Press Release

English NHS budget squeeze could run for at least a decade

The period of relative austerity facing the NHS could run to a decade according to a new report that maps the longer term financial challenge facing the health service.

New analysis by researchers at the Institute for Fiscal Studies (IFS), funded by the Nuffield Trust, plots future spending scenarios for the NHS in England and examines their consequences for other public service spending and for taxation. The report 'NHS and social care funding: the outlook to 2021–22', which is the first output from a Nuffield Trust research programme that seeks to assess how the NHS can meet the financial challenge it faces over the next decade, shows that:

- the real freeze in NHS spending planned for 2010–11 to 2014–15 would, if delivered, be the tightest four year period of funding for the NHS in the last fifty years;
- meeting the tight plans for public spending pencilled in for 2015–16 and 2016–17 (even after allowing for further welfare cuts as hinted at by the Chancellor in his Budget speech), would require real spending on public services to be cut by an average of 1.7 per cent a year over these two years;
- because spending on the English NHS is so big – accounting for nearly one-quarter (23%) of public service spending in 2010–11 – decisions on English NHS funding matter a great deal for all other areas of public service spending;
- continuing the real freeze in English NHS spending over 2015–16 and 2016–17 would mean cutting spending on other public services by an average 2.3 per cent a year;
- increasing English NHS spending in line with national income between 2015–16 and 2021–22 would still leave the NHS budget growing less quickly than what the Office for Budget Responsibility’s analysis suggests might be needed to keep pace with the costs of an ageing population over that period. This settlement would, under current projections, also leave spending on other public services growing at just 0.6 per cent a year in real terms over the seven year period from April 2015;
- increasing English NHS spending in line with national income over the seven years from April 2015 whilst also increasing other public service spending by one per cent a year in real terms (lower than forecast growth in national income over that period) would require an increase of taxation, borrowing or further welfare cuts (over and above the £10 billion hinted at by the Chancellor in this Budget speech) amounting to roughly £9 billion – equivalent to an increase in the main rate of VAT from 20 per cent to just over 22 per cent.

The likely squeeze on NHS spending would, however, follow a decade of large real increases under the last Labour Government and a particularly large (but largely unintended) increase in NHS spending as a share of national income during the late 2000s recession. This means that even the planned freeze in English NHS spending up to 2014–15 would, if delivered, still leave spending...
as a share of national income well above its 2007–08 (pre-financial crisis) level. Indeed, the projected hit to national income from the financial crisis is such that even a continued real freeze would not see English NHS spending fall to represent the same share of national income as it did in 2007–08 until 2017–18.

The report also assesses future prospects for social care funding. Demographic pressures are increasing demand for social care, while the recent (Dilnot) Commission on Funding of Care and Support proposed a reform of the system for funding social care in England that would increase the cost to the taxpayer.

The result of combining the Commission’s recommendations for funding social care with policies that keep English NHS spending constant as a share of national income is that all other areas of public service spending, would grow at just 0.3 per cent a year over the seven years from April 2015, absent any tax increases, borrowing increases or further cuts to welfare spending.

Report Co-author Carl Emmerson, Deputy Director of the IFS, said:

“The last decade saw the NHS receive large increases in its funding, but the outlook for the 2010s is in sharp contrast to this. The current spending plans that run to March 2015 are tighter for the NHS than any delivered in the last fifty years, and the outlook for spending on public services beyond this suggests that, if it grows at all, NHS spending is not likely to keep pace with the amount that it has been estimated it needs to keep pace with the costs of an ageing population. Serious consideration should be given to the options for the NHS, which include reviewing the range of services available free at the point of use and reconsidering the level of taxation needed to finance them.”

Nuffield Trust Chief Economist Anita Charlesworth, who is leading the Trust’s research programme that seeks to assess the scale of the financial challenge facing the NHS over the next decade and how it can be met, said:

“ Asking the NHS to take a more equal share of the pain across the public services amounts to an unprecedented productivity challenge. If the government can increase taxation or borrowing, cut the welfare bill further or generate greater efficiencies in other parts of the public sector then the NHS might be in line for a real terms increase, albeit at a rate that does not keep pace with demographic pressures.

“However if any of those options are judged to be too difficult politically or too damaging to vulnerable groups and other key public services, health spending will have to fall in real terms. Whatever happens, the NHS needs to plan a medium term future based on belt tightening and it needs to be prepared for future years to be even tougher than they are now.”

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Notes to Editors:
1. For embargoed copies of the report “NHS and social care funding: the outlook to 2021–22” or other queries, contact: Emma Hyman or Bonnie Brimstone at IFS: 020 7291 4800, emma_h@ifs.org.uk, bonnie_b@ifs.org.uk. To contact the Nuffield Trust press office, please call Frank Soodeen on 020 7462 0555, 07920 043709 or 07866 063013, or at frank.soodeen@nuffieldtrust.org.uk;
2. The authors gratefully acknowledge funding from the Nuffield Trust and co-funding from the ESRC Centre for Microeconomic Analysis of Public Policy at the Institute for Fiscal Studies (RES-544-28-5001). Views expressed are those of the authors.