

**A national health and social care service: A world leader for the 21st
century**

A submission by Frank Field MP to Labour's Policy Review

July 2014

CONTENTS

| | | |
|----|---|---------|
| | SUMMARY OF PROPOSALS | Page 3 |
| 1. | THE PLACE OF THE NHS IN BRITISH POLITICS | Page 6 |
| 2. | THE POLITICAL REALITIES | Page 8 |
| 3. | THE GATHERING STORM | Page 9 |
| 4. | THERE IS AN ALTERNATIVE | Page 11 |
| 5. | THE PROPOSALS | Page 12 |
| 6. | A THIRD REVOLUTION IN DOMESTIC POLITICS | Page 15 |
| 7. | THE NHS AND SOCIAL CARE MUTUAL GOVERNANCE | Page 17 |

SUMMARY OF PROPOSALS

1. To the country – A challenge

The gap in NHS funding by the end of the next Parliament is simply terrifying and is so large that there is little chance of contributors or taxpayers meeting the gap. A best estimate suggests that by 2020 the NHS annual deficit alone will be in the region of £30 billion – or one third of the current NHS budget. There is no way a sum of this magnitude could be met, possibly at any time, and certainly not during a Parliament which will have to accomplish most of the ‘heavy lifting’ associated with the size of the budget deficit left by the Coalition Government.

There are three reactions to a financial deficit of such unprecedented proportions that could play out in the next Parliament. Politicians could hide their heads in the sand, ignore just how gigantic the gap between our health needs and revenue is, and let the service collapse into one for poor people only.

An alternative scenario is equally unsatisfactory. The growing size of the deficit in every year of the next Parliament could be filled by increasing Income Tax. A guesstimated £30 billion annual deficit would require by the end of the Parliament a 5p increase in the standard rate of tax on every pound of taxable income. No government is going to be elected if it proposes that this gap will simply be filled by making what amounts in modern times to an unprecedented increase in Income Tax. Here, if ever there was one, would be the shortest political suicide note in history.

There is a third scenario which is proposed in this submission to the Labour Party’s Policy Review. It is to strike a new National Insurance contract with voters. This approach builds on a most crucial distinction that the electorate makes between National Insurance contributions and the payment of tax. Contributors to the National Insurance Fund do not see their contributions as a tax.

Even building on this most crucial distinction could not give us a viable policy to meet this unprecedented financial crisis if the deficit does turn out to be towards the £30 billion level. What is proposed here, therefore, is to invite the electorate to remake its NHS and social care contract. A four part revolution in health and social care provision is proposed.

- First, only half of the projected deficit should be met by increasing National Insurance contributions.
- The second revolution entails bringing health and social care together, and the ownership of this new health service being passed directly to voters by establishing an NHS and Social Care National Mutual. This institutional change is crucial as, when in 2002, a one penny increase was made on National Insurance contributions, almost half of the funds raised thereby were diverted

to non-health expenditure. The new National Mutual, by being responsible for raising NHS and social care budgets, would begin to help voters recognise that there is no bottomless pit from which costs can be met but only from contributors' purses and pockets.

- The third revolution follows on from this unprecedented injection of new monies into the NHS and social care. The monies must be supported by the proposed National Mutual driving through efficiencies of the like the NHS has not encountered before. This efficiency drive must be used to meet half of the deficit. Without a record injection of funds, and a continuous efficiency drive, the NHS as we know it will cease to exist.
- The fourth revolutionary change centres on ensuring that NHS and social care Mark II begins to build services around people, particularly elderly users, rather than requiring patients finding their own way around a series of ever more tightly defended NHS and care silos.

It is also proposed to raise over time an increased proportion of health and social care costs from levies on a progressive National Insurance contributory base. This proposal to transfer from Income Tax to a new progressive National Insurance base is not a wheeze for any Chancellor to hoodwink taxpayers by sleight of hand to increase the overall level of taxation. The Office for Budget Responsibility would be charged to ensure that this movement on the burden of taxation is matched by equivalent value tax cuts.

Pensioners will be one of the main beneficiaries of this reform. As we become older more demands are made on the NHS and on social care. It is therefore proposed that all pensioner income will be eligible for National Insurance contributions and a consideration should be given for a specific contribution for social care beginning towards the end of each of our working lives.

2. To the Labour Party – A challenge

The future of the NHS, and with it social care, throws down to the Labour Party the greatest of political challenges. But the enormity of this challenge is counterbalanced by an equally great political opportunity which Labour should seize with confidence and determination. The NHS needs, above all, the most radical of initiatives to secure its future. But Labour also needs to be seen to make that bold move. Labour faces a tough challenge in aspiring to form even a minority government after the next election. Unless the very best ideas of the Policy Review are seized upon and transformed into a radical manifesto our electoral prospects will be grim. A significant weakness is our failure to identify and communicate a handful of key policies which the electorate would strongly support, and which would help to counter what they know from personal experience will be the growing political crisis that will dominate the next Parliament.

This submission to the Policy Review is based on a firm belief that Labour is uniquely and strategically placed to open the health and social care debate by proposing a reborn NHS for the 21st century which remains true to the values and principles which led to its creation. Such a radical move by the accepted guardian of the NHS's best interests will not only engage the enthusiasm of voters, but could also help settle the question of Labour's economic competence and prudence, in a way which positively differentiates Labour from the other political parties.

This submission to the Policy Review requests the Party to commit itself in principle to a reform along these lines detailed here and to work with the Government Actuary, and with senior civil servants, on how the financial side of this fourfold revolution can begin life during the first session of the new Parliament after the next general election.

There should be no doubt about just how herculean saving the NHS as we know it will prove in the next Parliament. Along with cutting the structural budget deficit, the reform programme proposed here will dominate the five years following next May's general election. But no great journey can begin without taking the first steps, and no such great journey is likely to arrive at its destination if politicians aren't totally open with the electorate on the need for new financing, of an efficiency drive of the like we have never seen, and the delivery of services built around people rather than historic institutions.

I believe Labour is best placed to rise to the extreme challenge that now faces voters over the future of the one institution that they care about most.

1. THE PLACE OF THE NHS IN BRITISH POLITICS

When the NHS was established in 1948 it was clearly the leader in the Western world. No other democracy had a national health system offering universal care from the cradle to the grave and free at the point of use.

The NHS is still loved by the British electorate, but the range of treatments that patients rightly expect has been transformed, and is being transformed, and will continue to be transformed almost out of all recognition. But the nature of the care that needs to be offered must also change. Most of us live for decades more than our grandparents, with the last years of our life needing a combination of traditional healthcare and what is called social care; the oversight that families might have provided in the past and which a minority of families are still able to offer.

Worse still, the financial pressures on the service are now such that, by the end of the next Parliament, unless the most radical changes are made to NHS funding, a mega and continuous efficiency drive is undertaken, and the delivery of services grouped around people rather than delivered in silos, the NHS as a recognisable descendant of the NHS great adventure will no longer exist. The name will continue to be used but the type, range and effectiveness of services will be radically curtailed.

The NHS plays a pivotal role in Britain's political and social culture. It remains the only vestige of the Attlee appeal of a service that can be delivered not shaped by class. This is an appeal the British people find highly attractive and is consequently the part of the post-war settlement about which the British people care most.

Not so elsewhere. Across early post-war Europe not dissimilar welfare states were established but different parts of that settlement appealed to different electorates. Public pensions clearly play a role on the continent that they do not play in Britain. Whenever the French or the German governments, for example, have attempted to change national pension provisions, voters quickly take to the streets. Britain has suffered a pension revolution in curtailing entitlement and yet there has been hardly a squeak from voters.

In contrast, a mixed economy of health services predominates across Europe and changes are made almost without any political comment, let alone a political uprising. The opposite applies in Britain where the NHS settlement is still regarded as the key part of the post-war settlement.

Reforming the NHS as a result can prove challenging. Mrs Thatcher was reluctant to reform the NHS for this very reason. But the NHS is now in such crisis that the most radical reforms are necessary if the key principle of that post-war NHS settlement – free at the point of use – is to keep its meaning. And Labour, given its historic role in founding the NHS, could make itself uniquely positioned to play the pivotal role in safeguarding this most important gift to the British people.

The crisis that is beginning to engulf, and may indeed overpower our health service, is gathering pace along four fronts:

- The cruelty to patients that was characteristic of the Mid Staffordshire NHS Foundation Trust is sadly not a one off event.
- Rationing has always been part of the NHS but is now playing a more prevalent role both generally in access to health services and specifically for more elderly patients.
- The service increasingly finds itself inflexible in meeting what are often patients' complex needs.
- And then there is the financial tidal wave which already has all the signs of balkanising our health provision.

Labour's strongest card with the electorate is its known commitment to the NHS and on this issue Labour is trusted more than any other party and on more than any other issue, although this gap is now closing fast. The recent Independent on Sunday poll put 36% of voters believing the NHS was most safe in Labour's hands, compared with 34% in favour of the Coalition. Labour's role as credible defender of the NHS is therefore weakening, and at least part of that erosion is attributable to Labour not adapting the model to ensure that it meets the needs of a radically different society. Moreover, if Labour wins the next election, it will inherit a public debt much larger than it was when the electorate expelled it from office in 2010.

2. THE POLITICAL REALITIES

The financial and political realities facing the next Labour Government are stark. The Coalition's failure to tackle the structural deficit results in growing sums needing to be borrowed and growing sums needed to cover interest payments on this burgeoning debt. Debt interest is set to consume £53 billion of public spending this year – almost as much as the combined total spent on law and order and transport. With the size of the public debt continuing to grow an additional £3.9 billion will be incurred on debt interest payments next year, and an additional £5.5 billion the year after giving a total debt repayment of £56.9 billion and £58.5 billion respectively. The Coalition Government's failure to tackle the structural deficit will mean that debt will be a dominating issue in the next Parliament. Only a little over a third of the cuts originally scheduled for the 2010 Parliament have been delivered. 63% of the planned structural deficit reduction remains to be secured.

The elimination of the structural deficit will require a determination and nerve equivalent to that displayed by the 1945 Attlee Government which was faced by the need to reconstitute a peacetime economy while also contending with huge war debts. There is, however, one crucial change in the politics between then and the politics of the next Parliament. Then, in 1945, the electorate looked back to the 1930s, to the hardship that that decade meant for all too many voters, and the strict discipline of austerity that was necessary to win the Second World War.

Now voters do not judge immediate political challenges from such a standpoint. Their reference period is the boom years leading up to the 2008 crash. Austerity, far from being the norm, is to today's electorate a unique and distasteful experience.

The strategy to eliminate the structural deficit depends largely on cuts in public expenditure. Cuts have begun to be made across the board, although the budgets of three departments – health, schools and overseas aid – have been ring-fenced. The ring-fencing of these departments' budgets is going to become increasingly difficult to maintain as health and education are two of the largest budgets. To secure such ring-fencing will require further and disproportionately large budget cuts to be made to all other departmental budgets. The Institute for Fiscal Studies calculates that, if ring-fencing is maintained into the next Parliament, all other departments will have seen, on average, cuts by a third of their budget between 2010/11 and 2018/19.

The next Labour Chancellor will therefore preside over a cabinet of colleagues resentful at being required to make further unprecedented cuts in their departmental budgets in order to continue to deliver some semblance of an NHS budget. Ring-fencing the NHS to maintain its budget in real terms is therefore going to become increasingly difficult. Furthermore, simply 'ring-fencing' in the post-2010 model will be inadequate to meet the financial crisis that is already beginning to engulf this service.

3. THE GATHERING STORM

There is already an NHS funding crisis, rumbling in the near distance, but clearly threatening. The Government is insisting that the NHS books are balanced by increasing efficiencies. Efficiency has a proper role to play in NHS reform already but:

- Efficiencies are regarded as one off moves rather than the opportunity to look anew at how each major constituent part of the NHS and social care might rethought.
- The NHS Foundation Trusts Monitor reports that for the year to date 39 Trusts are in deficit.
- In the Quarterly Monitoring Report by the King's Fund for 2015/16, 98% of NHS Trust Finance Directors rated as quite or very unlikely to be delivered their target of delivering 15% reduction in emergency admissions that NHS England estimates is needed to balance the books.
- Figures from the House of Commons Library show two thirds of hospitals falling into deficit had done so in the last year.

This position will inevitably become more severe. This 98% figure from NHS Trust Finance Directors is unprecedented and deals only with the immediate future. This financial crisis will only gather pace in the next Parliament, particularly if the current approach to efficiency savings continues to be the norm. This financial crisis alone will pose such a threat that the NHS as we have known it since 1948 may not survive.

The future the NHS now faces is unprecedented

Health expenditure has risen overall since 1948 by roughly 3% per year. That period of growth came to an end in 2010. The Coalition Government pledged to maintain the budget in real terms only as measured by the general rise in prices and not the inflation rate suffered by the NHS. There was to be no additional resources over and above what the Government estimated the general inflation rate to be.

This was an entirely unsatisfactory settlement if the aim is to maintain a real terms budget. Between 1974/75 and 2007/08, for example, costs in the NHS in England increased by 1000%. This rate was nearly double the increase of general inflation over the same period, and:

- The current NHS inflation rate continues to run well ahead of the general rate of inflation, whether measured by the Retail Price Index or the Consumer Price Index
- The population continues rapidly to age and older people understandably make disproportionate demands on the NHS and social care.
- This real terms budget takes no account of the cost of implementing an ever growing number and range of medical advances.

So, maintaining the NHS budget in real terms only, and on an inflation rate which totally underestimates the health inflation rate, is likely to be so difficult that it will probably be beyond the power of the next government to do so. Indeed, success in maintaining the NHS budget on this basis will in all probability lead to an NHS in name only. The service offered under these conditions will increasingly bear little resemblance to the health service we know even today.

Estimates by NHS England suggest that, taking the last funding year of this Parliament, the NHS in England alone will be spending in the region of £95 billion. Over the next Parliament, and into the year following the General Election of 2020, it is estimated that our health bill will come in at £138 billion. If the current budget is inflation proofed by the formula the government currently uses, the health budget in England will increase to no more than £108 billion, leaving an annual deficit by 2021 for England alone of £30 billion. These estimates take no account of what will be the burgeoning cost of maintaining a minimal social care service for which we also need to budget.

To close the gap between the projected NHS and social care budget, and the budget it needs in order to protect the kind of service it needs to offer, would have presented a herculean challenge even in times of plenty. How might we rise to an NHS challenge in funding that we have never faced before, in the current economic climate?

4. THERE IS AN ALTERNATIVE

Unlike the Prime Minister who asserted there was no alternative, there is, fortunately, an alternative to the unimaginable scenario whereby practically all other budgets are perpetually reduced to maintain an inadequately calculated real terms NHS budget. This alternative is proposed in this submission to Labour's Policy Review. The proposal is for the Party to commit itself to a threefold policy. First is to strike a new financial contract with voters to cover half of the growing deficit; it is assumed that meeting more than half of the best guesstimate is not politically possible. The remainder of this shortfall must be met by efficiencies while, at the same time, ensuring there is a total rethink of how health and social care can be delivered from a patient's perspective. This submission concerns itself mainly with that part of the NHS and social care crisis for which new monies must be found.

This new contract would be built around Labour's strongest theme – being trusted with the care of the NHS. The proposal is to draw on this trust to forge a second stage in the life of the NHS.

- Provide a real ownership of a NHS and Social Care service by the people of Britain through membership of a new National Mutual
- Provide a totally new basis for financing this premier service

Social care will become a key part of NHS provision for it makes less and less sense for a health service, on which an ageing population is increasingly dependent, to keep health and social care in separate silos.

While many frail, often elderly people could stay in hospital, most of their needs are not acute, nor are they medically based. They require, of course, some health needs to be met. But their increasing frailty requires social rather than medical care. Washing, dressing, cooking and eating are where help is most often required.

As life, for most people, is about being cared for and loved, and being able to add something back, that social care needs to cover company as well as the meeting of a range of bodily needs. I have little doubt if Beveridge was writing now that he would have defined his NHS to cover the developing needs in social care. But how might this vision be paid for?

5. THE PROPOSALS

A Golden Leaf from The Past

During the early years of the last Labour Government, Tony Blair promised to raise NHS expenditure to the European average. That commitment was made without an agreement from Gordon Brown, the Chancellor, although he was left with the task of raising the funds. Gordon Brown in response increased National Insurance contributions by one penny for employers and employees while lifting the ceiling on employees' contributions. The ingenuity and success of this move should be one which the next Labour Government follows, but in an even bolder fashion.

Despite decades of politicians bellowing at voters that National Insurance contributions are a tax, taxpayers continue to disagree. So, in stark contrast to the fears Gordon Brown had of an electoral backlash at increasing National Insurance contributions hypothecated to the NHS, he basked in popularity that he had not known before.

It is on this taxpayer belief about National Insurance contributions that the most radical change in NHS funding since 1948 is being proposed. Voters continue to hold the belief that contributions to the National Insurance Fund are very definitely separate from paying taxes. We need to build upon and institutionalise this belief of taxpayers.

Reform of NHS funding is long overdue. Since the war there have been 96 reforms changing the structure of the health service. Over the same period there have only been six measures dealing with NHS finance, and three of these concerned the introduction of and then marginal alterations to the basis for prescription charges. This submission redresses this balance and looks exclusively at NHS funding; it is not concerned with other NHS reforms. These other reforms are crucial, however, and the new monies that will be pledged by voters to the NHS must be spent in a way that drives unprecedented reform in the service to meet their needs as paymasters of health services, rather than grateful recipients of whatever health services are prepared to offer them.

A key assumption

The financial deficit that is already beginning to overwhelm the NHS (let alone social care) budget, is best guesstimated by NHS England to reach an annual deficit of £30 billion by the end of the next Parliament. There is no way that this NHS deficit can be met simply by increasing NHS revenue. It is beyond what any community could raise, possibly at any time, but certainly during a Parliament facing the cuts in public expenditure still required to eliminate the budget's structural deficit. But even if the deficit could be met by increasing contributions it is questionable whether it should be. The delivery of our health services is still

too dominated by the backward look on how services were shaped during the early post-war period. Improvements in delivery have, of course, been made. But the pace is too slow if the revolutionary changes in technology, which bring such gains to other areas and services, are to be fully harnessed for new NHS and social care services. The proposal, therefore, to the Policy Review is that only half the best guesstimate of the deficit should be met by seeking new funds. The other half must be gained by revolutionising the means by which services are delivered.

First Move

Additional new monies for the NHS and social care will be required during the next Parliament. But this emergency move should become only the first in a much more ambitious reform programme. The first proposal is to repeat Gordon Brown's funding arrangement to increase National Insurance contributions; to levy a one penny increase on employers and employees and to raise the ceiling on employees' contributions. Over the life of the next Parliament this change would meet half the estimated cumulative 2020 health budget deficit.

Second Move

This emergency move must be accompanied by a reform of NHS ownership. Nearly half of the additional money raised by the increase in National Insurance contributions in 2002 was diverted away from the NHS. In order to ensure that contributors can keep politicians' sticky fingers off their monies; it is proposed that we establish an NHS and Social Care National Mutual to receive these funds. Its key importance to the reform package is developed later in this proposal.

Third Move

A more radical move still would be to seek a mandate to move, over time, large tranches of existing NHS and social care funding from the current tax-based model to an insurance-based model, with the insurance contribution base being made progressive. For each £4.8 billion of current tax finance NHS expenditure transferred to the insurance base, a one penny cut would be triggered in the standard rate of income tax or in a rise in the personal income tax allowances by £700.

Such a move would not only transform the long-term funding arrangement for the NHS but would also radically transform domestic politics. It is therefore proposed that the National Insurance base be restructured along progressive lines, so that large parts of the revenue raised from at best a proportionally-

based income tax system would be transferred to a more progressive National Insurance contributions base, thereby turning on its head Beveridge's insistence that insurance contributions have to be flat rate and therefore regressive.

This move would also turn on its head the current debate whereby some politicians and commentators continually bleat about there being no difference between National Insurance contributions and tax, and therefore contend that the two should be merged. Voters continue to disagree. This reform would begin to see a progressive National Insurance base taking greater strain in public finances while at the same time the role of income tax for standard rate taxpayers would be very significantly reduced. The reforms being proposed here would be revenue neutral. The reform, which would also benefit pensioners in covering their social care, would entail the pensioner population continuing to pay National Insurance contributions on all income when they cease working and irrespective of age.

6. A THIRD REVOLUTION IN DOMESTIC POLITICS

Such a settlement would change the funding basis for the NHS and social care. It would also represent a major change in moving direct taxation from at best a proportional base for most taxpayers to a progressive one and to one which contributors don't see as a tax. Equally importantly, such a radically different approach would transform the basis of future NHS and social care funding through a new contract that would be struck with voters who would authorise the process. As this proposal covers social care, it proposes to make different contributory arrangements for older people.

Voters are most unlikely to agree a move on this scale without the political architecture reflecting the significance of the change. Indeed, once it is clearly explained that only a little over half of revenue brought in by the one percentage point increase in contributions in 2002 went to financing the NHS, voters will demand greater direct custodianship of their monies so that politicians cannot get their hands onto this new revenue. The proposal therefore is to create a NHS and Social Care National Mutual. Further proposals will also be made to the Review on establishing a mutual to cover short-term welfare benefits.

These two moves alone would, over time, transform welfare from a means-tested approach to a contributory-based system. Entitlement cards would be an integral part of the new system and people moving to this country would not be eligible for our welfare or NHS and social care provisions until they had fulfilled the membership requirements met by the host population. Health tourism would cease and the welfare and NHS budget linked directly to residents in this country who had made in one form or another necessary contributions.

New mutual membership would be dependent on residency, on function and on financial contribution.

It is suggested that:

- Existing residents would immediately become members of the new NHS and Social Care National Mutual as would all babies born in the country. This is the first pillar of membership. Then,
- A 10-year residency requirement would become the second pillar of the new scheme for those of adult years.
- A third pillar of membership would come from the financial contributions that would be the funding source for the new mutual, and would be the main gateway into the right to benefit after the residential requirements are fulfilled.
- A fourth pillar would come from covering the financial costs of membership granted by the function individuals carry out for the community. In the first instance these would centre on individuals

undertaking caring tasks which society wishes to support. That support would come in contributions for function being covered by each year's financial contribution by members qualifying under pillar three.

- A fifth pillar of membership would come as pensioners, and possibly from those a decade before retirement, begin to cover the costs of their social care by continuing to pay when eligible National Insurance contributions.

This fifth pillar would offer additional sources of funding from adapting the contributory life of members. Pensioners would be particular beneficiaries from the new scheme and, so as to cover the cost of the social care element of the reform, pensioners would pay National Insurance contributions on all their income above the threshold. The funding of the care component of the reform may also entail a special insurance contribution being made by workers after the age of, say, 55. The Government Actuary should advise on how the costs of care can be best met within this new scheme. For a transitional period, pensioners could exempt themselves from payments but they would be reliant on the current means-tested social care scheme.

7. THE NHS AND SOCIAL CARE NATIONAL MUTUAL GOVERNANCE

The proposal is to establish a working party, housed at Demos, tasked with proposing the governance of a national mutual run for the NHS and social care scheme.