Challenges for health spending

George Stoye
Past and present UK health spending

Average Conservative Real Growth: 3.4%
Previous governments: 3.7%
Last Conservative government: 3.4%
Last Labour government: 5.6%

Notes and sources: see Figure 8.1 of The IFS Green Budget: February 2015.
Past and present UK health spending

Real spending (£ billion, 2015–16 prices)

- **Real spending (left axis)**
- **% of national income (right axis)**

Notes and sources: see Figure 8.1 of *The IFS Green Budget: February 2015*.
UK health spending as a % of total public and public service spending

Notes and sources: see Figure X.2 of *The IFS Green Budget: February 2015*. 
Recent Department of Health spending

- The Department of Health (DH) is responsible for the vast majority of health spending in England

- Real terms change in departmental spending from 2010-11 to 2015-16:
  - DH: 6.2% (1.2% p.a.)
  - Other departments: -15.3% (-3.3% p.a.)

- DH faces a number of demand and cost pressures which may require real budget increases
Demand pressures

• Demographic pressures
  – Increasing size of the UK population: forecast growth of 0.7% p.a.
  – An increasing proportion of older individuals
Current age profile of English health spending

Notes and sources: see Figure 8.4 of *The IFS Green Budget: February 2015*. 
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Demand pressures

• Demographic pressures
  – Increasing size of the UK population: forecast growth of 0.7% p.a.
  – An increasing proportion of elderly individuals
  – Real increase of 1.2% p.a. to keep pace with both population growth and the changing age structure (assuming age profile unchanged)

• Increased prevalence of chronic conditions
  – Nuffield Trust estimate these increase demand pressures by 2% p.a.

• Changes in available treatments
  – New drugs and changes in guidelines for approved treatments
Cost pressures

• Pressures that tend to increase real cost of healthcare:
  – Non-labour goods and services: roughly increasing in line with economy-wide inflation
  – Staffing costs: increasing at a quicker rate than economy-wide inflation

• Not all labour cost increases represent genuine cost pressures
  – Some increases represent gains in productivity
  – Others driven by need to keep pace with economy-wide wage growth
  – Distinguishing between these types of costs is very difficult
Estimated impact of pressures up to 2020-21

- Combined effect of demand and cost pressures:
  - NHS England estimate 3.5% p.a.
  - Funding pressures of £30 billion p.a. (2020-21 prices) by 2020-21
- Funding gap could be reduced by productivity improvements

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- Alternatively, could choose not to meet all demand pressures

Notes and sources: see Table 8.4 of The IFS Green Budget: February 2015.
More funding for NHS England implies higher cuts elsewhere

- Departmental spending: -3.7% p.a. as of Autumn Statement 2014

Average annual real change to other departmental spending

Average annual real change in Department of Health budget (2015-16 to 2019-20)
More funding for NHS England implies higher cuts elsewhere

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Average annual real change in Department of Health budget (2015-16 to 2019-20)

NHS productivity: 0.0% p.a.
More funding for NHS England implies higher cuts elsewhere

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NHS productivity: 0.0% p.a.
DH: 3.9% p.a.
More funding for NHS England implies higher cuts elsewhere

- Departmental spending: -3.7% p.a. as of Autumn Statement 2014

NHS productivity: 0.0% p.a.
DH: 3.9% p.a.
Other departments: -8.0%

Average annual real change in Department of Health budget (2015-16 to 2019-20)
More funding for NHS England implies higher cuts elsewhere

- Departmental spending: -3.7% p.a. as of Autumn Statement 2014
  - Average annual real change to other departmental spending
  - NHS productivity: 2.4% p.a.

Average annual real change in Department of Health budget (2015-16 to 2019-20)
More funding for NHS England implies higher cuts elsewhere

- Departmental spending: -3.7% p.a. as of Autumn Statement 2014

NHS productivity: 2.4% p.a.
DH: 0.8% p.a.
More funding for NHS England implies higher cuts elsewhere

- Departmental spending: -3.7% p.a. as of Autumn Statement 2014

NHS productivity: 2.4% p.a.
DH: 0.8% p.a.
Other departments: -6.1%
More funding for NHS England implies higher cuts elsewhere

- Departmental spending: -3.7% p.a. as of Autumn Statement 2014

Average annual real change in Department of Health budget (2015-16 to 2019-20)

Productivity: 1.8% / 0.8% p.a.
DH: 2.0% / 2.7% p.a.
Other: -6.8% / -7.3% p.a.
Tradeoffs vary by the total departmental cuts required under different fiscal rules

![Graph showing average annual real change in Department of Health budget](2015-16 to 2019-20)
Tradeoffs vary by the total departmental cuts required under different fiscal rules.

Average annual real change in Department of Health budget (2015-16 to 2019-20)

- Coalition
- Conservatives
- Liberal Democrats
- Labour

-6.1%
Tradeoffs vary by the total departmental cuts required under different fiscal rules

Average annual real change in Department of Health budget (2015-16 to 2019-20)

- Coalition
- Conservatives
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Average annual real change to other departmental spending

-6.1%
-3.0%
Tradeoffs vary by the total departmental cuts required under different fiscal rules.

Average annual real change in Department of Health budget (2015-16 to 2019-20)

- Coalition
- Conservatives
- Liberal Democrats
- Labour

Average annual real change to other departmental spending:
- 1.2%
- 3.0%
- 6.1%
- 0.0%
- 0.5%
- 1.0%
- 1.5%
- 2.0%
- 2.5%
- 3.0%
- 3.5%
- 4.0%

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Tradeoffs vary by the total departmental cuts required under different fiscal rules.

- Average annual real change in Department of Health budget (2015-16 to 2019-20):
  - Coalition: 
  - Conservatives: 
  - Liberal Democrats: 
  - Labour: 

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Summary

• The Department of Health budget planned to increase 1.2% p.a. between 2010-11 and 2015-16
  – Better than departmental spending (-3.3% p.a.) but below long run average health spending growth (3.8% p.a.)

• The NHS faces budget pressures from rising demand and costs
  – NHS England estimate pressures of 3.5% p.a.
  – Other departments also face such pressures

• Departmental spending cuts will continue in the next parliament
  – Increasing the NHS budget will imply even greater cuts for other departments
  – 0.8% p.a. increase for DH would imply a cut of 6.1% p.a. for other departmental spending under AS 2014 plans

• The next government will have difficult choices to make