

The outlook for public spending on the NHS

It is remarkable that over the current parliament, while total spending by government departments on public services has been cut by 10%, the Department of Health (DH) has seen its budget increased by over 6%.¹ This favourable treatment has increased the severity of the squeeze felt by other departments, with many having seen their budgets cut by 20% or more over just five years. In 2009–10 the DH accounted for just over one-quarter of all departmental spending; in 2015–16 it is expected to account for nearly one-third.²

Yet it is further increased funding for the NHS over the next parliament that is never far from the top of the political agenda in the run up to the general election in May. Only last week the leaders of six medical royal colleges called on politicians to “formally commit to investing £8 billion a year more in the delivery of healthcare by the end of the next parliament”.³

The repeated calls for above-inflation increases in spending on the NHS over the next parliament arise from concern over the demand and cost pressures faced by the NHS. The growing and ageing population increase demand for NHS services, as does an increasing prevalence of chronic conditions and the ability to treat more complex conditions. The NHS also typically faces above-inflation pressures on its budget from rising wages and high-cost drugs. NHS England recently estimated that together these could amount to pressure on the NHS budget of around 3.5% per year.⁴

To meet these pressures without reducing quality would require either increases in real (inflation-adjusted) funding, increases in productivity, or both. If these pressures were met entirely by funding increases, the NHS budget would need to be around £30 billion higher in 2020–21 than it was in 2013–14. However, NHS Chief Executive Simon Stevens has argued that average annual productivity improvements of 2.4% are possible, and therefore that the NHS needs an £8 billion per year funding increase by 2020–21 to meet budget pressures without reducing quality.⁵

Such an £8 billion annual funding increase by 2020–21 may not be as difficult as it appears. First, it's only £7 billion in today's prices. Second, the NHS budget is already around £2 billion higher in 2015–16 than it was in 2013–14. This leaves around £5 billion more to be found by 2020–21, which would be less than the increase in the DH budget over the current parliament.⁶

Why are politicians so coy about committing to providing this funding increase for the NHS in the next parliament? The essential problem is that whoever forms the next government still faces the challenge of reducing borrowing over the next few years. The Coalition plans published in the Budget last week imply that overall departmental spending on public services will be cut by a further 7% between 2015–16 and 2019–20.⁷ Increasing spending on the NHS in this context would imply much greater cuts have to be found from other public services: cuts of around 12% on average if the NHS gets the money Simon Stevens is looking for. And many of these other service areas also face demand pressures from population growth, and cost pressures from real wage growth.

Of course, whoever forms the next government may have different plans for how to reduce public borrowing. For example, under the latest Conservative party's plans departmental spending could be cut by just 4% over the next parliament (as a result of higher borrowing and cuts to welfare spending).⁸ The outlook for departmental spending under Labour could be even better, as their

greater willingness to borrow could allow departmental spending to actually increase by 3%. The greater the level of overall spending, the more would be left for other departments were NHS spending to be increased in line with Simon Stevens' recommendations. This is perhaps why it has been easier for Labour to commit to spending more on the NHS than it has been for the Conservatives.

There may or may not be a difference between the main political parties' stance on NHS spending by the time the polls open in May. Either way, it is important not to lose sight of the bigger picture. Even if NHS spending is increased in line with Simon Stevens' request, productivity improvements of around 2.4% per year will still be required for the NHS to meet the demand and cost pressures it faces. Given estimates of NHS productivity in recent decades are of the order of 0.4%–1.3% this will be a challenge.^{9,10} The extent to which the NHS is able to meet this productivity challenge remains to be seen, but doing so will be crucial for meeting demand and maintaining healthcare quality over the coming years regardless of who wins the election.

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¹ Crawford and Keynes (2015), *Options for further departmental spending cuts*, in Emmerson, Johnson and Joyce (eds). *The IFS Green Budget 2015*, http://www.ifs.org.uk/uploads/gb/gb2015/ch7_gb2015.pdf

² HM Treasury, *Public Expenditure Statistical Analyses 2014*, Cm 8902, Crown Copyright, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330717/PESA_2014_-_print.pdf

³ *The NHS needs an extra £8bn a year to survive and meet its challenges*, The Guardian, 15 March 2015, <http://www.theguardian.com/society/2015/mar/15/nhs-needs-extra-8bn-to-survive>

⁴ *The NHS belongs to the people: a call to action – the technical annex*, <http://www.england.nhs.uk/wp-content/uploads/2013/12/cta-tech-Annex.pdf>

⁵ NHS England (2014), *Five Year Forward View*, <http://www.england.nhs.uk/wp-content/uploads/2014/10/5yfv-web.pdf>

⁶ Crawford and Stoye (2015), *Challenges for Health Spending*, in Emmerson, Johnson and Joyce (eds). *The IFS Green Budget 2015*, http://www.ifs.org.uk/uploads/gb/gb2015/ch8_gb2015.pdf

⁷ Keynes (2015), *Public services spending*, IFS Budget 2015 analysis, http://www.ifs.org.uk/uploads/budgets/budget2015/budget2015_sk.pdf

⁸ Keynes (2015), *Public services spending*, IFS Budget 2015 analysis, http://www.ifs.org.uk/uploads/budgets/budget2015/budget2015_sk.pdf

⁹ Office for National Statistics (2012), *Public service productivity estimates: healthcare 2010*, http://www.ons.gov.uk/ons/dcp171766_289768.pdf

¹⁰ C. Bojke, A. Castelli, K. Grasic, A. Street and P. Ward, *NHS Productivity from 2004/05 to 2010/11*, Centre for Health Economics, Research Paper 87, 2013, http://www.york.ac.uk/media/che/documents/papers/researchpapers/CHERP87_NHS_productivity.pdf