

Press Release

Protecting NHS spending from 2011 likely to require large cuts to other department budgets or tax rises

Spending commitments made by the Labour and Conservative parties not to cut NHS spending in real terms from 2011 onwards would inevitably result in hard decisions such as cuts to other departments' budgets or further tax-raising measures over the period to 2017, according to a major new analysis published today by The King's Fund and Institute for Fiscal Studies (IFS).

Over the next spending review period, 2011/12 to 2013/14, the budget across all spending departments, including the NHS, could reduce in real terms by an average of 2.3 per cent per year. However, if the NHS were to be protected to a greater or lesser degree, as both the Labour and Conservative parties have recently pledged, other departments could face greater cuts.

The analysis by researchers at The King's Fund and the IFS outlines three plausible funding futures for the NHS in England over the next two comprehensive spending review periods – 2011/12 to 2016/17 – and quantifies the implications for other departments and taxation levels. Even under the most optimistic funding scenario, the NHS will struggle to meet people's health care needs without significant increases in productivity.

Under this optimistic scenario – if the NHS were to receive real increases averaging 2.5 per cent a year for the six years from 2011 to 2017 – then other departments could need budgets cut by an average of around 2.8 per cent a year. This would represent a real reduction on 2010/11 budgets of around 16 per cent over six years. Under the mid-range scenario – no real rise in NHS funding – on average other departments would need real budget reductions totalling around 8 per cent by 2016/17.

These cuts could be restricted if taxes were increased, the report says. Limiting other departmental cuts to 2 per cent a year, while freezing the NHS budget over the next spending review period, would require additional revenue of around £10.6 billion – equivalent to £340 per family.

And from 2014/15 to 2016/17, if non-NHS departments were to have their budgets frozen in real terms and the NHS budget were to receive 3 per cent real increases, then taxes would have to increase by £6.9 billion – equivalent to £220 per family – or be raised through a 1.6 percentage point increase in the main rate of VAT.

Report co-author John Appleby, Chief Economist at The King's Fund, said: 'Our analysis shows that the NHS is facing the most significant financial challenge in its history. Both the Labour and Conservative parties have pledged to avoid cutting NHS spending in real terms from 2011 but this will come at a big price – whether in departmental cuts elsewhere or tax hikes. The NHS has enjoyed unprecedented increases in funding since the turn of the century but those days will soon be over. That's why it's crucial that the service does all it can over the next two years to prepare itself for the financial freeze that will take hold over the two coming spending review periods.'

Embargo

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Co-author Carl Emmerson, Deputy Director of the IFS, said: 'If the NHS budget were frozen in the next two spending reviews then this would be the tightest six-year settlement in its history. But, if the Treasury's assessment of how much will be available to spend is right, even this historically ungenerous NHS settlement would still require a combination of sizeable cuts to other department's budgets or further tax-raising measures.'

The report analyses the implications these funding levels would have on the nation's health and concludes that future funding is likely to fall short of the population's health care needs. Sir Derek Wanless's 2002 estimates of future funding needs for the NHS assumed improvements in health-related lifestyle behaviour and increased NHS productivity. However, The King's Fund and IFS' three funding scenarios fall short of Wanless's mid-range ('solid progress') funding projections by between £6.4 billion and £32.4 billion by 2016/17 at today's prices – between 6 per cent and 31 per cent of the entire NHS budget.

This gap in funding could, in principle, be filled by increasing NHS productivity. To do this, over the whole period from 2011/12–2016/17, the NHS would need to make gains of between £23.5 billion (£3.9 billion per year) and £48.9 billion (£8.2 billion per year). This is equivalent to improvements of 3.7 to 7.7 per cent per year. To put this in context, private sector productivity growth averages around 2 per cent a year, while the Office for National Statistics estimates average NHS productivity between 1997 and 2007 has fallen each year by 0.4 per cent on average.

The King's Fund's Chief Executive Niall Dickson added: 'The scale of what is about to hit the health care system is unprecedented. If as seems likely the NHS will have at least three or four years of low or zero growth that will be the first time in its history that it has had to go for such a long period with rising demand and little or no new money. It would be a grave mistake to underestimate the challenge ahead. The politicians may want to talk about protecting the NHS, but the reality is that even with some protection there will have to be very tough choices. There is an opportunity now to improve efficiency but if the NHS doesn't tackle this head on we will once again see the vultures circling, questioning whether we can sustain a free comprehensive system funded out of general taxation.'

ENDS

Notes to Editors:

1. How cold will it be? Prospects for NHS funding: 2011–17, by John Appleby, Rowena Crawford and Carl Emmerson, will be published on Monday, 20 July. Embargoed copies of the report are available from The King's Fund press office. Copies of the report will be free to download from Monday, 20 July at: <http://www.ifs.org.uk/publications/4567>
2. John Appleby is Chief Economist at The King's Fund. Rowena Crawford is a Research Economist, and Carl Emmerson is a Deputy Director, at the Institute for Fiscal Studies.
3. The King's Fund is a charity that seeks to understand how the health system in England can be improved. Using that insight, they help to shape policy, transform services and bring about behaviour change. Work includes research, analysis, leadership development and service improvement. They also offer a wide range of resources to help everyone working in health to share knowledge, learning and ideas.