexit.

Second, the government needs to improve access to publicly-funded care given that the cuts to local authority budgets have left many more people without the care they need.

But more fundamental reform is needed to make the funding system fairer and provide government protection against social care costs. There are choices about how the government does this including a Dilnot-style cap and free personal care.

## Definitions

**Fixed Capital Formation** is the purchase of assets (for example, buildings and scanners) minus the sale of assets in that year.

**Public spending on adult social care** is based on net current expenditure by social services departments (total expenditure apart from capital charges, less all income) with transfers from the NHS added. (See [Adult Social Care Finance Activity report 2018-19](#), Appendix B, Table 4.)

**Projected spending power estimates** are based on the current expenditure on adult social care, additional funding provided at the 2019 spending round, expected growth in the Better Care Fund and projected growth in local raised funding.)

## Health foundation resources

[Closing the gap](#) – Key areas for action on the health and care workforce. March 2019.

[Failing to capitalise](#) – Capital spending in the NHS. March 2019.

[International comparisons of capital in health care: why is the UK falling behind?](#) October 2019.

[Investing in the NHS long term plan](#) – Job done? June 2019.

[Securing the future: funding health and social care to the 2030s.](#) May 2019.

[What should be done to fix the crisis in social care? Five priorities for government.](#) August 2019.

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