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The battle for spending control and lower taxes appears to be lost

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The Prime Minister sold his health and social care plan yesterday as one delivering "tough decisions" that previous governments have shirked. It certainly constituted major policy change, the scale of which is rarely seen outside of budgets. But Conservative MPs who study it carefully will realise it does not "sort" the social care issue in a meaningful sense.

Consequential reform required ascertaining what people want and need from social care, what barriers exist to delivering it, and then determining what taxpayers should provide. It needed to create better incentives for providers and councils to serve our needs, to consider the challenges of aging, weak productivity, aggressive minimum wage hikes, and poor quality care. It needed to acknowledge that most people want to live at home, not in a home. A durable framework meant avoiding social care going the NHS-route of becoming a political football.

The plan did not achieve those objectives. Instead, the Prime Minister, Chancellor, and Health Secretary agreed a proposal to breach their manifesto tax pledge, but in the service of providing funds to patch up our inadequate current model. The majority of money was flung, once again, at the NHS. The major social care innovation, in fact, was to pay more of some care receivers' bills, by implementing the 2011 Dilnot Commission's recommendation to protect inheritances from being as eaten up by care costs.

The vast majority of the initial £12 billion per year in spending would firefight the NHS's backlog. Just £5.4 billion would go to social care over three years, of which £2.5 billion is for protecting inheritances (the costs of which will grow in time). Under this component, no individual would pay more than £86,000 in *eligible* lifetime social care costs. Those with assets below £100,000 will get means-tested assistance, and those with less than £20,000 will likewise have eligible costs financed. In essence, a major new age-related social insurance entitlement would be tacked on to a welfare state creaking in anticipation of a demographic tidal wave.

This would all be paid for, we are told, by a 2.5 per cent tax rise on employees (1.25 each on employee and employers' NICs, both ultimately borne by workers). But, combined with a dividend tax rise and an equivalent levy on pensioners' work income, these will be bundled up and spun off to become a brand new tax from 2023/24 – the so-called "health and social care levy."

Why, then, will this plan not settle the issue?

Well, no plan failing to address productivity growth, ageing, minimum wage hikes, tailoring care to individual needs, or councils' incentives to build more homes is going to provide a lasting settlement on social care. And this one explicitly avoids all that, saying "We expect demographic and unit cost pressures will be met through Council Tax, social care precept, and long-term efficiencies," determined at the Spending Review. Already the sector is bemoaning that the non-Dilnot funding aspects don't go far enough. In other words: expect more government spending and tax rise battles in the very near future.

In fact, there are plenty of reasons to expect that this plan's approach will result in even more spending. Will the Government really allow NHS budgets to fall after backlogs are cleared to fund social care, or will this mean a permanent NHS baseline increase, with social care scrambling for funds later? To ask the question, I think, answers it.

It would be tempting for Tory MPs to consider that a problem for another day. At least this provides some relief, and gets the *Daily Mail* off your back, right? I'm not sure. Governments raising broad-based taxes to pump money in will create the expectation of improving social care quality. By making a big song and dance about "sorting" social care, in fact, the Conservatives will take ownership of its many failures, as James Frayne warns.

Then there's the disappointment that will come once the contours of the "cap" become clear. Under Dilnot's proposal (which I assume is the Government's position too) you would still pay room and board costs throughout your care. As importantly: only the means-tested local authority rate would accumulate annually towards your ceiling.

In other words, if you want a nicer or more expensive care home, you'll pay a top up that's not counted eligible towards the cap, which you'd still continue paying even after the cap is reached. The practical consequence is wealth will still drain significantly for many, requiring either deferred home sales or people downgrading on their care.

This is what might, ultimately, undermine this plan politically, creating new demands for more subsidies in time. In a few years, it's easy to imagine the *Mail* running stories about people still having to pay £150,000 on total care costs "despite Boris's promise.'

In fact, there's downside public finance risks across the board. Employee taxes are a shrinking relative tax base, while social care costs tend to be inflation-busting given weak productivity growth. Even before these inheritance subsidies, remember, social care costs were forecast to nearly double from 1.2 to 2.2 per cent GDP over the next 50 years due to aging.

In that regard, ask yourself: why might a government introduce a whole new earnings tax which, stood alone, gives the impression of having a very low rate? The answer: to create a new revenue stream which, with its fluffy connotations, makes it easier to raise taxes in future. Manifestos can return to pledging no income tax, NICs, or VAT rises again once the levy is in. In approving this tax, Tory MPs would therefore be facilitating a reform that will make the growth of government easier. They should reflect on who that helps most.

Much of the pre-announcement chatter was about their being more "progressive" ways to raise the funds. But this concedes too much—implying the spending is all good and welcome. Commentators who usually witter about distributional consequences are silent on the fact the cost cap benefits most those very wealthy care receivers, who live longer in care and have more assets to protect. While the desire to protect assets is natural, it's not clear why protecting them is an imperative of Government policy. But that philosophical battle appears lost and will only result in spending going one way.

The real focus now is on the immediate consequences of tax-and-spend without reform. While Johnson might sell this plan as a grand solution, I suspect it will resolve little. In fact, the paradox is that the more the Prime Minister builds this up as “sorting” social care, the greater the political risks to the Government if quality doesn’t improve, the NHS eats all the money, or people realise the limited scope of the sop to inheritees.

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