



Institute for  
Fiscal Studies



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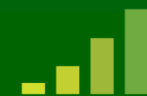
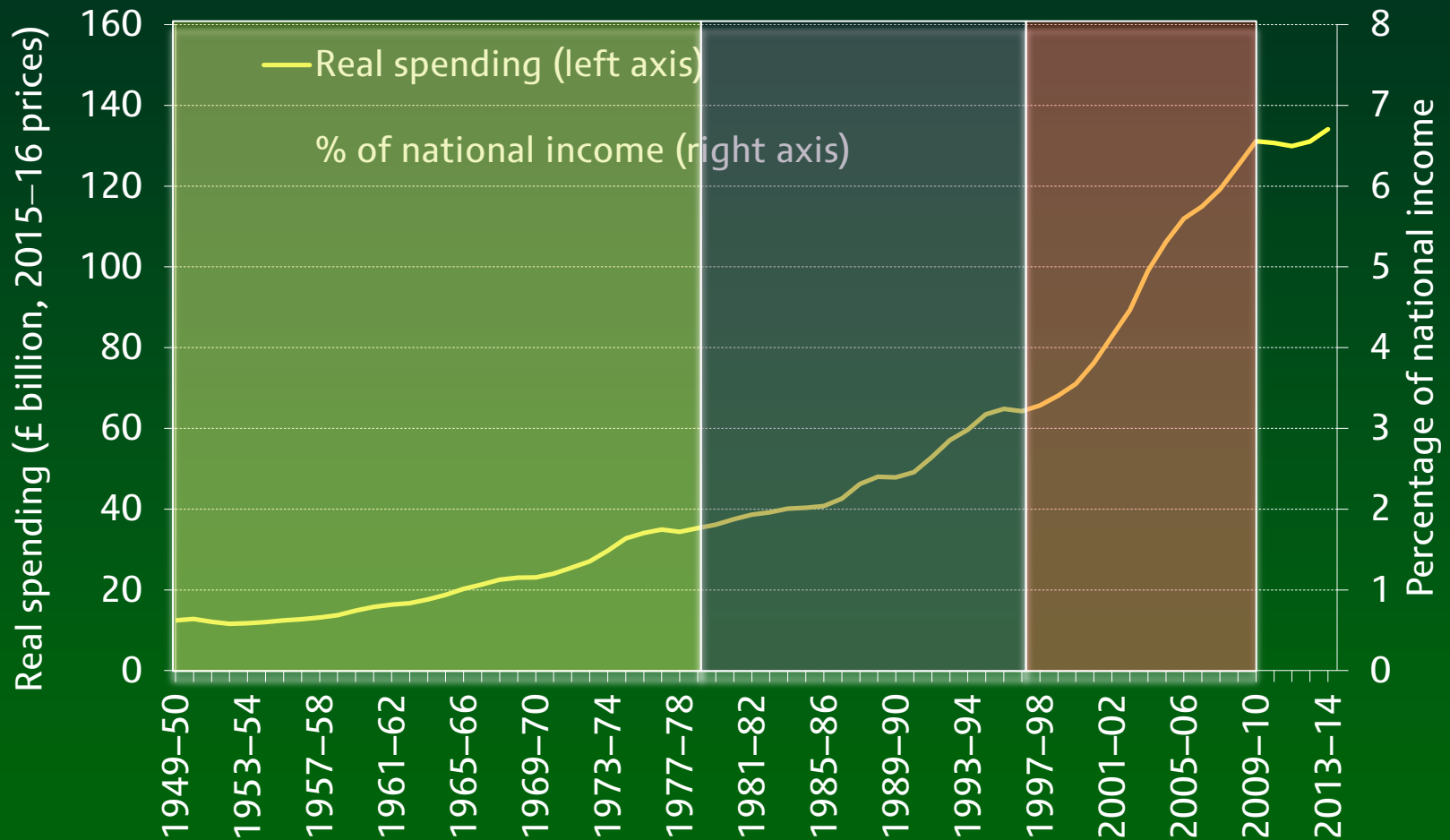
## Challenges for health spending

George Stoye

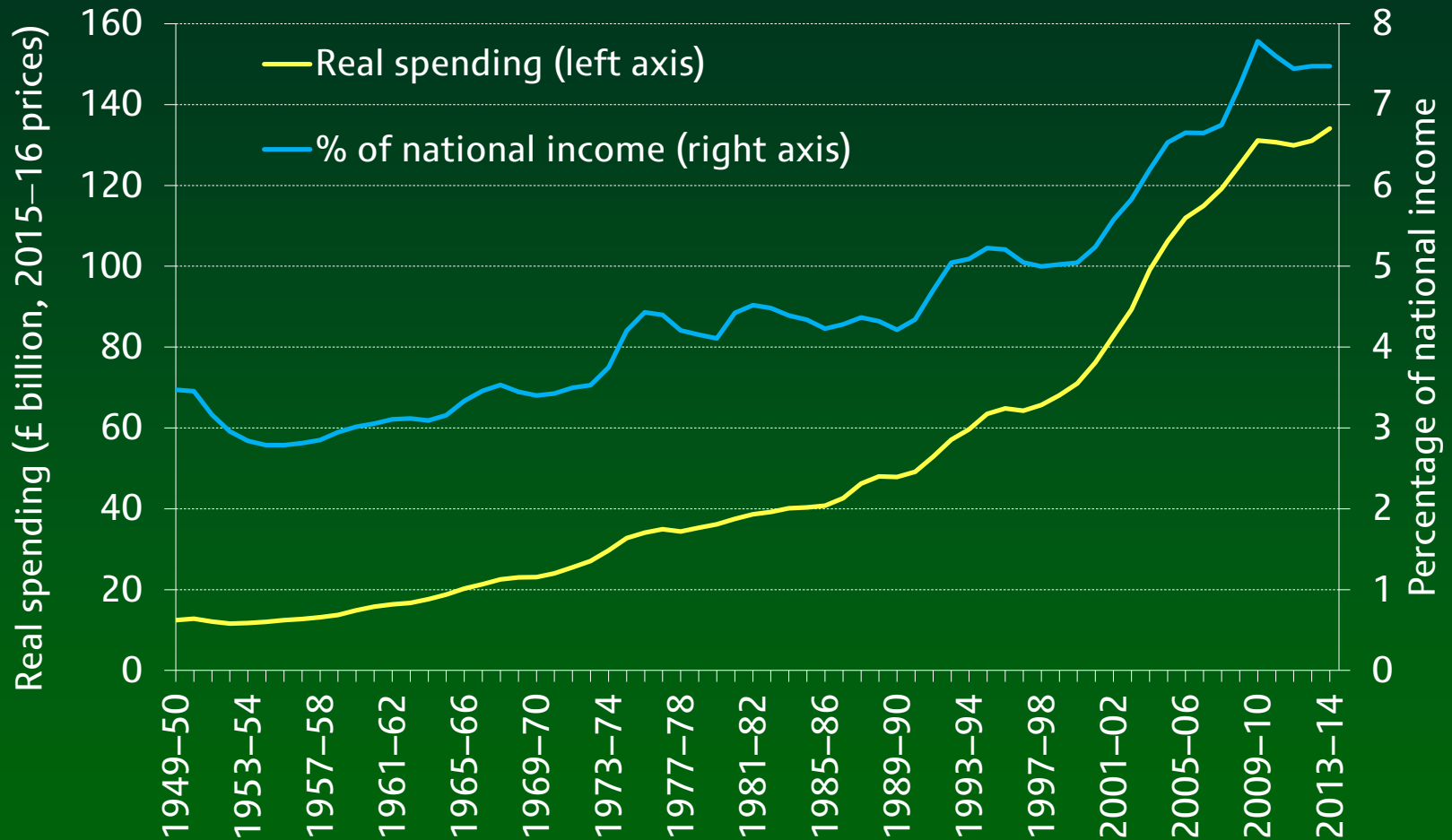


# Past and present UK health spending

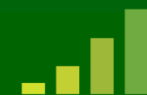
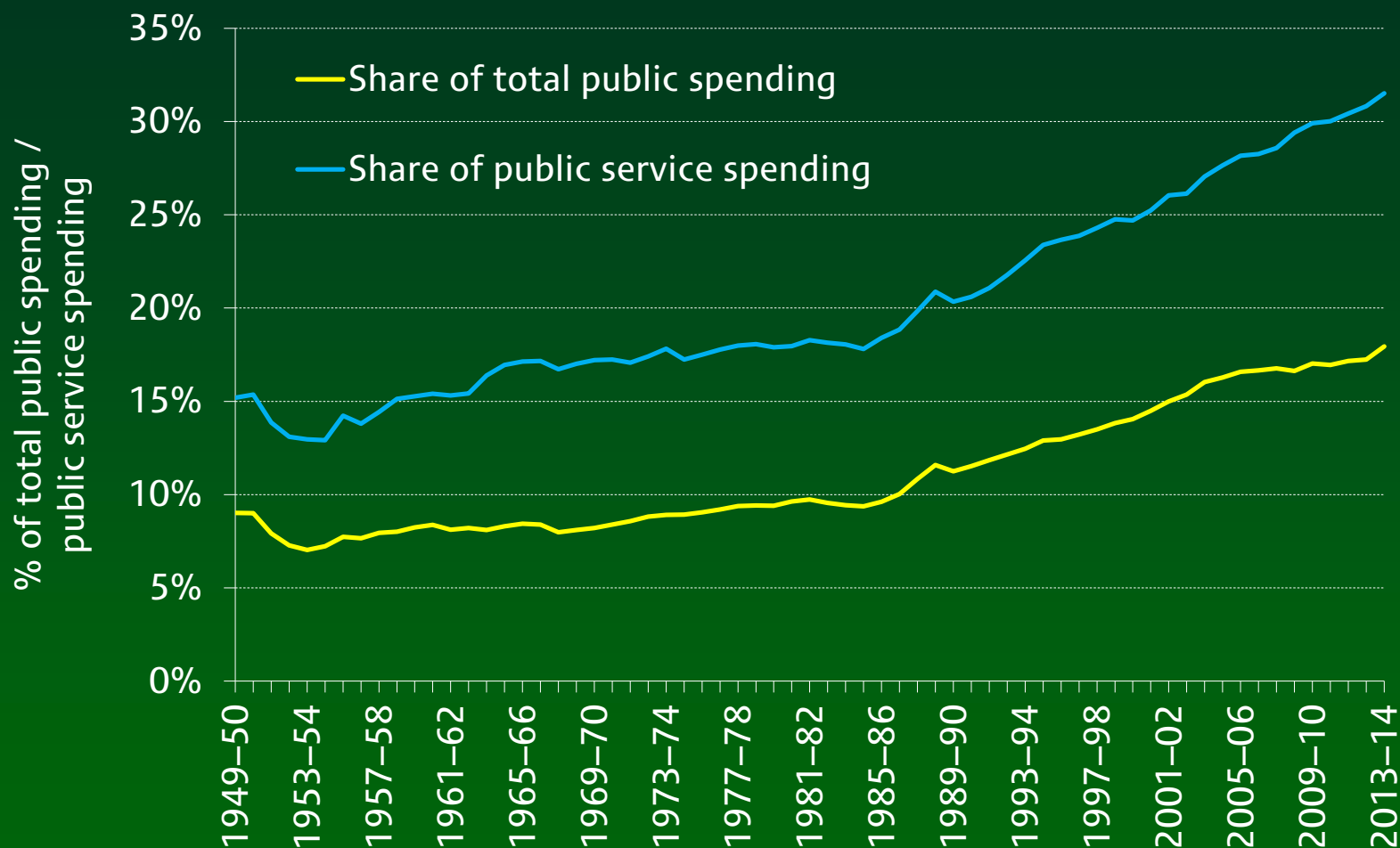
Previous governments: Average 3.7% of national income  
 Conservative: 3.7% of national income  
 Labour: 3.8% of national income  
 Coalition: 3.4% of national income  
 Present: 5.6% of national income



# Past and present UK health spending



# UK health spending as a % of total public and public service spending



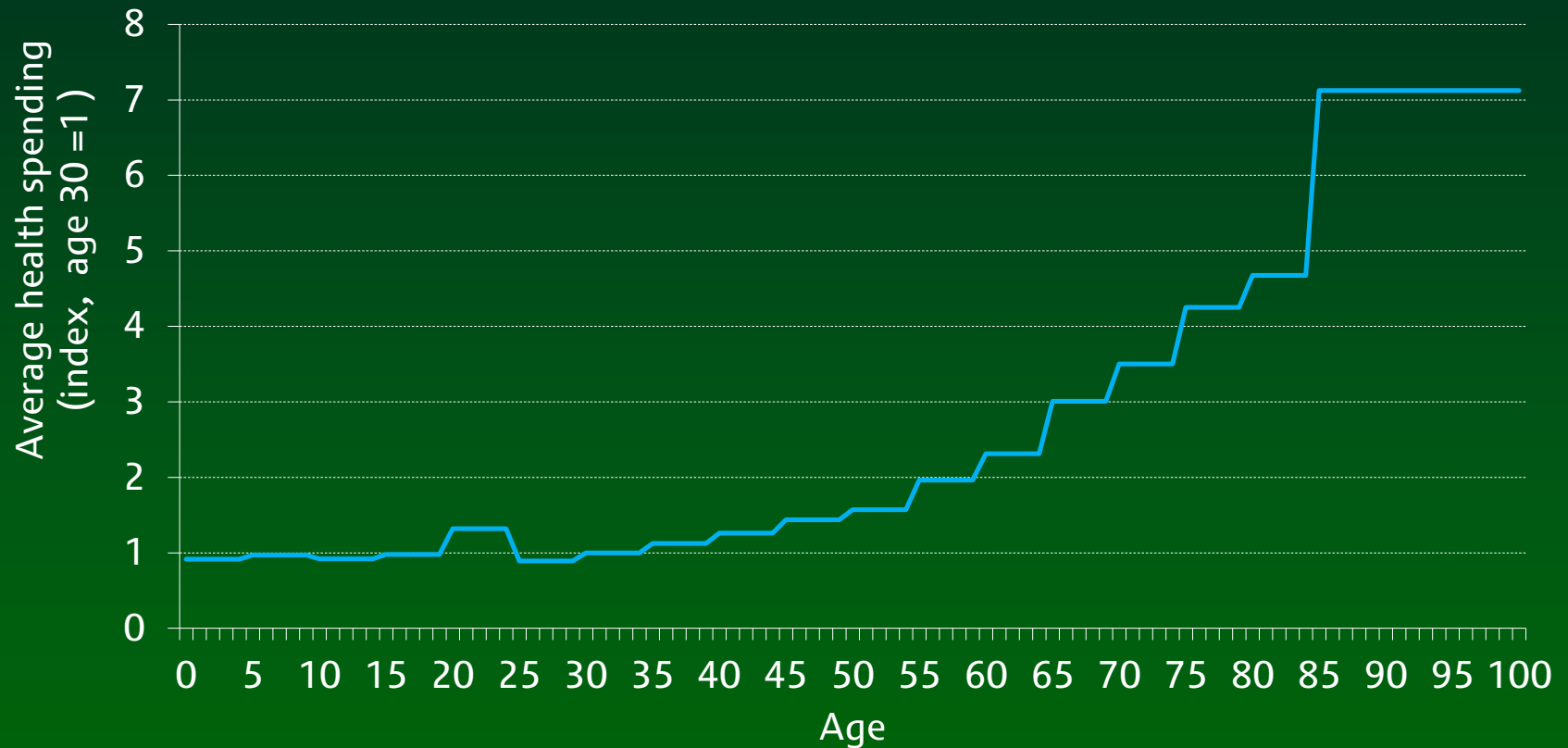
# Recent Department of Health spending

- 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

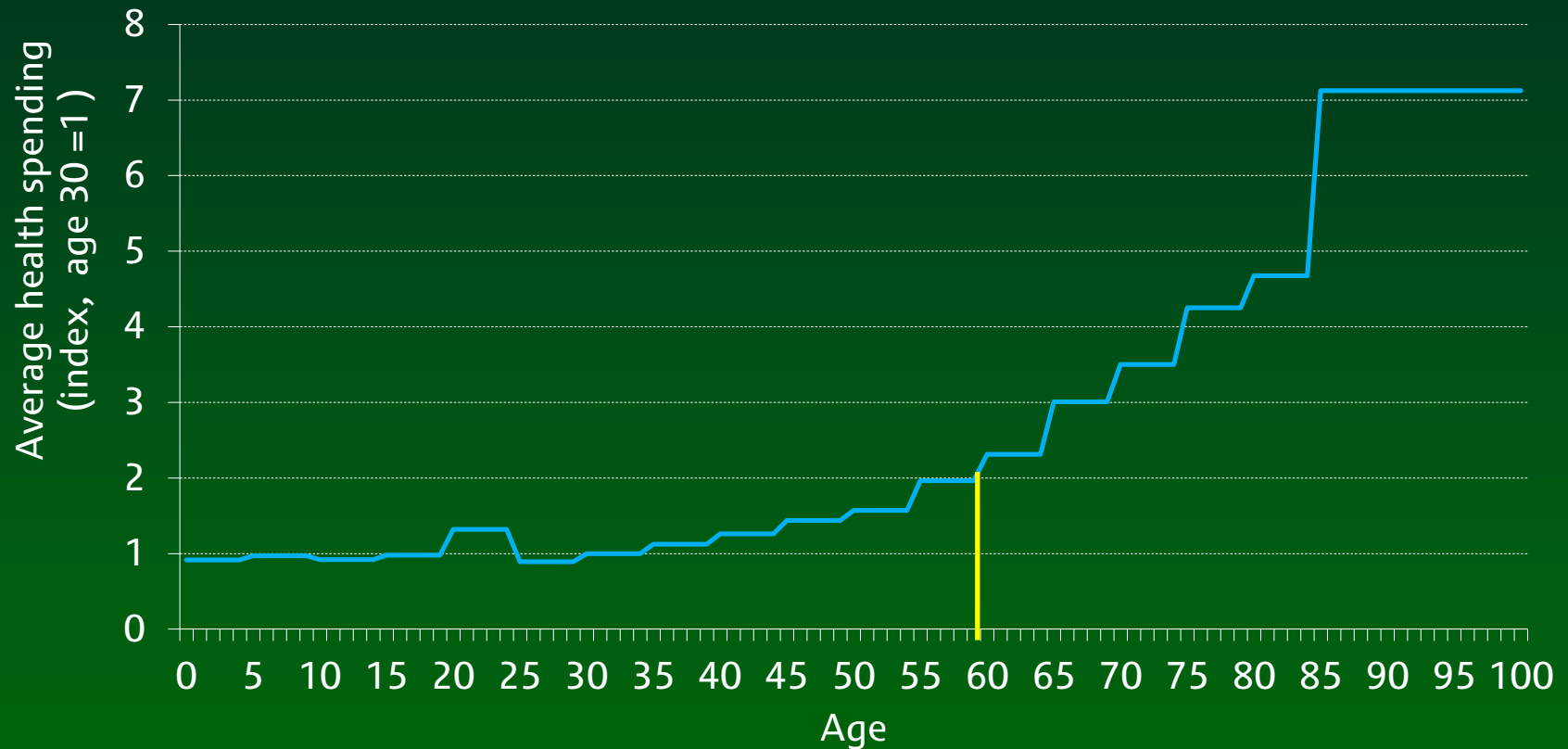
# Demand pressures

- 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

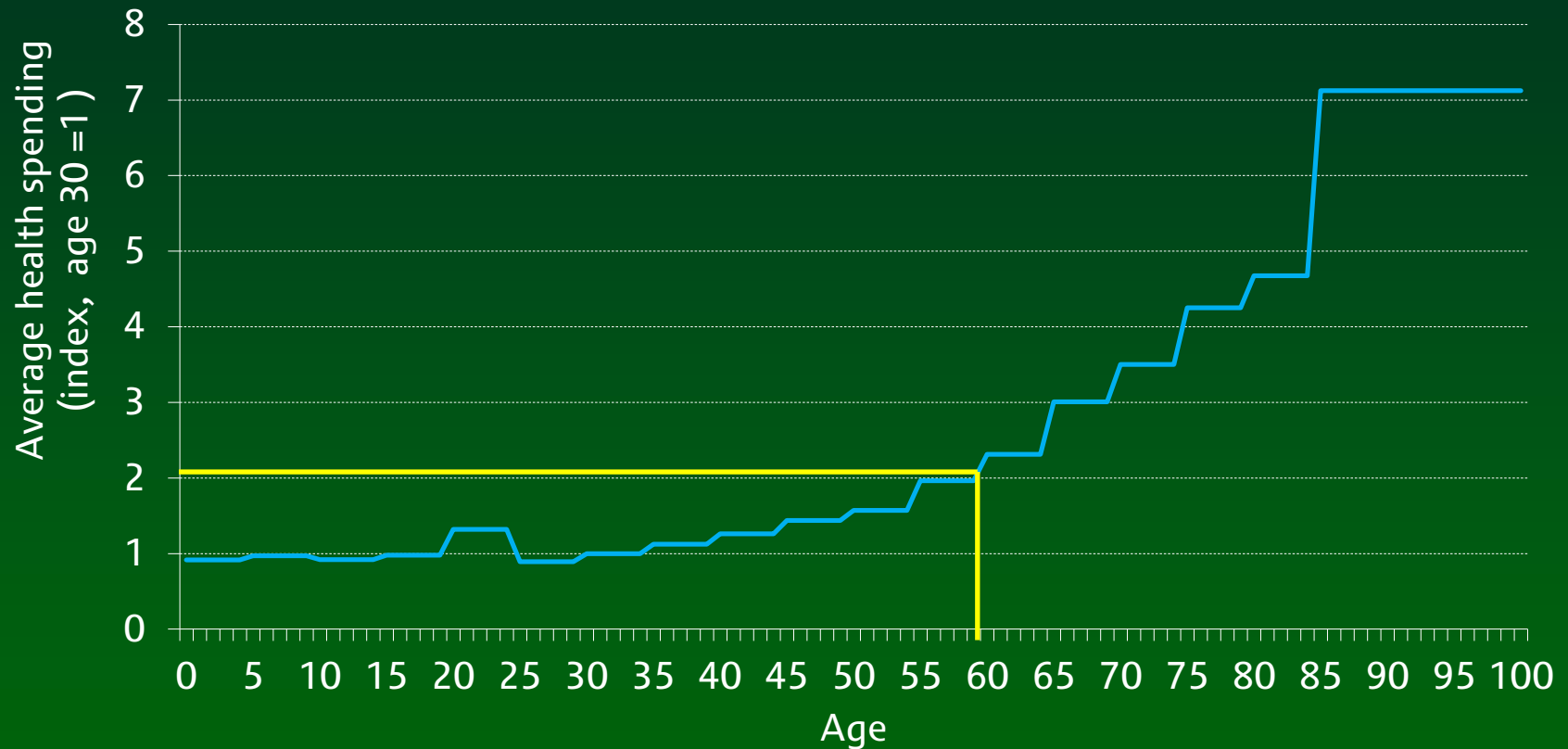


# Current age profile of English health spending

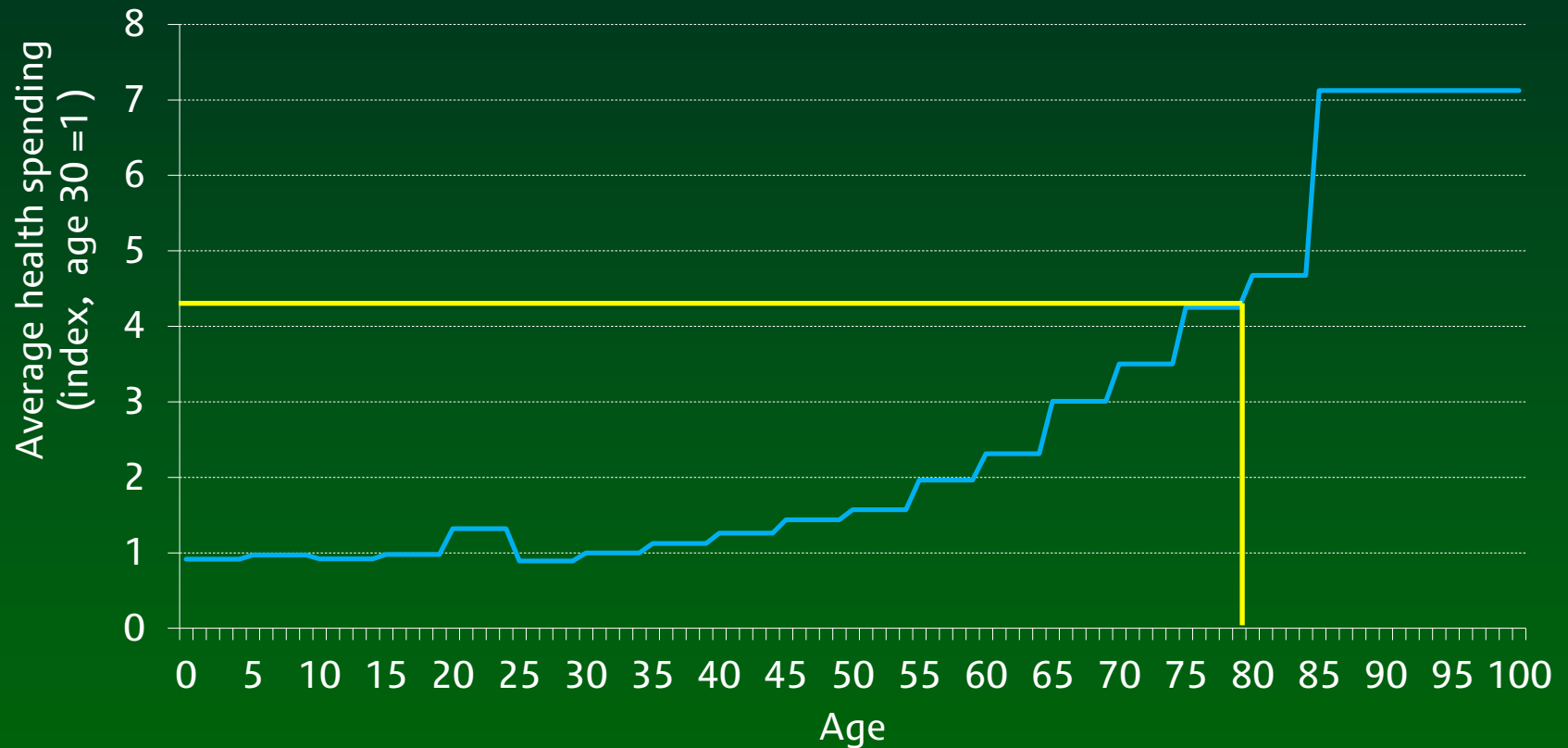




# Current age profile of English health spending



# Current age profile of English health spending



# 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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NHS productivity improvement:

Real increase in NHS England budget by  
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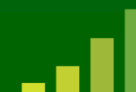


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1.5% per year	£15 billion



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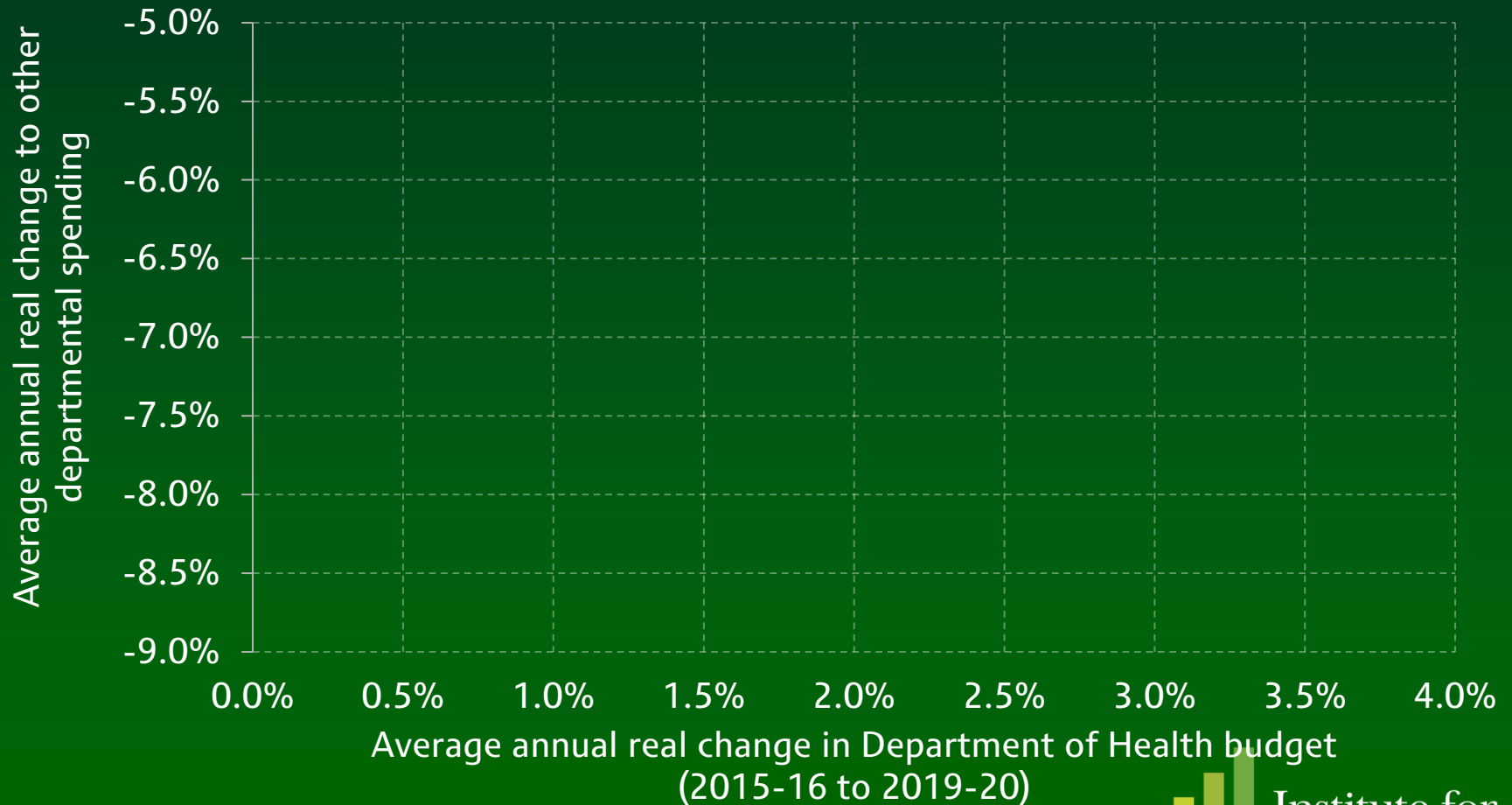
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0.0% per year	£27 billion
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1.5% per year	£15 billion
2.4% per year	£7 billion

- Alternatively, could choose not to meet all demand pressures



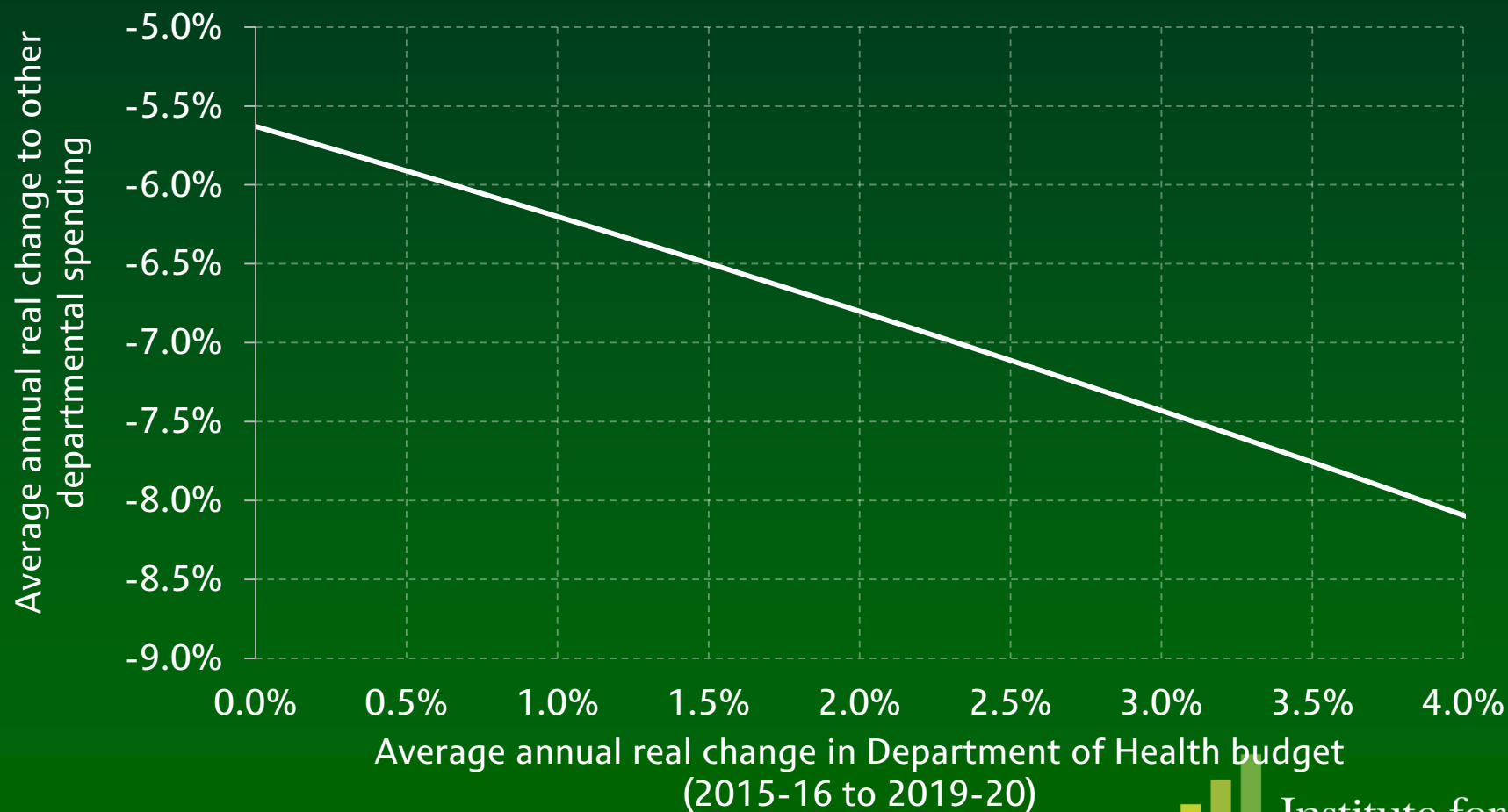
# More funding for NHS England implies higher cuts elsewhere

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



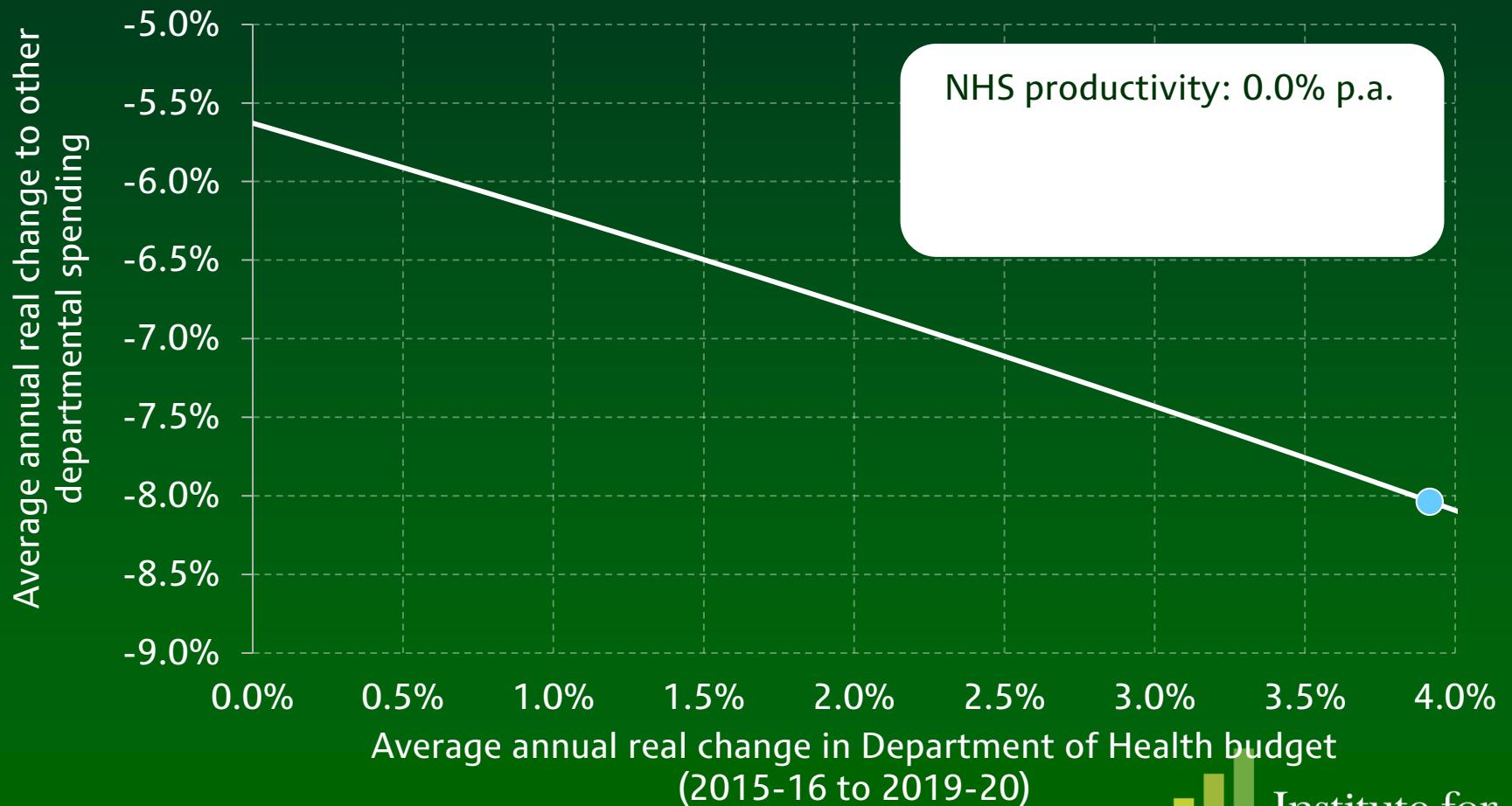
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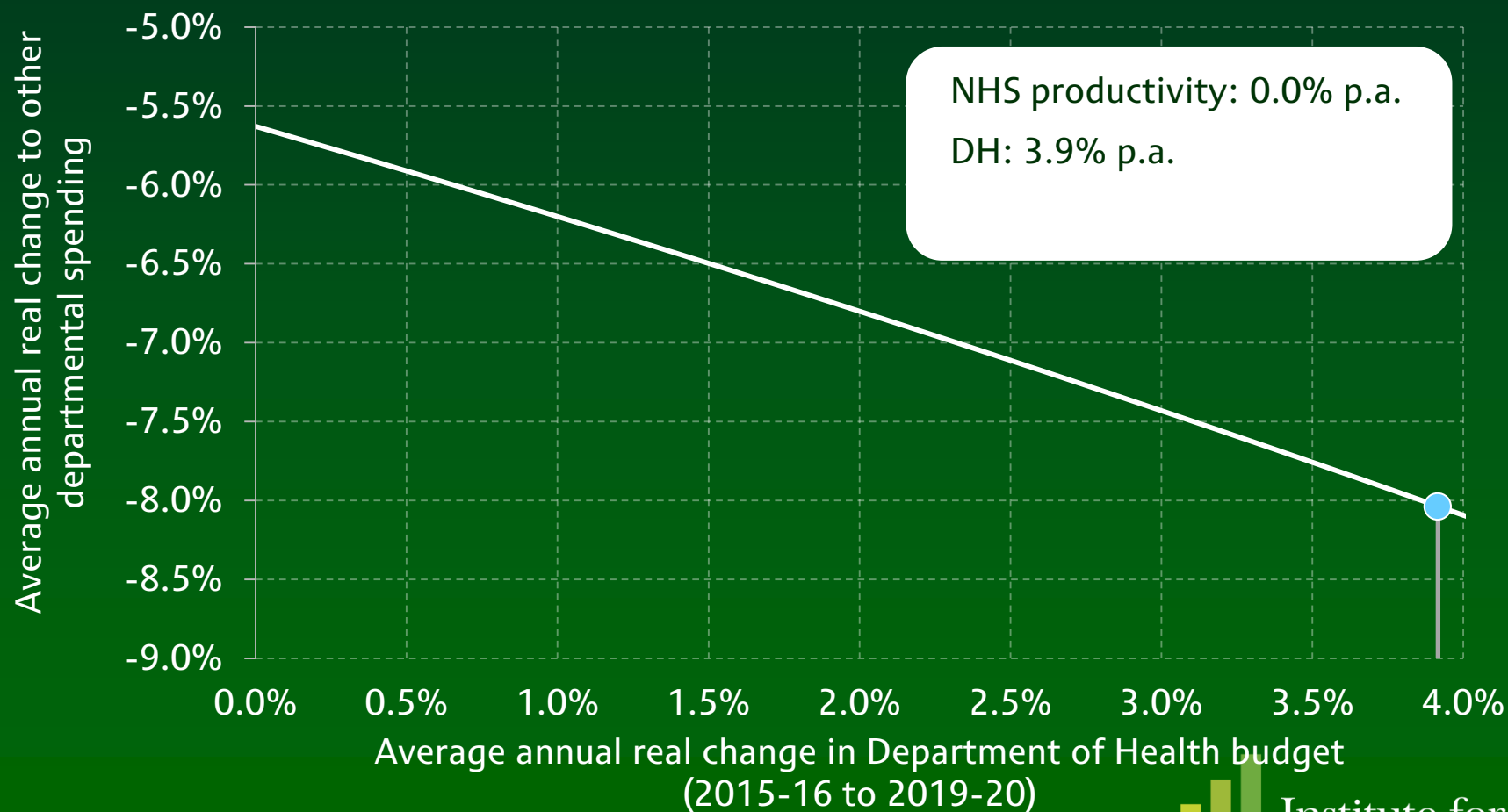
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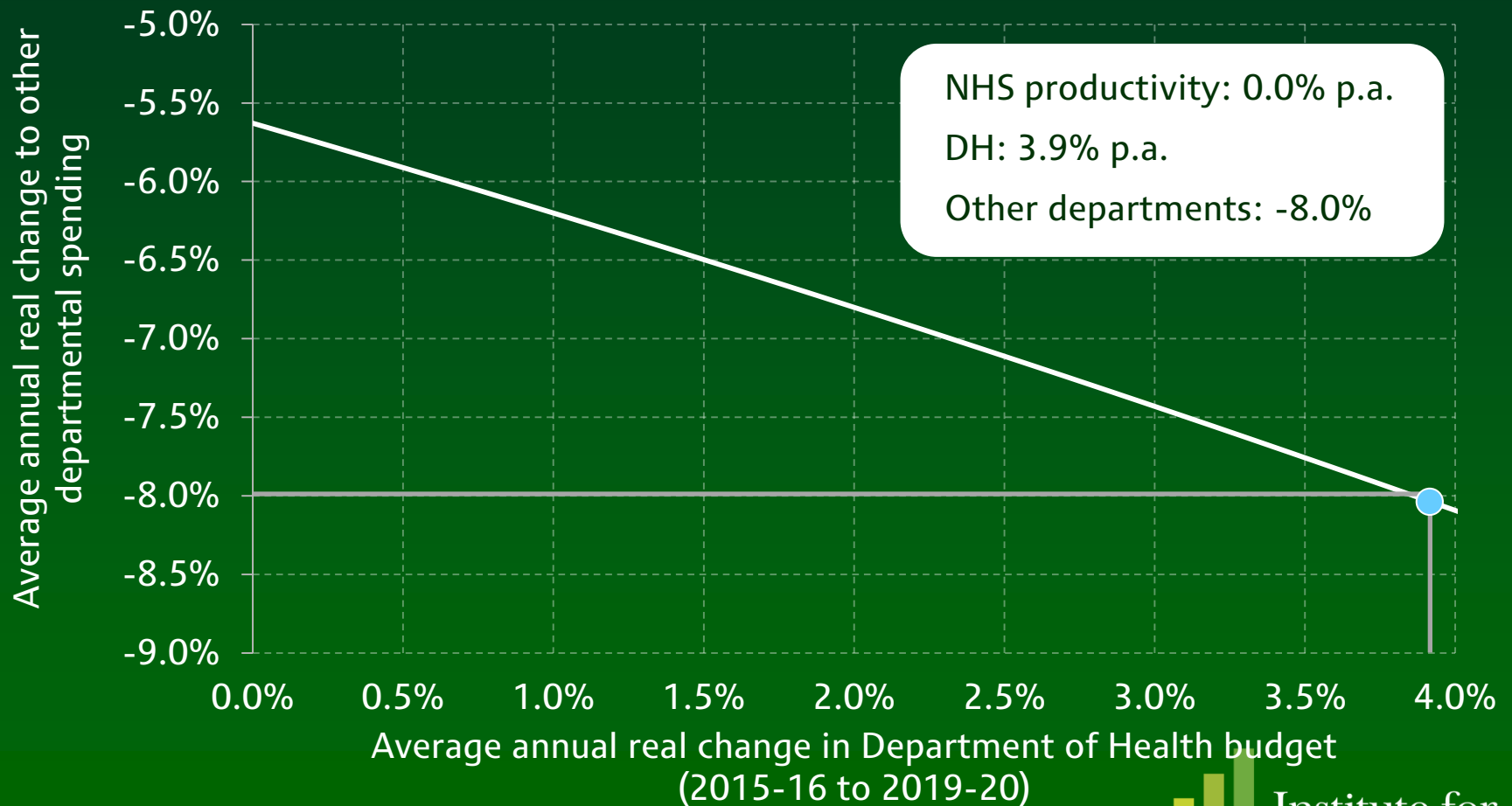
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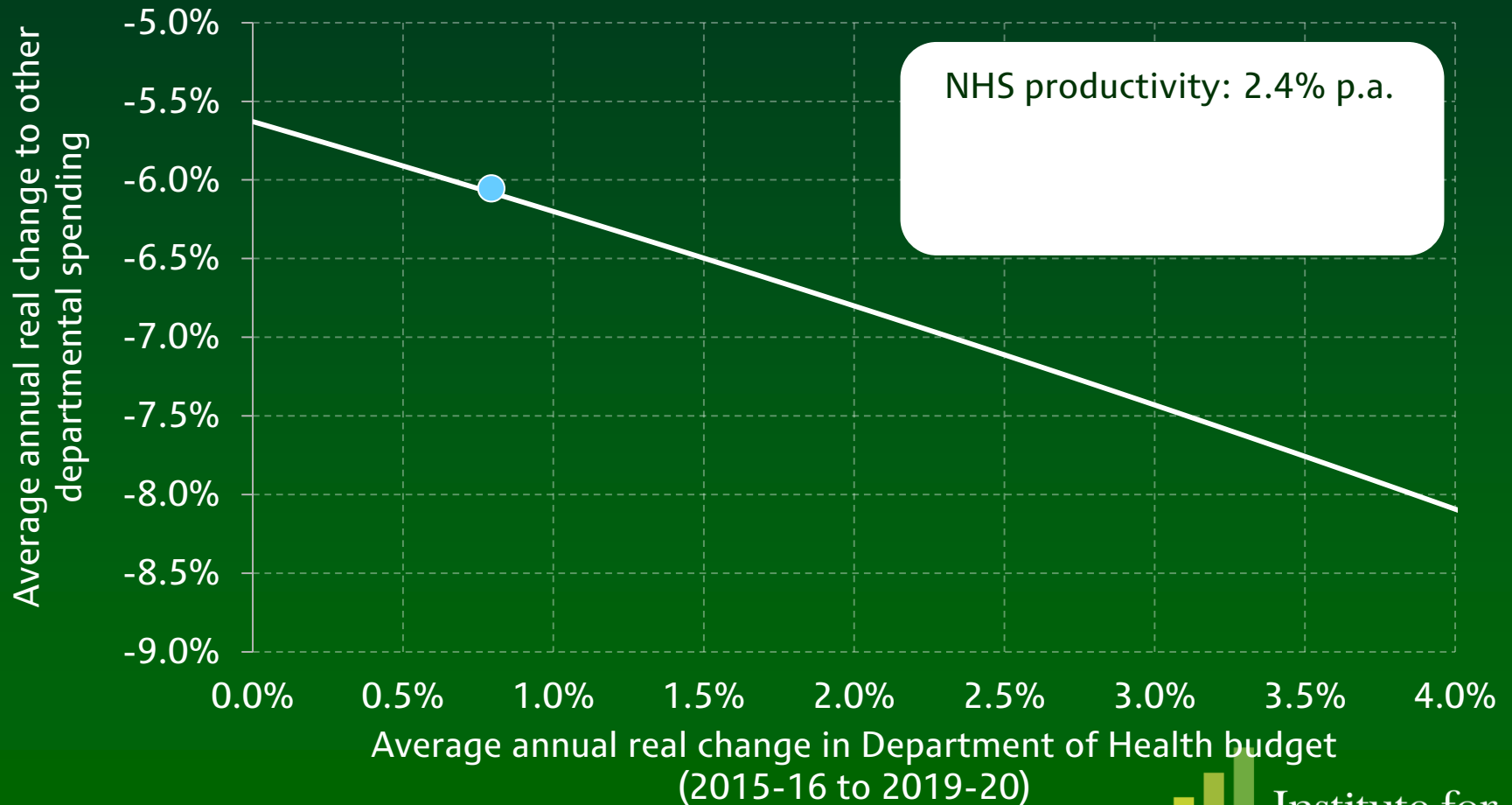
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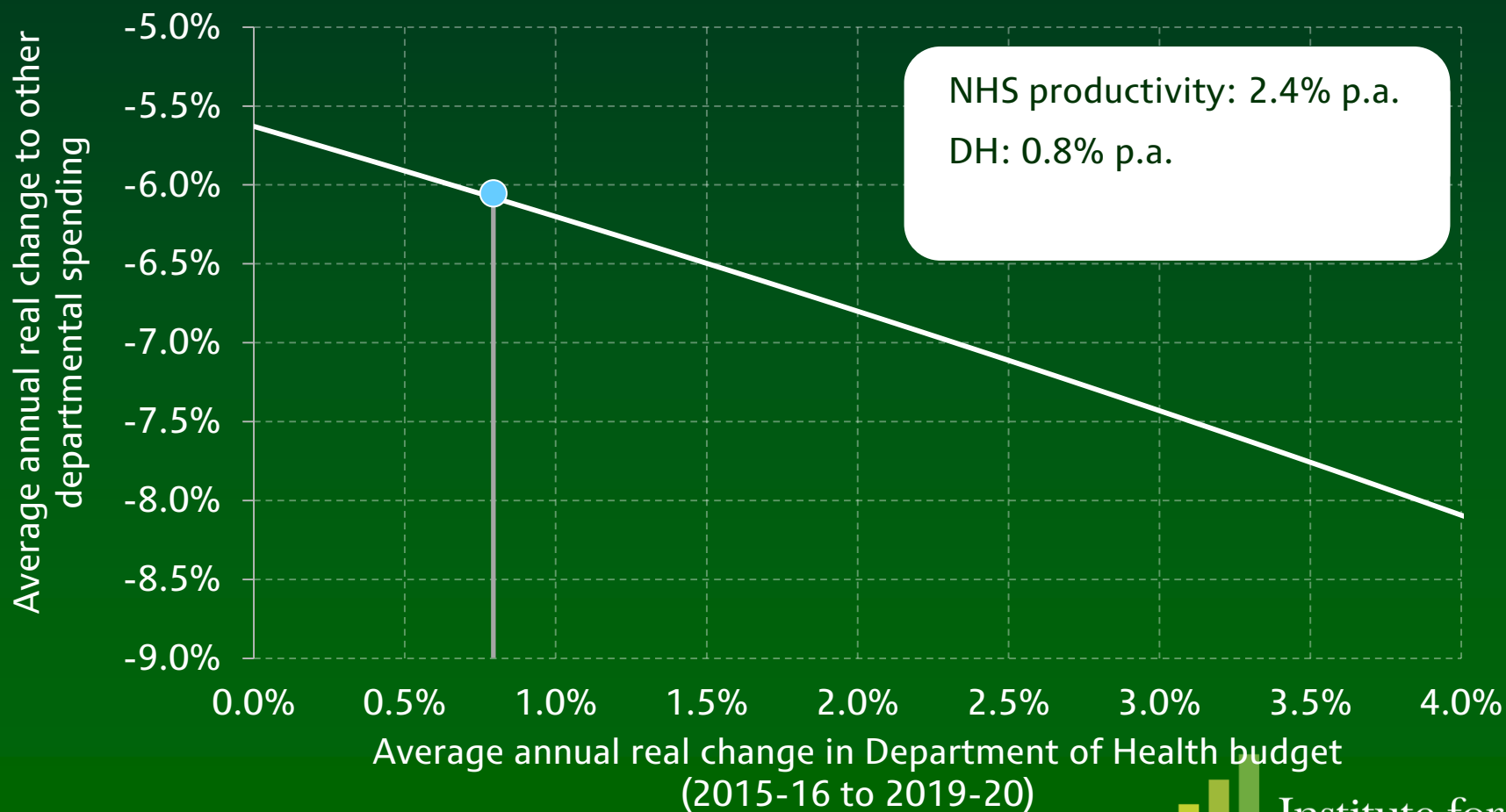
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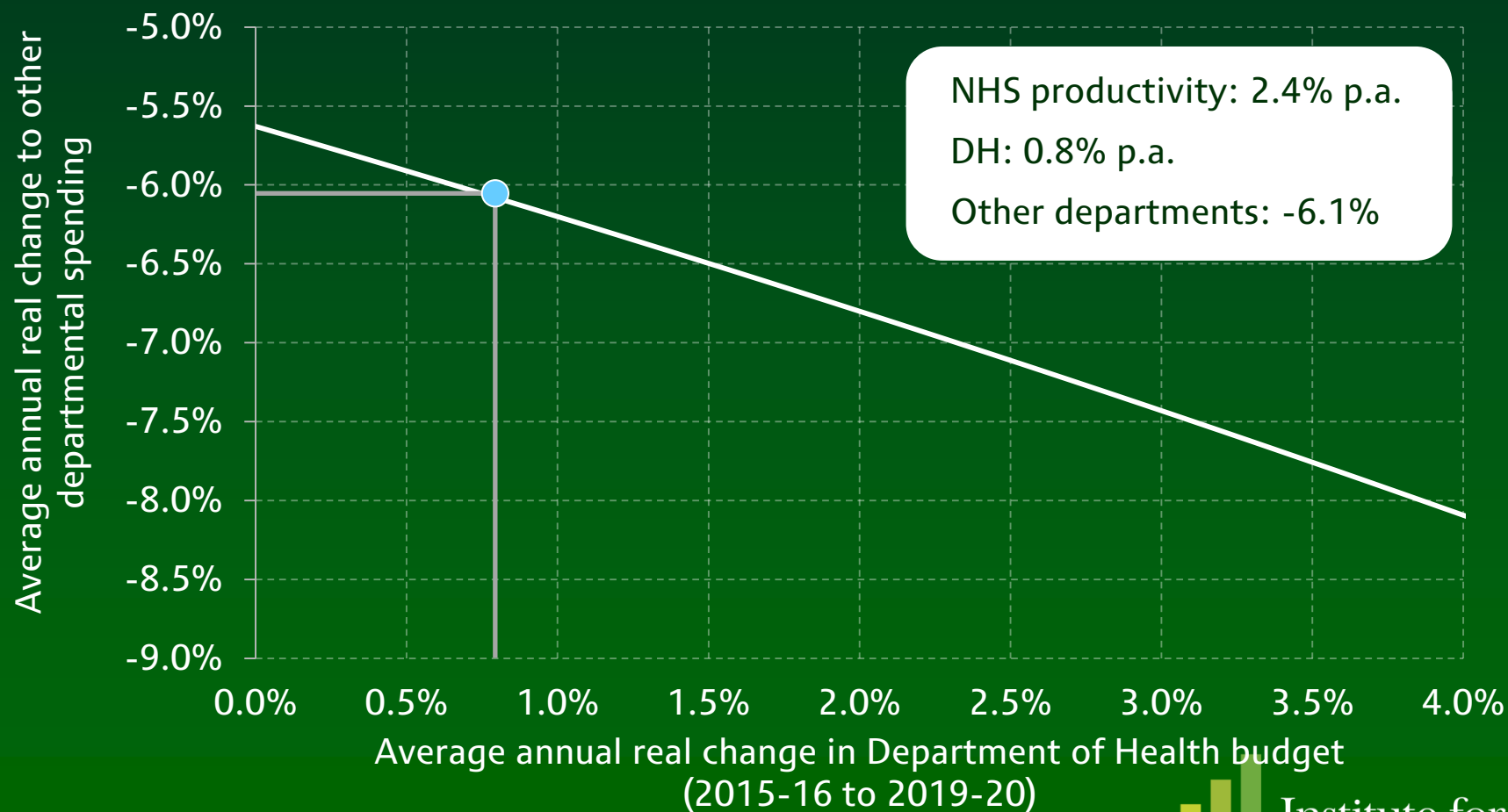
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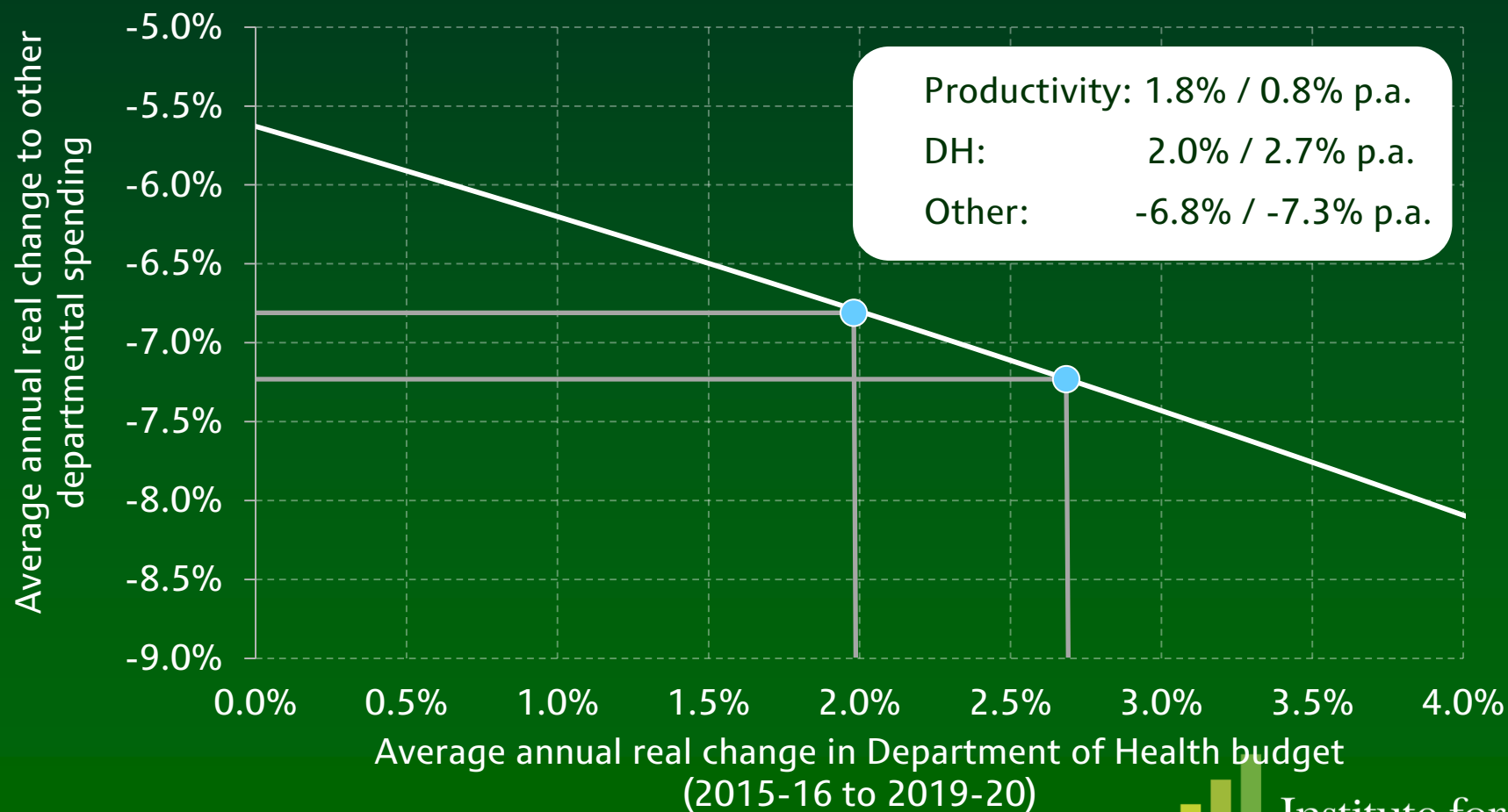
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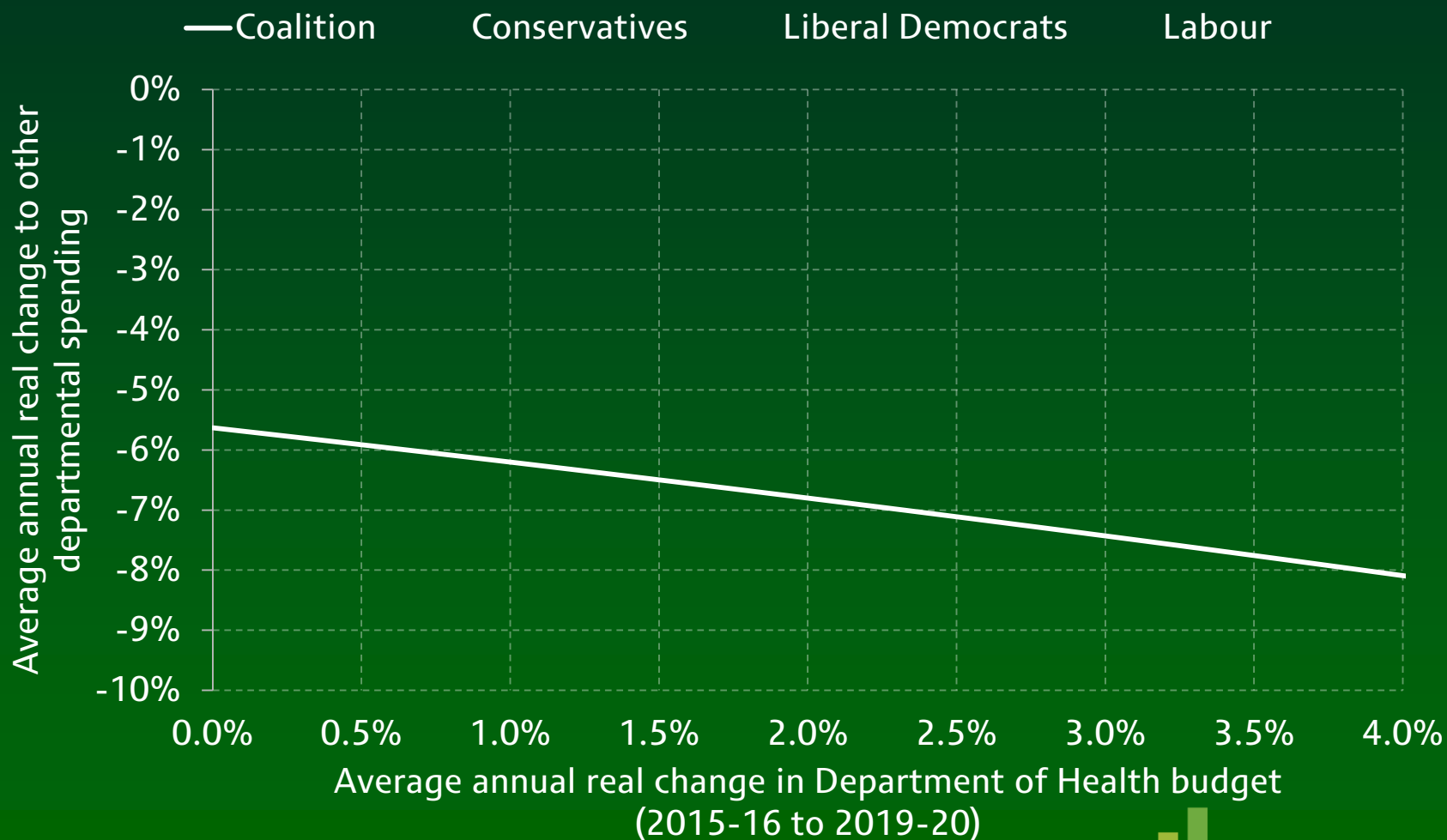


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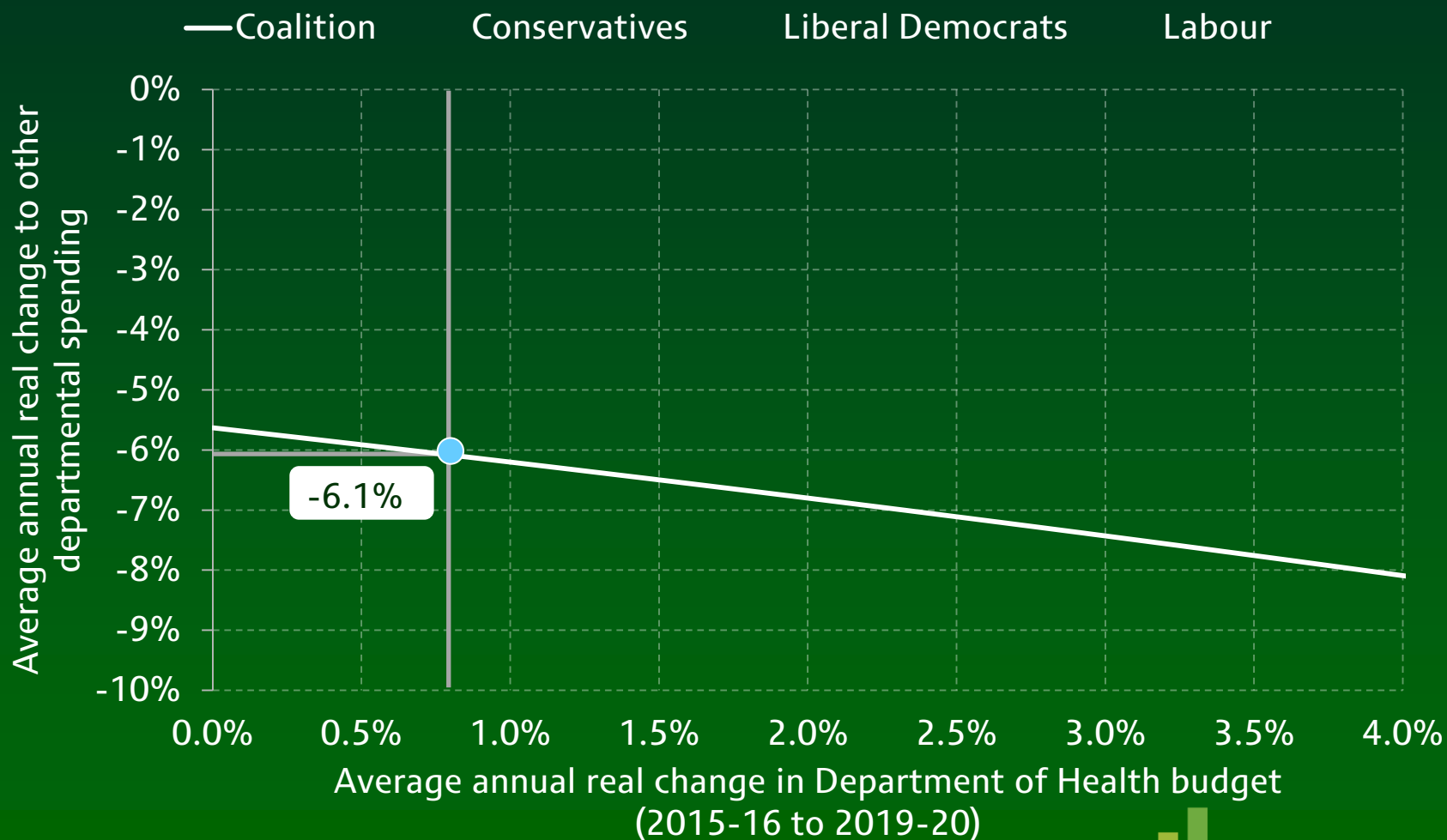
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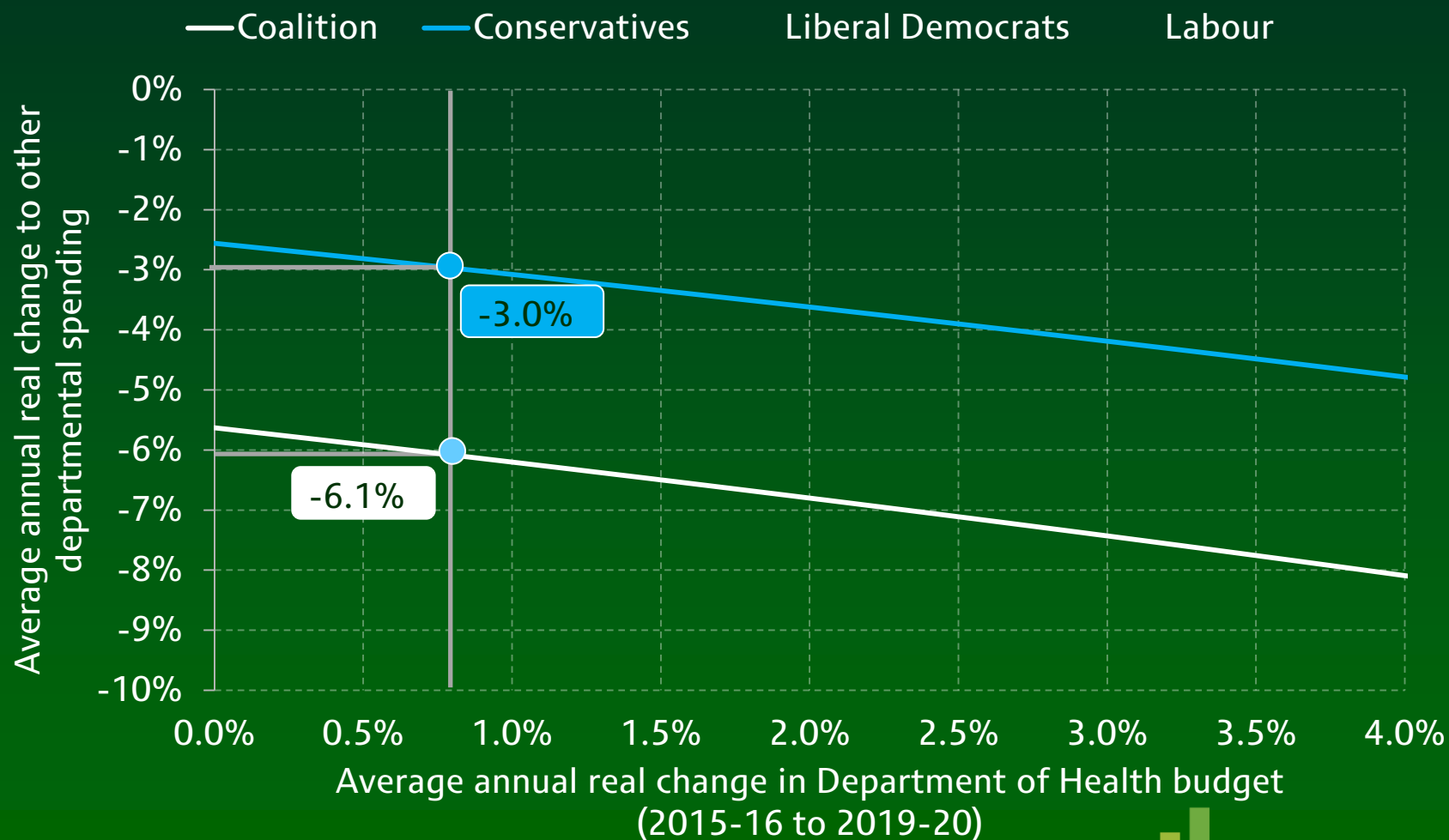
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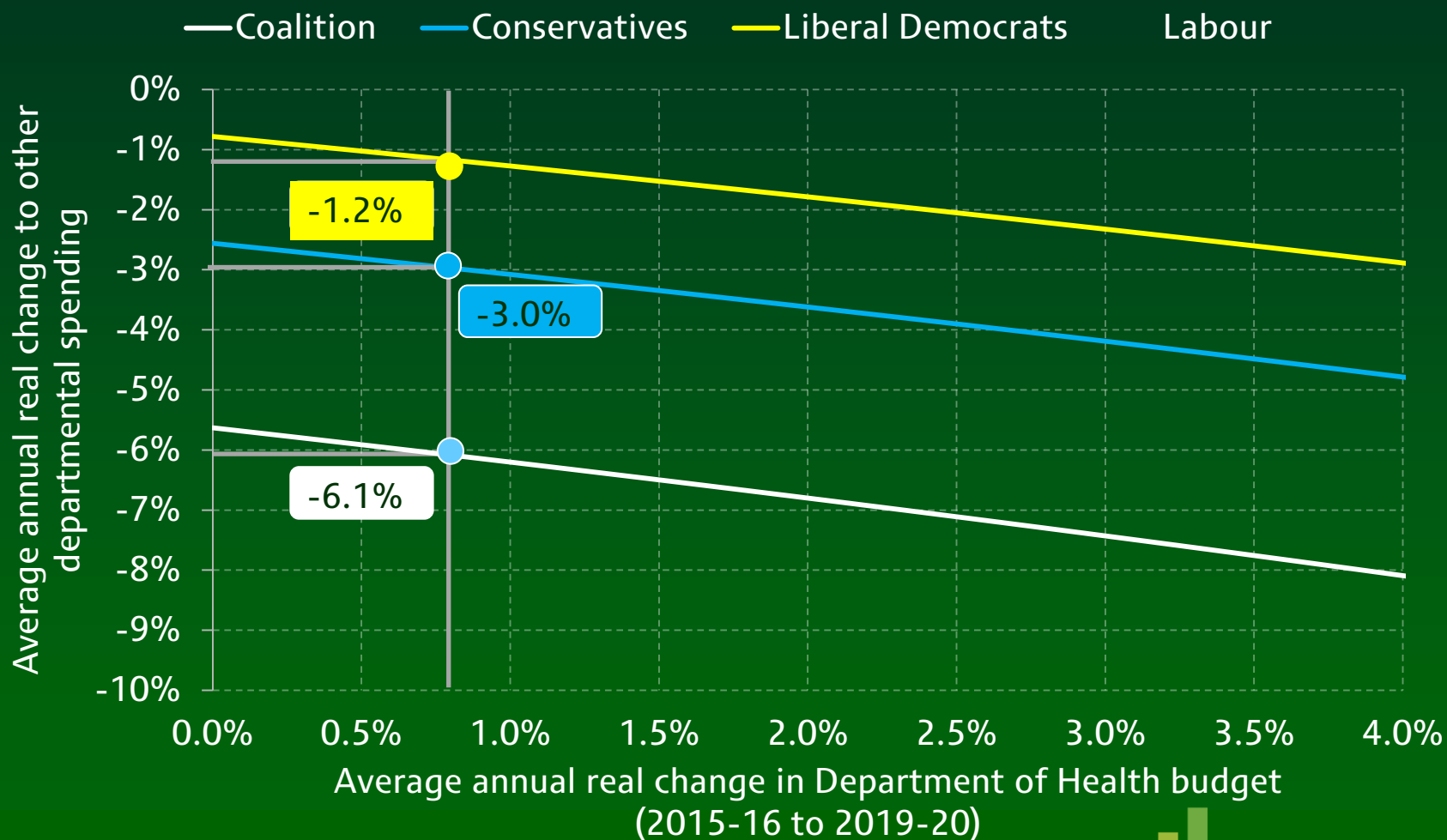


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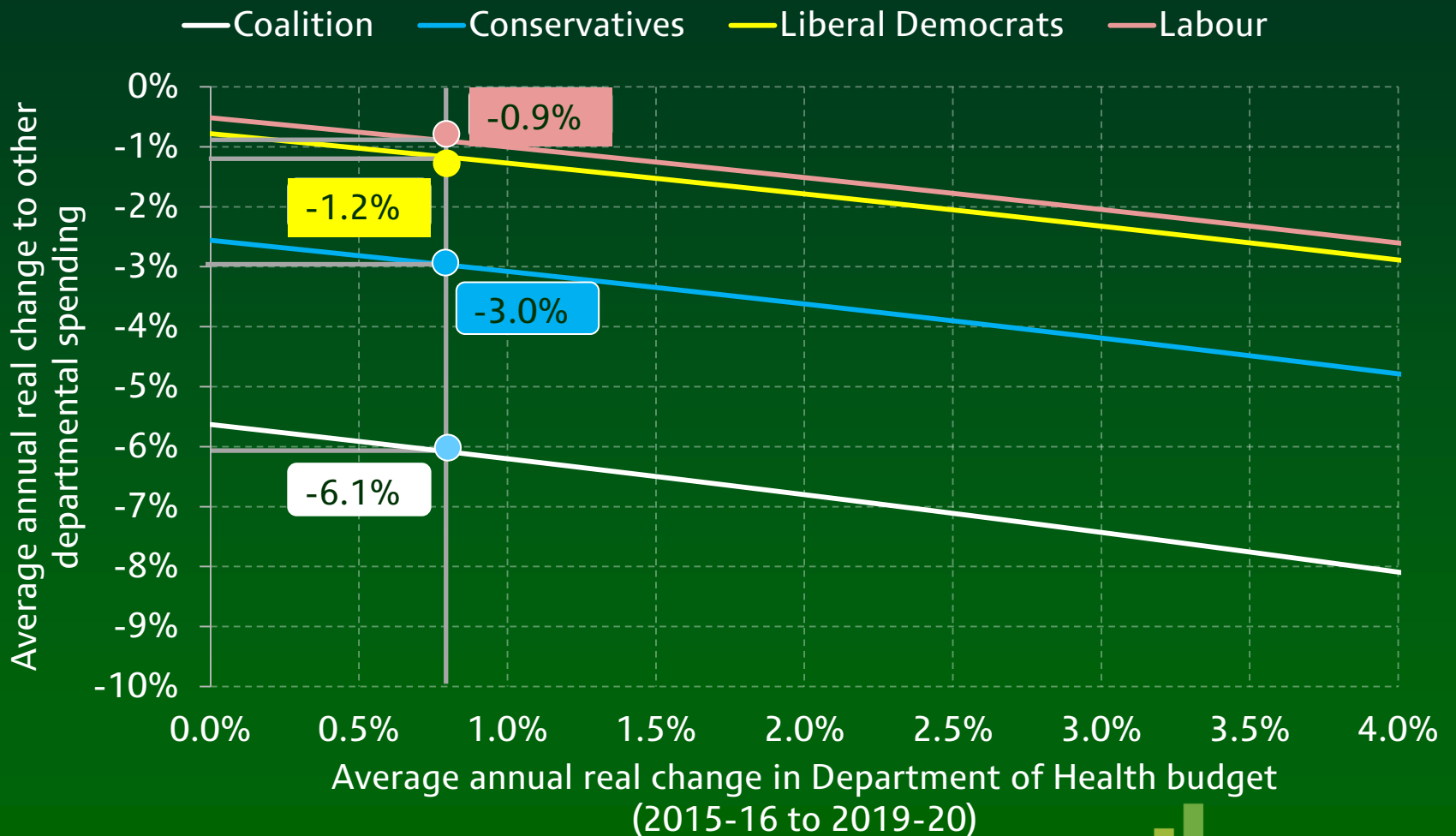




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# Summary

- 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